

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF EL PASO NATURAL GAS)
COMPANY FOR AN AMENDMENT OF ORDER)
R-1670 TO PERMIT THE DRILLING AND)
PRODUCTION OF ADDITIONAL WELL ON) Case No. 5264
PRORATION UNITS IN THE BLANCO)
MESAVERDE GAS POOL, SAN JUAN, RIO)
ARRIBA AND SANDOVAL COUNTIES.)
_____)

REQUESTED FINDINGS OF FACT OF
AZTEC OIL & GAS COMPANY

This case was heard by the Commission on August 13, 1974 upon the application of El Paso Natural Gas Company for the amendment of Order R-1670 relating to the Blanco Mesaverde Pool, San Juan, Rio Arriba and Sandoval Counties, New Mexico. Applicant seeks to amend the pool rules promulgated by Order R-1670 as amended to authorize the Secretary-Director of the Commission to approve the drilling of a second well on an existing proration unit without notice and hearing, provided that the second well would be drilled in the quarter section of the unit which does not contain a well and provided further that in calculating the allowable for a proration unit containing two wells, the deliverability of both wells would be combined for determining the unit's "AD factor" and a unit allowable could be produced from either or both wells.

The Commission having considered the testimony and exhibits admitted in evidence 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 hereof.

2. Order R-1670, as amended, and the applicable rules provide for 320 acre spacing and proration units in the Blanco Mesaverde Pool

and, with the exception of a few non-standard units, there are approximately 2,055 producing wells on 320 acre proration units at the present time.

3. That El Paso Natural Gas Company (hereinafter referred to as "El Paso") owns or operates approximately 1,100 of the wells in the Blanco Mesaverde Pool (hereinafter referred to as "Pool") or in excess of 50% of the wells in the Pool.

4. El Paso, in addition to being the owner and operator of the majority of the wells in the pool, is the owner and operator of a gathering system, natural gas pipeline distribution system and is the purchaser or transporter of all of the gas from wells to which its lines are connected, which constitutes approximately ____% of all the wells in the Pool. All gas produced and purchased by El Paso enters its interstate pipeline system and most of the gas is delivered at either the California-Arizona or Arizona-Nevada boundaries for consumption in those states.

5. Southern Union Gas Company and its wholly owned subsidiary own and operate a gas pipeline gathering system and a gas transportation system and purchase gas from approximately ____% of the wells in the Pool. All gas purchased and transported by Southern Union Gas Company is transported in intrastate commerce for in-state use and consumption except in such cases where gas is purchased or delivered to Southern Union Gas Company in excess of its market demand the excess has been delivered to El Paso for transportation in interstate commerce.

6. El Paso desires to increase its out of state deliverability and Southern Union Gas Company's existing connections are such that no additional gas is needed to meet its intrastate demand. There is no ratable take between the respective pipelines as to gas being produced from the Pool, and most of the gas purchase contracts of Southern Union Gas Company extend throughout the life of the leases on which the wells are located from which gas is being purchased and the owners

of such gas do not have the option to sell or otherwise dispose of gas which Southern Union is unable to purchase or transport in its pipeline.

7. Southern Union Production Company is the operator of approximately 70 wells located mostly in the northwest portion of the Pool. All of these wells are connected to the pipeline system of Southern Union Gas Company and its subsidiary.

8. Aztec Oil & Gas Company has an interest in some 500 wells in the Pool and is operator of 130 wells; 107 of which are connected to Southern Union Gas Company's system and 23 to the El Paso system. Almost all of the wells which Aztec operates are located in the northwest portion of the Pool.

9. The first producing well in the Pool was completed in 1953 and consequently there has been a production history of over 20 years and the information with respect thereto is shown by the Commission records. There is also available accurate information as to bottom hole pressures which have shown a gradual decline over the entire Pool, which is indicative of the fact that there has been communication between wells and that the wells are in fact draining gas from the respective 320 acre proration units.

10. Because of the variations in sand content and producing intervals in the various wells in the Pool, the wells can be classified as falling within four different categories; i.e. (1) the wells which have a deliverability in excess of one million cubic feet per day; (2) the wells which have a deliverability of five hundred thousand to one million cubic feet per day; (3) wells which have a deliverability of two hundred thousand to five hundred thousand cubic feet per day; and (4) those which have a deliverability of less than two hundred thousand cubic feet per day. There are approximately 150 wells in the first category, approximately 170 wells in the second category,

approximately 550 wells in the third category and approximately 1190 wells in the fourth category. The wells in the first two categories are all located in the central portion of the Pool. El Paso is running and purchasing the gas from practically all of the wells in the first two categories, which constitute some 420 wells having the greatest deliverability in the Pool.

11. El Paso proposes to drill additional wells at the rate of 100 or more per year and these wells would most logically be located on the units upon which wells are located having the greatest deliverability. These wells would undoubtedly in many instances offset units upon which are located wells of relatively low deliverability and would require immediate drilling of offset wells regardless of the economics that might be involved. The drilling of additional wells by other operators to meet offset obligations would cause a chain reaction which could require the drilling of an additional 2,055 wells over a relatively short period of time.

12. The gathering facilities and interstate pipeline of El Paso has additional capacity to handle the transportation of increased production from the Pool. The gathering system and pipeline facilities of Southern Union Gas Company has very little, if any, additional capacity for the handling of gas from the Pool. There is a differential in pressure between the two systems of approximately 100 pounds per square inch and the delivery of additional gas to the respective systems will result in increased line pressures. The additional wells which operators would be forced to drill to meet offset obligations in the outlying areas of the Pool may not, in many instances, be able to produce at a pressure so that their gas can be delivered into the pipelines without going to the additional expense of compression facilities which necessarily must be considered in determining the economics involved in the drilling of many of the wells in the outlying

areas. Furthermore, the rapid drilling of wells in the area having the highest deliverability would result in production beyond the capacity of both pipelines.

13. Due to the widespread national program for the drilling of wells because of the energy shortage, tubular goods and drilling rigs are in short supply and cannot be readily obtained without long delays. El Paso has shown that it is in a position to drill 100 or more wells within the next year, but other operators, because of inability to obtain necessary tubular goods and drilling rigs and because of their commitments to drill wells in other areas, will be unable to carry on additional drilling operations at a rate which would permit them to meet offset obligations which would be the result of the drilling program contemplated by El Paso.

14. Immediate drilling by El Paso of a large number of wells in the areas having the greatest potential for deliverability in the Pool will cause drainage in the outlying areas having less potential for deliverability, which coupled with the inability of operators to obtain the tubular goods and drilling rigs necessary to meet offset obligations will cause a violation of correlative rights.

15. Because of the characteristics of the producing formation in the Pool and low porosity and permeability in some areas, complete economical drainage of the entire Pool by the existing wells will necessarily be over a long period of time and the drilling of infill wells may add from 2 to 23% to existing reserves, particularly in the outlying areas. On this account existing reserves can be made more readily available over the next several years by the drilling of infill wells. However, waste will not be committed nor correlative rights violated by deferring drilling of infill wells for a reasonable period of time until tubular goods and drilling rigs can be obtained without undue delay.

16. There are a large number of proven or semi-proven undrilled locations in the Blanco Mesaverde Pool which should be drilled before operators are forced to drill a second well on existing 320 acre proration units. The evidence clearly shows that there is no particular urgency on the part of any operator to drill additional wells except in the case of El Paso, which is for the purpose of meeting its deliverability problems because of out of state demand.

REQUESTED CONCLUSIONS

Based upon the foregoing Findings of Fact, the Commission concludes:

1. That there is no substantial evidence that the present spacing pattern and proration formula in the Blanco Mesaverde Pool fail to prevent waste or protect correlative rights and the approval of the application would result in the drilling of unnecessary wells.

2. That the drilling of infill wells in the Pool may be desirable in order to make available within a shorter period of time the remaining producible gas within the Pool and to recover some additional gas which might not be recovered through the existing wells. However, the correlative rights of all owners and operators in the Pool cannot be adequately protected by proceeding with an unlimited and uncontrolled drilling program which might result from the immediate approval of the subject application because of the following:

(a) The Commission recognizes that there is a critical national shortage of tubular goods necessary for the drilling of oil and gas wells and that drilling rigs are not readily available and therefore it would not be possible for all operators to promptly meet offset obligations caused by an unlimited and uncontrolled drilling program and thereby protect correlative rights.

(b) The prompt drilling by El Paso of a large number of wells in the areas of the Pool having the highest deliverability

would result in drainage of outlying areas before many of the operators could meet offset obligations and thereby protect correlative rights.

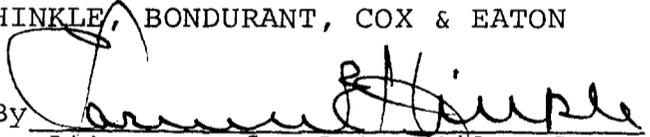
(c) The rapid drilling of wells in the areas having the highest deliverability would also make gas available beyond the capacity of the pipelines to transport the same.

3. The Commission having considered all facts and circumstances further concludes that the most equitable and ideal way to protect the correlative rights of all parties concerned and to prevent waste would be through fieldwide unitization of the Blanco Mesaverde Pool. The Commission has no jurisdiction to force unitization, but recommends that such a course be voluntarily pursued by all operators involved and an earnest effort made to effect unitization if possible to do so within a reasonable period of time.

4. That the Commission retain jurisdiction of this cause and that a supplemental hearing be held in July 1975 for the purpose of determining at that time whether or not conditions are such that the approval of the subject application would be in the interest of prevention of waste and the protection of correlative rights.

Respectfully submitted,

HINKLE, BONDURANT, COX & EATON

By 
Attorneys for Aztec Oil & Gas
Company

P.O. Box 10
Roswell, New Mexico 88201

Case 5264

LAW OFFICES

ANDERSON, BYRD & RICHESON

ROBERT A. ANDERSON
RICHARD C. BYRD
JOHN L. RICHESON

FIRST NATIONAL BANK BUILDING
OTTAWA, KANSAS 66067

PHONE
Area Code 913
CHerry 2-1234

July 8, 1974

Mr. A.L. Porter, Jr.
New Mexico Oil Conservation Commission
Box 2088
Santa Fe, New Mexico 87501

Re: El Paso's Application - Case No. 5264

Dear Pete:

Attached to this letter is a copy of a Motion For Postponement which Mr. Clarence Hinkle will file with your Commission July 8th or 9th. As you can see, the basis for Mesa Petroleum Co.'s request for a postponement is that until we ascertain for certain what effect the Federal Power Commission's recently issued National Rate Order, Docket R389-B, would have upon the granting of El Paso's application it is impossible for Mesa to determine what its position would be respecting the application. I presume that the other producers in the field will be similarly situated.

Mesa has no desire to unduly delay the determination of El Paso's application and if the Commission should decide that it should proceed with the hearing of El Paso's evidence on August 13th, reserving until a later date the presentation of the evidence by Mesa and other similarly situated producers, we would certainly not object.

Realizing the difficulty and the time involved for a producer or gas purchaser to obtain a ruling or order from the Federal Power Commission, it might expedite these proceedings if your Commission, working with the interested parties, would request a formal opinion from the Federal Power Commission as to the applicability of Opinion 699 to the particular circumstances facing your Commission as a result of El Paso's application. I would be willing to assist your staff, as I am sure the attorneys for the other interested parties would be, in framing a request to the Federal Power Commission for an interpretation of their Opinion 699. From my past experience I am sure the Federal Power Commission would act more expeditiously on a request from your State Commission than they would from a

Mr. A.L. Porter, Jr.

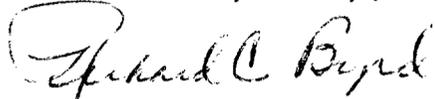
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July 8, 1974

request by a producer or purchaser.

If I can be of any assistance to you or your staff in obtaining a Federal Power Commission interpretation, please let me know.

Yours very truly,



Richard C. Byrd
Attorney for Mesa Petroleum Co.

RCB:ara

cc: Don D. Dent
Clarence E. Hinkle
Jim Upchurch
Mesa Petroleum Co.

Richard S. Morris
William R. Federici
Attorneys for El Paso

Jack M. Campbell
Attorney for Southern Union Producing Co.

Clarence E. Hinkle
Attorney for Aztec

Case 5264

LAW OFFICES

HINKLE, BONDURANT, COX & EATON

TELEPHONE (505) 622-6510

CLARENCE E. HINKLE
W. E. BONDURANT, JR.
LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.
ANDREW ALLEN

600 HINKLE BUILDING

POST OFFICE BOX 10

ROSWELL, NEW MEXICO 88201

MIDLAND, TEXAS OFFICE
521 MIDLAND TOWER
(915) 683-4691

July 9, 1974

Oil Conservation Commission
State Land Office Building
Santa Fe, New Mexico 87501

Re: Case No. 5264-Application of
El Paso Natural Gas Company for
an Amendment of Order No. R-1670-
Blanco Mesaverde Gas Pool, San
Juan, Rio Arriba and Sandoval
Counties, New Mexico

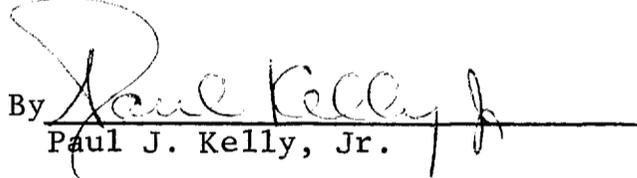
Gentlemen:

Enclosed herewith for filing is a Motion for Postponement
on behalf of Mesa Petroleum Co.

In the event that the Commission desires a hearing on this
Motion we would respectfully request that such a hearing be held
prior to August 13, 1974.

Very truly yours,

HINKLE, BONDURANT, COX & EATON

By 
Paul J. Kelly, Jr.

cc: W.R. Federici, Esq.
Montgomery, Federici, Andrews, Hannahs & Buell

D.D. Dent
Mesa Petroleum Co.

R.C. Byrd, Esq.
Anderson, Byrd and Richeson

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF EL PASO NATURAL GAS
COMPANY FOR AN AMENDMENT OF ORDER
NO. R-1670 TO PERMIT THE OPTIONAL
DRILLING AND PRODUCTION OF AN
ADDITIONAL WELL ON PRORATION UNITS
SAN JUAN, RIO ARRIBA AND SANDOVAL
COUNTIES, NEW MEXICO, AND TO PROVIDE
FOR THE ASSIGNMENT OF ALLOWABLES FOR
SUCH ADDITIONAL WELLS AND PRORATION
UNITS.

CASE NO. 5264

MOTION FOR POSTPONEMENT

TO THE HONORABLE OIL CONSERVATION COMMISSION OF NEW MEXICO:

Comes now Mesa Petroleum Co. of Amarillo, Texas, hereinafter referred to as Mesa, acting by and through the undersigned attorneys, and enters its appearance in this cause and requests that the hearing set for August 13, 1974 be postponed, and as grounds for this motion would respectfully show:

1. Mesa owns an interest in more than 450 wells and is the operator of 28 wells in the Blanco Mesaverde Gas Pool, San Juan, Rio Arriba and Sandoval Counties of the State of New Mexico. The granting of El Paso's application could require that Mesa drill approximately 36 additional net wells.

2. The rule changes proposed by El Paso applicable to the Blanco Mesaverde Gas Pool as provided in Order No. R-1670 will authorize the drilling of a second well on an existing proration unit and the unit allowable be produced from either or both wells.

On June 21, 1974, the Federal Power Commission issued its Opinion and Order prescribing a uniform national rate for sales of natural gas produced from wells commenced on or after January 1, 1973, Opinion 699, Docket No. R-389-B. It cannot be determined from such opinion what the pricing policies and procedures may be to determine prices of gas produced from additional wells commenced on or after January 1, 1973, particularly to be applied in connection with any order which the Oil Conservation Commission may issue in this hearing. Until such time as the Federal Power

Commission issues an opinion clarifying the effect of its Opinion and Order of June 21, 1974 on the sale of gas produced from the additional wells drilled on existing proration units, it is impossible for Mesa to determine its position with respect to El Paso's application in this cause.

3. The granting of Mesa's Motion for Continuance will neither cause waste nor violate the correlative rights of the owners of interests in the oil and gas reserves underlying the Blanco Mesaverde Gas Pool.

WHEREFORE, Mesa respectfully requests that the hearing on the subject application of El Paso be postponed until such time as the Federal Power Commission issues its order and opinion clarifying the effect of its Opinion and Order of June 21, 1974 (Opinion 699, Docket No. R-389-B) on the sales of gas produced from the additional wells drilled on existing proration units, as provided for in the proposed rule changes in the subject application. In the event the Commission desires a hearing on this motion, it is further requested that such hearing be held on a date convenient to the Commission prior to August 13, 1974.

Respectfully submitted,

MESA PETROLEUM CO.



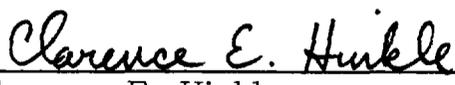
D. D. Dent

P. O. Box 2009
Amarillo, Texas 79105



Richard C. Byrd

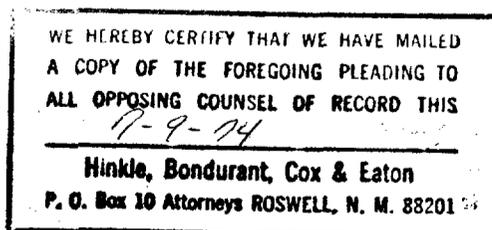
Anderson, Byrd & Richeson
First National Bank Building
Ottawa, Kansas 66067



Clarence E. Hinkle

Hinkle, Bondurant, Cox & Eaton
P. O. Box 10
Roswell, New Mexico 88201

Attorneys for MESA PETROLEUM CO.



BIGBEE, BYRD, CARPENTER & CROUT

ATTORNEYS AT LAW

BOKUM BUILDING

P. O. BOX 669

SANTA FE, NEW MEXICO 87501

AREA CODE 505

TELEPHONE 982-4611

ASSOCIATE IN ALBUQUERQUE, NEW MEXICO
QUINCY D. ADAMS

HARRY L. BIGBEE
HARL D. BYRD
RICHARD N. CARPENTER
G. STANLEY CROUT
PAUL D. GERBER

KIMBALL R. UDALL
ANDREW M. IVES, JR.
LEILA ANDREWS

August 2, 1974

New Mexico Oil Conservation Commission
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Application of El Paso Natural Gas
Company for an Amendment of
Order No. R-1670, Case No. 5264.

Gentlemen:

Pursuant to Rule 1208 of the Commission, Southern Union Gas Company, by and through this firm and A. S. Grenier and Jack Hertz of Dallas, enters its appearance as an interested party in the above entitled and numbered proceeding and, accordingly, we enclose herewith, in triplicate, our Entry of Appearance as a Party and Participant for filing therein.

A copy of this letter and enclosed pleading are being sent to the attorneys for El Paso Natural Gas Company. If there are any other interested parties upon whom we should serve a copy of our appearance, please advise.

Thank you.

Very truly yours,



Richard N. Carpenter

RNC:ycs
Enclosures

cc: Montgomery, Federici, Andrews, Hannahs & Buell w/encl.

Richard S. Morris, Esq., EPNG, El Paso, Texas 79978 w/encl.

Mr. W. D. James w/encl.

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BIGBEE, BYRD, CARPENTER & CROUT

By Richard H. Carpenter

Post Office Box 669
Santa Fe, New Mexico 87501
Attorneys for Southern Union Gas Company

BIGBEE, BYRD, CARPENTER & CROUT

ATTORNEYS AT LAW

BOKUM BUILDING

P. O. BOX 669

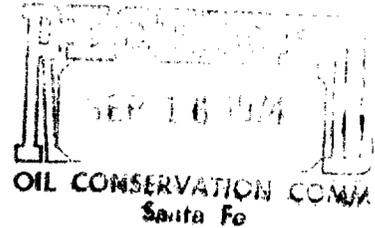
SANTA FE, NEW MEXICO 87501

HARRY L. BIGBEE
HARL D. BYRD
RICHARD N. CARPENTER
G. STANLEY CROUT
PAUL D. GERBER

KIMBALL R. UDALL
ANDREW M. IVES, JR.
LEILA ANDREWS

AREA CODE 505
TELEPHONE 982-4611
ASSOCIATE IN ALBUQUERQUE, NEW MEXICO
QUINCY D. ADAMS

September 16, 1974



Oil Conservation Commission
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: N. M. O. C. C. Case No. 5264,
Application of EPNG for an
Amendment of Order No. R-1670

Gentlemen:

Enclosed herewith in triplicate, please find Suggested Findings
of Fact Submitted by Southern Union Gas Company. Thank you.

Very truly yours,

Richard N. Carpenter

RNC:cd

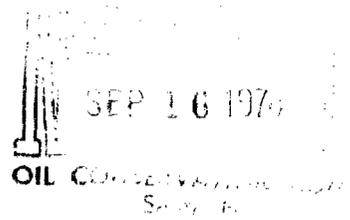
Enclosures

cc: Richard C. Byrd, Esq.
Clarence E. Hinkle, Esq.
Jack M. Campbell, Esq.
Jason W. Kellahin, Esq.
William R. Federici, Esq.
Richard S. Morris, Esq.
Jack Hertz, Esq.

El Paso

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BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION



APPLICATION OF EL PASO NATURAL GAS COMPANY FOR AN AMENDMENT OF ORDER NO. R-1670 TO PERMIT THE OPTIONAL DRILLING AND PRODUCTION OF AN ADDITIONAL WELL ON PRORATION UNITS IN THE BLANCO MESAVERDE GAS POOL OF SAN JUAN, RIO ARRIBA AND SANDOVAL COUNTIES, NEW MEXICO, AND TO PROVIDE FOR THE ASSIGNMENT OF ALLOWABLES FOR SUCH ADDITIONAL WELLS AND PRORATION UNITS.

CASE NO. 5264

SUGGESTED FINDINGS OF FACT
SUBMITTED BY SOUTHERN UNION GAS COMPANY

Comes now Southern Union Gas Company, a participant in and party to this proceeding, and respectfully submits its suggested and requested Findings of Fact as follows:

- 1. The Commission has jurisdiction of this cause and the subject matter hereof.
- 2. The public has a vital interest in the conservation of natural gas and other resources in the State of New Mexico.
- 3. This proceeding was commenced by the application of El Paso Natural Gas Company (EPNG) to amend Order No. R-1670 to permit double drilling on existing proration units within the Blanco-Mesaverde Gas Pool and to change the allowable formula to include the deliverability of the double drilled well additive to that of the first well.
- 4. The basic statutes (NMSA 1953) governing the approval or disapproval of the EPNG application are: §§65-3-2, prohibiting waste; 65-3-3, defining waste; 65-3-5, concerning the Commission's powers and duties; 65-3-10, referring to this Commission's duty to prevent waste and protect correlative rights; 65-3-1-13(c), relating to the formulation of an allowable formula; 65-3-14, relating to the equitable allocation of allowable production

1 and spacing; 65-3-15(c), concerning purchases by common purchasers; and
2 65-3-29(h), defining correlative rights. >

3 5. The Blanco Mesaverde Pool presently has some 2,058 producing
4 gas wells, each located on a 320-acre spacing and proration unit. The total
5 production allowable for the pool is divided among the wells under a rather
6 complex allowable formula which considers both the acreage dedicated to the
7 well and the well's pipeline deliverability. The spacing rules for this pool and
8 the allowable formula have been in effect for approximately 23 years and 20
9 years, respectively.

10
11 6. By its application, EPNG is seeking to increase deliverability
12 from the pool by the double-drilling of additional wells on existing 320-acre
13 proration units. However, rather than petitioning the Commission to change
14 the spacing for the pool from 320 acres to 160 acres, EPNG seeks an order per-
15 mitting the drilling of a second well on any 320-acre unit and amending the
16 prorating formula so that the acreage factor for the wells would not be affected
17 but the deliverability of the two wells would be additive. Normally under New
18 Mexico practice, the drilling of a second well would require the formation of
19 two non-standard 160-acre proration units, each with an acreage factor of
20 0.5 to be applied to the allowable formula which tends to reduce the allowable
21 for the well because of its shortage of acreage. A double-drilled proration
22 unit would receive a larger allowable than a proration unit the operator of which
23 would not or could not drill the additional well.

24
25
26 7. Under such a rule, there is a very real likelihood of drainage of
27 gas underlying units with one well to units with two wells. Other operators in
28 the pool, therefore, realize that if the rule is adopted, they will be obligated
29 under their leases to drill additional wells to prevent such drainage even
30 though the pool spacing rules would not require additional drilling.
31

32 8. The Commission must assume that the existing allowable formula

1 is valid until it is successfully attacked.

2 9. There has been a lack of substantial evidence presented in the
3 record of this case to support the basic findings in the language of Continental
4 Oil Co. v. Oil Conservation Com'n., 70 N.M. 310, 373 P.2d 809, or their
5 equivalents, which findings or their equivalents are necessary to and upon
6 which jurisdiction of this Commission to approve the EPNG application depends.
7

8 10. The existing allowable formula currently adequately prevents
9 waste and protects correlative rights. Waste would not be more prevented nor
10 would correlative rights be better protected under the proposed new formula,
11 at the current time.

12 11. At this stage of field and office study of the relationship between
13 double drilling in the pool and any increased reserves in the pool, there is no
14 substantial evidence that approval of the EPNG application will substantially
15 increase recoverable reserves in the Blanco Mesaverde Gas Pool. The results
16 of existing studies are speculative and conjectural.

17 12. Approval of EPNG's application would result in the production
18 of natural gas from the Blanco Mesaverde Gas Pool in excess of the demand for
19 natural gas for reasonable current requirements, for current consumption and
20 for use within or outside the state, together with the demand for such amounts
21 as are necessary for building up or maintaining reasonable storage reserves.
22

23 13. Approval of the EPNG proposal would not provide for the
24 allocation of the allowable production among gas wells in the Blanco Mesaverde
25 Gas Pool delivering to a gas transportation facility upon a reasonable basis and
26 recognizing correlative rights throughout the pool.
27

28 14. Approval of EPNG's application would not, insofar as is prac-
29 tible, prevent drainage between producing tracts in the Blanco Mesaverde Gas
30 Pool which is not equalized by counter-drainage.
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32

1 * < 15. The Commission must assume that the existing spacing is valid
2 until it is successfully attacked. >

3 16. At this stage of field and office investigation of the drainage of
4 gas wells in the pool, < there is no substantial evidence that the existing prora-
5 tion units in the Blanco Mesaverde Gas Pool containing one gas well do not
6 efficiently and economically drain and develop the area within such existing
7 proration units. The results of existing studies are speculative and conjectural.

8 17. There is no substantial evidence that consideration of the eco-
9 nomic loss caused by the drilling of unnecessary wells, the protection of
10 correlative rights, including those of royalty owners, the prevention of waste,
11 the avoidance of the augmentation of risks arising from drilling of an excessive
12 number of wells and the prevention of reduced recovery which might result
13 from the drilling of too few wells, supports the proposed change in spacing, at
14 the current time.

15 18. The existing spacing currently adequately prevents waste and
16 protects correlative rights. Waste would not be more prevented nor would
17 correlative rights be better protected under EPNG's proposed new spacing, at
18 the current time.

19 19. EPNG, as producer and purchaser, is in a markedly different
20 and more favorable position than other producers in the pool, in relation to
21 economically justifying double-drilling now, in terms of having pipe and other
22 drilling and completion materials and services available now and in terms of the
23 siting of acreage within the pool currently owned or controlled. >

24 20. Due to current shortages in drilling and completion goods,
25 equipment and services, the differential pricing to different producers and
26 ambiguity over the applicability of the new uniform national rate for sales of
27 natural gas to interstate commerce to the double-drilled well and/or total or
28 proportion of the gas produced from the double-drilled proration unit, not all
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1 owners of property in the Blanco Mesaverde Gas Pool would have practical
2 opportunity to produce without waste his just and equitable share of the gas in
3 the pool, if the EPNG application were approved at the present time.

4 21. Funds available to operators required to double drill, and also
5 tubular good allocations, would have to be diverted from other exploratory and
6 developmental programs. It is in the public interest to encourage the explor-
7 ation for and development of new reserves of natural gas outside of already
8 defined pools.

9
10 22. Delay in approving the EPNG plan would more closely correlate
11 supply and reasonable market demand, both within and outside New Mexico.

12 23. Southern Union Gas Company has a vital stake and interest in
13 the outcome of this proceeding arising from separate but interdependent cir-
14 cumstances, to-wit, as a purchaser of natural gas from producers within this
15 and other San Juan Basin pools; as an owner of gas transportation facilities
16 serving gas wells therein; and as a public utility in New Mexico seeking to
17 furnish New Mexico consumers with adequate, efficient and reasonable gas
18 service at just and reasonable rates. Gas from this and other San Juan Basin
19 pools purchased by Southern Union Gas Company is the exclusive source of
20 supply for approximately 500,000 New Mexicans in Albuquerque, Santa Fe and
21 other areas of Southern Union Gas Company's Northwestern and Albuquerque
22 service divisions. This is no current market demand for these New Mexico
23 consumers for the additional gas to be produced under the EPNG application.
24 The New Mexico Public Service Commission, charged by law with the super-
25 vision and regulation of public utilities' gas service, shares the concerns
26 expressed by Southern Union Gas Company.

27
28
29 24. If substantial additional reserves could be developed by double-
30 drilling in this pool, such would be accomplished even if the approval of double-
31 drilling were to be deferred until a later date. The likelihood of double-drilling
32

28

LAW OFFICES

HINKLE, BONDURANT, COX & EATON

TELEPHONE (505) 622-6510

CLARENCE E. HINKLE
W. E. BONDURANT, JR.
LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.

600 HINKLE BUILDING
POST OFFICE BOX 10

ROSWELL, NEW MEXICO 88201

MIDLAND, TEXAS OFFICE
521 MIDLAND TOWER
(915) 683-4691

July 9, 1974

Oil Conservation Commission
State Land Office Building
Santa Fe, New Mexico 87501

Re: Case No. 5264 - Application of
El Paso Natural Gas Company for
an Amendment of Order No. R-1670-
Blanco Mesaverde Gas Pool, San
Juan, Rio Arriba and Sandoval
Counties, New Mexico

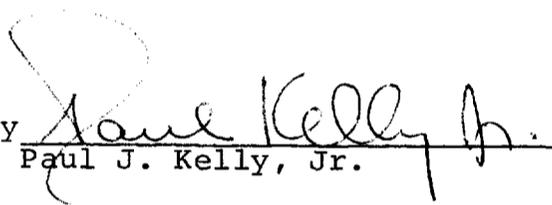
Gentlemen:

Enclosed herewith for filing is a Motion for Continuance
on behalf of Aztec Oil & Gas Company.

In the event that the Commission desires a hearing on this
Motion we would respectfully request that such a hearing be held
prior to August 13, 1974.

Very truly yours,

HINKLE, BONDURANT, COX & EATON

By 
Paul J. Kelly, Jr.

cc: W. R. Federici, Esq.
Montgomery, Federici, Andrews, Hannahs & Buell

Kenneth Swanson
Aztec Oil & Gas Company



BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF EL PASO NATURAL GAS
COMPANY FOR AN AMENDMENT OF ORDER
NO. R-1670 TO PERMIT THE OPTIONAL
DRILLING AND PRODUCTION OF AN
ADDITIONAL WELL ON PRORATION UNITS
IN THE BLANCO MESAVERDE GAS POOL OF
SAN JUAN, RIO ARRIBA AND SANDOVAL
COUNTIES, NEW MEXICO, AND TO PROVIDE
FOR THE ASSIGNMENT OF ALLOWABLES FOR
SUCH ADDITIONAL WELLS AND PRORATION
UNITS.

Case No. 5264

MOTION FOR CONTINUANCE

Comes Aztec Oil & Gas Company of Dallas, Texas, acting by and through the undersigned attorneys, and enters its appearance in this cause and respectfully moves that the hearing of this case set for August 13, 1974 be continued for a period of at least six months and as grounds for such motion petitioner respectfully shows:

1. Petitioner is the owner of interests in more than 500 wells and is the operator of 130 wells which are completed in the Blanco Mesaverde Gas Pool, San Juan and Rio Arriba Counties.

2. Petitioner estimates that there are some 2,000 wells producing from the Blanco Mesaverde Gas Pool and that the approval of the application of El Paso Natural Gas Company in this case would entail the drilling of approximately 2,000 additional wells. It is a matter of common knowledge that there is a critical shortage of tubular goods and because thereof and due to the present demand on account of increased drilling activity nationwide, the quantity of steel necessary to drill the proposed infill wells could not be obtained in the foreseeable future. Furthermore, supply companies are allocating tubular goods to customers in proportion to their purchases during 1973. Petitioner was not active in drilling wells in 1973 awaiting more favorable gas prices and consequently would be unable to obtain

the necessary tubular goods to drill and equip anything like the number of wells which Aztec might be required to drill in the event of the approval of the application of El Paso. On the other hand, Petitioner is informed that El Paso drilled more than 200 wells in the San Juan Basin during 1973 and would probably be able to obtain tubular goods at a faster rate than applicant and could therefore institute drilling operations in connection with infill wells at a far more rapid rate than Aztec, and perhaps many other operators in the pool. This situation would necessarily result in the inability of operators to meet offset obligations and thereby protect correlative rights.

3. The Federal Power Commission has recently issued an order setting a single initial national rate of 42¢ per MCF for gas involved in interstate sales from wells commenced on or after January 1, 1973. Applicant is informed that the Federal Power Commission now has under consideration the issuance of an order which would increase the price of gas being produced from wells commenced prior to January 1, 1973. Under the proposed amendment to Order R-1670 the unit allowable would be produced from either or both wells on the unit. Until the Federal Power Commission determines the rate which may be paid for gas produced from wells commenced prior to January 1, 1973 and being sold in interstate commerce, it is impossible to estimate the proceeds which will become available upon the completion of infill wells and to determine whether it is economically feasible to drill such wells.

4. Even after the Federal Power Commission issues its new order establishing a price for gas produced from wells which were commenced prior to January 1, 1973, it will still be necessary to determine whether or not it will be necessary to market the gas from the old wells and the new wells separately, under different prices, although under the proposed amendment to Order R-1670 the gas would

be commingled and produced in any portion from both wells for proration purposes. If there is a marked difference between the price to be paid for the gas in these two categories, it could lead to a situation where all or most of the gas would be produced from the new wells because of the higher price and this could well defeat the purpose of the drilling of the new wells, i.e. to increase the volume of gas available for market purposes.

WHEREFORE, Petitioner respectfully requests that the hearing on the subject application be continued for a period of 6 months from August 13, 1974, during which time it is anticipated that there will be a clarification through orders issued by the Federal Power Commission of the price which may be paid for gas produced from wells commenced prior to January 1, 1973 and from proration units which involve wells commenced both before and after January 1, 1973. It is further anticipated that by that time the delivery of tubular goods required to drill the large number of wells involved in the event the application is approved will be more current.

Respectfully submitted,

AZTES OIL & GAS COMPANY

By 

HINKLE, BONDURANT, COX & EATON
Attorneys for Petitioner
P. O. Box 10
Roswell, New Mexico 88201

OIL CONSERVATION COMMISSION

P. O. BOX 2088

SANTA FE, NEW MEXICO 87501

July 16, 1974

**Mr. Paul J. Kelly, Jr.
Hinkle, Bonbrant, Cox & Eaton
Attorneys at Law
Post Office Box 10
Roswell, New Mexico 88201**

Dear Mr. Kelly:

A quorum of the Commission met this morning and considered the applications of Mesa Petroleum Company and Astec Oil & Gas Company for a continuance of Case No. 5264 which has been advertised for hearing August 13.

It is the Commission's decision that arguments on the motions for continuance will be heard at the beginning of the hearing on August 13. Arguments by each participant will be limited to 15 minutes. All parties who propose to present testimony in the case should be prepared to do so on August 13.

Very truly yours,

A. L. PORTER, Jr.
Secretary-Director

ALP/ir

cc: Honorable Jack M. Campbell for Southern Union
Production Company
Mr. Richard S. Morris for El Paso Natural Gas Company
Mr. Richard C. Byrd for Mesa Petroleum Company

C
O
P
Y

ATWOOD, MALONE, MANN & COOTER
LAWYERS

JEFF D. ATWOOD [1883-1960]

P. O. DRAWER 700
SECURITY NATIONAL BANK BUILDING
ROSWELL, NEW MEXICO 88201
[505] 622-6221

CHARLES F. MALONE
RUSSELL D. MANN
PAUL A. COOTER
BOB F. TURNER
ROBERT A. JOHNSON
JOHN W. BASSETT
ROBERT E. SABIN
RUFUS E. THOMPSON
RALPH D. SHAMAS

August 9, 1974

Mr. A. L. Porter, Jr.
Oil Conservation Commission
State Land Office Building
Santa Fe, New Mexico

RE: Examiner Hearing August 13, 1974
Case No. 5264

Dear Mr. Porter:

Please file the enclosed Entry of Appearance in the above captioned case. The presentation will be handled by Oscar Swan of Amoco Production Company's Houston office.

Appreciating your courtesy, and with our kind regards, I am,

Very truly yours,

Paul Cooter
Paul Cooter

PC:sas

cc: Mr. Oscar Swan
Mr. R. B. Giles

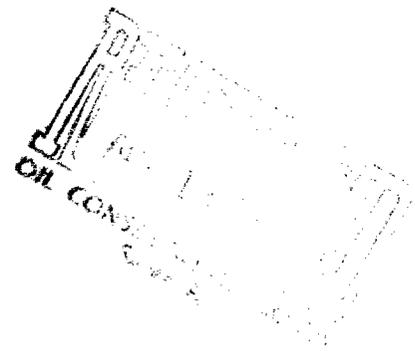


MARATHON OIL COMPANY

PRODUCTION - UNITED STATES AND CANADA

CASPER DIVISION

P. O. Box 2659
Casper, Wyoming 82601



August 9, 1974

Mr. A. L. Porter
Executive Director
New Mexico Oil and Gas Conservation Commission
Santa Fe, New Mexico 87501

Re: Application of El Paso Natural Gas Company
to Amend Order No. R-1670 to Permit Infill
Drilling on Gas Proration Units in the
Blanco Mesaverde Gas Pool of San Juan, Rio
Arriba and Sandoval Counties, New Mexico

Dear Mr. Porter:

Marathon has reviewed the above application of El Paso Natural Gas Company to permit infill drilling on gas proration units for the Blanco Mesaverde Gas Pool.

Our Company is the sole working interest owner of three wells and proration units in this pool which will be affected by this application and is a substantial working interest owner in two other such wells and proration units for a total of five wells and units.

We believe that the granting of this application would detrimentally affect Marathon's leases and interests in the Blanco Mesaverde pool as well as those of other owners. We therefore wish to oppose the application for the following reasons:

1. We do not believe that the drilling of infill wells in this pool will significantly add to the ultimate recovery of gas from the pool. There has been no substantial change of knowledge of conditions concerning the pool since the proration units were established that would indicate that reserves can be substantially increased by infill drilling. The consequence, therefore, of such infill drilling as proposed, will be economic loss by the drilling of unnecessary wells.

2. Shortages of casing, drilling rigs, and other materials and equipment can and will lead to sporadic infill drilling, resulting in uncompensated drainage from leases and areas of low well density to leases and areas of high well density, thus violating the correlative rights of the owners involved.

We respectfully ask that the Commission consider Marathon's opposition to the granting of El Paso's application in this matter.

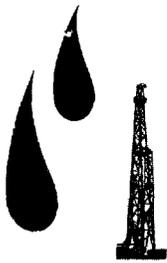
Respectfully yours,

MARATHON OIL COMPANY

By Carl M. Morris
Carl M. Morris
District Operations Manager

CMM/MGG: dp

cy: El Paso Natural Gas Company
Mr. W. C. Sylvester
Mr. M. G. Gray



CLINTON OIL COMPANY

217 NORTH WATER / WICHITA, KANSAS 67202 / 316 262-8231
TWX 910 741-6940 and 6966 Cable Address: CLINTOIL
P. O. BOX 1201 / WICHITA, KANSAS 67201

August 23, 1974

New Mexico Oil Conservation Commission
P.O. Box 2088
Santa Fe, New Mexico 87501

Attention: A.L. Porter Jr.

Re: Docket No. 18-74, Case 5264
Blanco Mesaverde Pool
San Juan and Rio Arriba Counties,
New Mexico

Gentlemen:

Clinton Oil Company operates two wells in the Blanco Mesaverde Pool and has an interest in three wells operated by El Paso Natural Gas Company. Clinton Oil Company has recently supported applications for increases in drilling density where there has been an indication that the present well density was not efficiently and economically draining the reservoir. We have supported these applications only where there have been adequate measures taken for the protection of correlative rights. Clinton Oil Company is opposed to the application of El Paso for a rule allowing an additional well on each 320 acre spacing unit in the Blanco Mesaverde Pool because the rules proposed by El Paso have no provisions insuring the protection of correlative rights which have been established during the 20-25 year producing life of this reservoir. Clinton Oil Company would support this application if the proposed rules contained adequate provision for the protection of correlative rights.

The present 320 acre spacing will drain the Blanco Mesaverde Reservoir. This is confirmed by El Paso Exhibit 16 which shows that the average bottom hole pressure measured in the three strat tests is declining at essentially the same rate as the bottom hole pressures calculated from the seven day shut in pressures.

The present 320 acre well density is not providing efficient and economic drainage. The "poor" wells in the field have a remaining producing life of approximately 40 years and the "good" wells in the field have a remaining producing life of approximately 100 years. These remaining producing lives approach or exceed the life expectancy of the physical equipment. Additional drilling can be economically justified now, while deliverabilities are good and surface facilities are adequate. Re-drilling 40 to 100 years from now to correct mechanical failures would be questionable because of lower deliverability and deteriorated surface equipment and pipelines. If infill drilling is not permitted now, then at some time in the future a critical decision point will be reached. Either the field will have to be redeveloped with replacement of deteriorated surface facilities and pipeline, or the field will have to be abandoned with considerable reserves remaining in the reservoir. Although the 320 acre well density will eventually drain the reservoir, the additional wells are required to efficiently and economically drain this reservoir.

A spacing pattern which extends depletion over a 60 to 120 year period is not providing efficient and economical drainage.

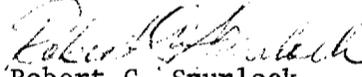
We do not mean to imply that we suspect El Paso of having a scheme or plan. We are aware, however, that whenever rules and regulations are adopted, each employee for each party will strive to achieve the maximum legal benefit for that party. If the rules proposed by El Paso are adopted, we can visualize a series of events which would have a very serious impact on correlative rights. This concern for the protection of correlative rights arises because most of the acreage in the "fairway", (i.e., the "good" wells) is owned by El Paso, operated by El Paso, and the gas is purchased by El Paso. The "poor" wells are presently having difficulty delivering into the El Paso pipeline which is operated at 250 psi. The initial infill wells would probably be drilled in the "fairway", and if they are given the allowable status requested by El Paso, they could increase the line pressure and shut out the "poor" wells. If additional development is allowed under the rules proposed by El Paso, correlative rights may be violated by virtue of new wells (El Paso) being produced at the expense of old wells (other operators).

We believe that rules can be devised which will protect correlative rights. The Additional Wells on each unit could be assigned a non-transferrable allowable in accordance with the field formula. The purchasers could be allowed to take gas from these additional wells only when demand exceeds the total allowable of all regular unit wells.

In addition, the purchaser could be prohibited from taking gas from the Additional Wells at any time that the purchaser's line pressure is in excess of some stated level. The purchasers may argue that the Commission does not have the authority to tell them what the line pressure will be. Proper wording of the rule can avoid this argument. The purchaser is not told that he must operate his line at a certain pressure, he is told under what conditions he may take gas from a certain class of wells.

In conclusion, Clinton Oil Company believes that additional drilling in the Blanco Mesaverde Pool is necessary to provide more efficient and economic depletion. We urge the New Mexico Oil Conservation Commission to develop and implement a gas proration system which will permit the development of the important reserves in the Blanco Mesaverde Pool and at the same time insure the protection of correlative rights.

Very truly yours,


Robert C. Spurlock
Operations Attorney

OIL CONSERVATION COMMISSION

P. O. BOX 2088

SANTA FE, NEW MEXICO 87501

Case 5264

Care file

June 17, 1974

C

Mr. W. P. Carr
6700 Forest Lane
Dallas, Texas 75230

O

Dear Mr. Carr:

Receipt is hereby acknowledged of your letter of June 10 which refers to an application of El Paso Natural Gas Company to amend Order No. R-1670.

P

This case has been formerly advertised for public hearing on Tuesday August 13, 1974 at 9 o'clock a.m., Morgan Hall, State Land Office Building, Santa Fe, New Mexico. At the hearing any interested party who desires to present sworn testimony will be heard and the decision will be based upon the record made at the hearing.

Y

Very truly yours,

A. L. PORTER, Jr.
Secretary-Director

ALP/ir

cc: Mr. Richards S. Morris

El Paso Natural Gas Company

El Paso, Texas 79978

RICHARD S. MORRIS
ASSISTANT GENERAL COUNSEL

June 14, 1974

Mr. A. L. Porter, Jr.
Secretary-Director
New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Dear Mr. Porter:

We have received a copy of Mr. W. P. Carr's letter to you of June 10, 1974, concerning El Paso's application to amend the Commission's Order No. R-1670 to enable infill drilling in the Blanco Mesaverde Gas Pool. We do not agree with the assertions made by Mr. Carr in his letter to the effect that El Paso's proposal will adversely affect the interests of the State of New Mexico and the small producers in the Blanco Mesaverde Gas Pool. To the contrary, we believe the evidence to be presented at the hearing on this application will show that waste will be prevented and correlative rights protected by the proposed amendment.

We do not believe it would be appropriate to make a detailed response to Mr. Carr's letter at this time, but we certainly intend to respond to the general questions raised by his letter in the course of the hearing upon this application.

Very truly yours,



ep

cc: Mr. William Plack Carr

WILLIAM PLACK CARR

6700 FOREST LANE
DALLAS, TEXAS 75230

June 10, 1974

Mr. A. L. Porter
Executive Director
New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Dear Mr. Porter:

I wish to intervene as an interested party in the hearing for the renewed application of El Paso Natural Gas Company to amend Order No. R-1670 to enable infill drilling in the Blanco Mesa Verde Gas Pool.

I am more strongly opposed to this amendment than I can ever recall being opposed to anything.

I am a small independent operator managing a family business which has a very small amount of Mesa Verde Gas Production. I have spent what was to me a very considerable sum of money to develop this production. In spending this money I assumed that the existing rules and regulations governing the development and production of these properties would be in existence for the life of the properties. I do not feel that this Commission will permit changes in these regulations which would cause grave financial losses to gas producers and to the State.

I have had what I felt was an excellent relationship with El Paso. I feel that at the price bargaining table they always treated the small operators exactly as they treated the most powerful companies. They have been most helpful in guiding my contacts with the Federal Power Commission, and I hope they will continue to do so. For these past favors I am most grateful, but this proposal will be financially disastrous for the small operator and for the State of New Mexico, and will, I feel, be of no ultimate benefit to El Paso.

El Paso will make high sounding, conservation oriented, relieve the energy shortage claims and allegations, but I feel their only interest in the adoption of this amendment is simply more profit quicker for El Paso.

The reason I am opposed to the amendment is that the increased rate of revenue to El Paso will result in an overall decreased revenue and profit for me. Since the State receives a portion of the selling price for gas, I feel its interest should certainly be with that of the producer. Conversely, if this accelerated program of production is denied, it will not mean less profit to El Paso as they will be able to pass on their eventually higher gas costs to the consumer and make an even larger unit profit, even though it comes at a later date.

El Paso's current contracts provide for new gas payments at a basic price of 28¢/MCF. This price is considerably less than one-half of the price at which El Paso could contract a volume of gas equal to that which they will obtain if this amendment is granted. It is locked in gas dedicated to El Paso, and there is no way I know of that drillers of the new wells could entertain an offer from a different purchaser. Since the existing wells cannot deplete the reservoir within the life of their present contracts, El Paso is proposing this amendment as a certain method of insuring them the entire reserves of the reservoir at the present, miserable, price-controlled prices. I do not feel that this Commission will seriously consider allowing this financial loss to either the State of New Mexico, or the small producer.

If we have learned anything from the Federal Power Commission it is that higher prices bring forth greater gas reserves. This negates all the arguments El Paso can use as to how greater drilling densities can result in somewhat greater recoveries. Increased recoveries are much more certain to occur at the higher prices which are certain to prevail in the future than they are at the depressed prices which could be obtained under El Paso's contracts at the present time, because producers will be able to develop lower quality reserves at the higher prices.

At the present low prices the producers will only be able to develop their better reserves, and they will be forced to develop their better reserves or have them drained away by El Paso because of the more than doubled allowables, which would exist on the units with two wells. At the present time this amendment would almost certainly cause some losses of reserves to smaller operators due to their inability to drill the necessary forced protection wells because of their inability to secure financing on today's tight money market, or to obtain steel due to their lower status with supply companies.

If this application is granted, it will force each producer to operate under a changed set of rules, or forfeit part of his reserves for the enrichment of El Paso, or possibly both. This is the unpleasant prospect which this amendment seems to me to offer the small producer.

I realize that the prospect of increased tax revenues at no increase in taxes is indeed a golden carrot to dangle before any governmental agency, but I know that this Commission will insist on viewing the longer term implications of this proposal. These are that gas which would be recoverable later at higher prices and higher tax revenues will be produced sooner at lower prices and lower tax revenues resulting in lower ultimate revenues to the State of New Mexico, and to the gas producer. The accelerated production will be mainly utilized in other states, and will not be available to future tax-paying industries which might be attracted to locating within New Mexico, because of the availability of these reserves.

And finally, since I feel that I am pleading for my economic life in that I consider my Mesa Verde Gas reserves my most valuable economic asset, should the Commission decide, for reasons which I cannot see to grant this application, could you not please grant it on the condition that El Paso would release the infill drilled units from their contracts in order that the large volume of gas that could then be available would be free to seek a market that more nearly reflects today's conditions? I presume that this would require that the Federal Power Commission agrees to this release. If this is not possible, let El Paso come up with a plan which would prevent such financial losses. They are a large company with smart lawyers, and surely anyone who could think up a plan such as this to get gas at a cheap price, can think of one to get it at a fair price. The fairest price of all will come at the expiration of their present contracts.

Thank you for considering this request.

Yours very truly,



W. P. Carr

WPC/b

cc: Mr. Richard S. Morris
El Paso Natural Gas Company
P. O. Box 1492
El Paso, Texas 79978

Four Corners Gas Producers Association, Inc.
P. O. Box 556
Farmington, New Mexico 87401



August 5, 1974

Oil Conservation Commission of
The State of New Mexico
P.O. Box 2088
Santa Fe, New Mexico 87501

Re: Case No. 5264
Statement of Tenneco Oil Company
to proposal to amend Order R-1670.

Gentlemen:

Tenneco Oil Company hereby submits a statement to the New Mexico Oil Conservation Commission concerning the amendment to Order No. R0-1670 as proposed by the applicant, El Paso Natural Gas Company. Tenneco owns very substantial leasehold and royalty interests in the Blanco Mesaverde Pool. We request that serious consideration be given to some of the undesirable results of such an amendment as proposed by El Paso.

Our objections to the infill drilling proposal involve interrelated legal, contractual and economic problems. The first general category, while including economic implications, concerns primarily the following contractual, correlative rights and legal complications:

- (1) The proposed amendment does allow a second well to be drilled on an existing 320 acre spacing unit rather than establishing a standard 160 acre spacing system. However, operators will still face lessor demands for infill drilling or compensatory royalties on locations that the operator deems uneconomic. With loss of the original 320-acre "developed" status an operator might even lose through litigation a 160-acre tract which, if later drilled, would drain its existing well.
- (2) Applicant El Paso, as a public utility, can increase profits by increasing investment. El Paso could therefore drill additional wells profitably in locations where a non-utility producer could not. Could not El Paso's additional wells and production in such a situation result in drainage from offset leases of non-utility producers? Again the offset operator would be faced with legal demands for infill drilling or compensatory royalties for unprofitable locations.
- (3) It is probable that the second well drilled on a 320 acre proration unit would deliver production into interstate commerce at a higher price than the first well. The applicant's proposed amendment gives no assurance that either well would be produced ratably with respect to the other. In fact the proposed amendment would allow allocated allowable production to be taken from either or both of the wells at a ratio left to the operator's discretion. Should there be a substantial sales price differential between the two wells, the ratios of production might easily be manipulated to a pipeline-producing operator's advantage with resulting complaints from royalty and working interest owners in the proration unit.

Oil Conservation Commission of
The State of New Mexico

August 5, 1974

In summary, Tenneco does not recognize El Paso's market demand problems as complete justification for additional infill drilling in the Blanco Mesaverde gas pool. El Paso's proposed amendment is self-serving by shifting too much of the cost burden to the operators in the pool. The proposed changes to Order No. R-1670 can result in a continuing series of complicated and expensive legal problems and force undue hardships on other operators who may not have available the capital funding necessary to protect their interests. Tenneco is therefore opposed to the amendments as proposed by the applicant.

Yours very truly,

TENNECO OIL COMPANY

By: L. L. Parish
L. L. Parish
Division General Manager.

LLP/MFC:mt

August 14, 1974

New Mexico Oil Conservation Commission
Santa Fe, New Mexico

Re: Case No. 5264

Mr. Chairman:

By way of introduction and as a reason for being here to make a statement for this record, I submit that I have been involved professionally with the gas problems of the San Juan Basin probably longer than almost everyone present here today. Certainly longer than El Paso Natural Gas Company, since they were introduced to the area by a company I represented.

Now, as an independent producer having an economic interest in approximately 524 wells in the New Mexico part of the San Juan Basin, a good many of which are Mesa Verde wells, I have a keen interest in the decision which will ultimately be rendered by the Commission.

It is my belief that the evidence presented at this hearing clearly shows:

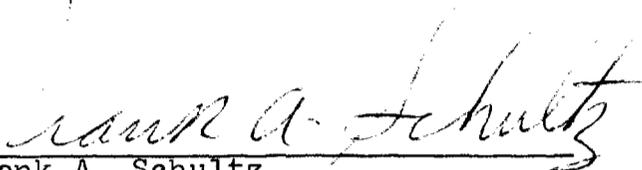
1. That substantial new quantities of gas will be recovered and produced within a more meaningful economic time period with ~~infill~~ ^{infield} drilling.
2. That this gas may never be recovered without the ^{infield} ~~infill~~ drilling by reason of the variable nature of the reservoir due to porosity and permeability changes in the formation, both vertically and laterally.
3. That every operator would be afforded the opportunity to drill and produce his just and fair share of the gas in the field, thereby preventing waste and protecting correlative rights.
4. That the increased income attributable to this new production will be of substantial benefit to the producers, to the State of New Mexico and the Federal Government and to other royalty owners.

It is my opinion, therefore, that the Commission should adopt the proposed rule changes set forth in El Paso's application.

New Mexico Oil Conservation Commission
August 14, 1974
Page 2.

I might add, Mr. Chairman, that should the application be granted, it is my intention to drill all my locations as soon as drilling rigs and tubular goods are available, whether we are then operating under the New price or the old price.

Thank you very much.



Frank A. Schultz
730 Fidelity Union Tower
Dallas, Texas 75201

OIL CONSERVATION COMMISSION

P. O. BOX 2088

SANTA FE NEW MEXICO 87501

*file with
IPNG
drilling
suppl
case*

October 23, 1974

Mr. Emery Arnold, Supervisor
New Mexico Oil Conservation Commission
1000 Rio Brazos Road
Aztec, New Mexico 87410

Dear Emery:

In regard to our meeting next Tuesday I am jotting down a few thoughts for discussion on the matter of how to handle proration in the event the application in Case 5264 should be granted. I am sure that you will differ with some of my statements, but please give them serious consideration before coming to the meeting.

Since the reason for granting this application would be greater ultimate recovery it is highly desirable that a second well be drilled on as many units as economics would dictate. Thus incentives become extremely important.

Three suggestions for handling the deliverability factor in the proration formula have been discussed:

1. Add-on. The sum of the two tests.
2. The average of the two tests.
3. The highest of the two tests.

Since correlative rights are as well served by one as the other we should consider only the proposition of which would afford the greater ultimate recovery. Quite obviously "add on" would provide the greater incentive, particularly in the less attractive areas of the pool. It is also obvious that using an average could result in a decrease in the unit allowable and the use of the higher of the two tests could result in no increase or only a slight increase.

OIL CONSERVATION COMMISSION

P. O. BOX 2088

-2-

SANTA FE NEW MEXICO 87501

Mr. Emery Arnold, Supervisor
Oil Conservation Commission
Aztec, New Mexico

Regardless of the method used for computing allowables, it is extremely important that no well be prematurely abandoned if optimum recovery is to be accomplished. There is a need therefore, for a finding to the effect that because of price differential the incentive is present to prematurely abandon the existing well in favor of producing the allowable for the unit from the new well at the higher price. Therefore, the order should provide that both wells must be given the opportunity to produce as long as it is economically feasible to produce either well. In other words the old well or the well with the lower deliverability should be allowed to remain on the line.

Sincerely,

A. L. PORTER, Jr.
Secretary-Director

ALP/ir

Amerada Hess opposes El Paso's proposed amendment of Order No. R-1670, as amended, for increased well density in Blanco Mesa Verde Pool, San Juan, Rio Arriba Counties, New Mexico.

If the Commission grants the amendment, the results will be economic waste of what is already constricted availability of drilling equipment and supplies. The amendment could possibly result in denying Amerada Hess and others the opportunity to produce their just and equitable share of the oil and gas in the pool.

It seems clear that even if reduced spacing can be geologically justified, additional drilling will not be a paying proposition under present wellhead gas prices.

The commitment of the resources necessary for drilling on 160-acre spacing can be better utilized in more productive areas. If a contemplated well is economically unjustifiable when offset by a unit on which two wells have been completed, waste could result by the drilling required to protect correlative rights.

This application is premature and it would not be proper to approve the proposed re-spacing. Later, if economic conditions permit a more intense drilling program the proposal should be reconsidered.

There is no immediate urgency and the ultimate recovery will not be adversely affected by waiting until closer spacing can be economically justified. On the other hand, if intensified drilling is permitted now, demand by offsetting operators could create an untenable situation for those producers who cannot benefit from the advantages of being able to sell the gas directly to the consumer. We urgently request the Commission to deny the proposal at this time.

NEW MEXICO

Public Service Commission

STATE CAPITOL BUILDING

Santa Fe, New Mexico

~~RTRX~~

87503

August 13, 1974

RICHARD P. MONTOYA
CHAIRMAN

MORRIS YASHVIN
COMMISSIONER

J. C. HESTER
COMMISSIONER



New Mexico Oil Conservation Commission
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: New Mexico Oil Conservation Commission, Case
No. 5264, Application of El Paso Natural Gas
Company for an Amendment of Order No. R-1670

Gentlemen:

As the New Mexico regulatory body having general and exclusive jurisdiction and supervision over the rates, charges, service regulations and other matters pertaining to the sale of natural gas by public utilities in New Mexico and the sale of natural gas by any person, firm or corporation to a utility for resale in New Mexico, we are vitally concerned that this Commission and the utilities it regulates are able to continue to supply adequate, efficient and reasonable service at just and reasonable rates.

Southern Union Gas Company, one of our regulated gas utilities and which is the principal supplier of gas to consumers in New Mexico, has informed us that it is opposing, on behalf of its consumers, the application of El Paso Natural Gas Company in the above proceeding upon the following grounds, to-wit:

"(1) The increase in production from the Blanco-Mesaverde will more rapidly deplete the gas reserves available in the pool.

"(2) The increased production will occur at a more rapid rate than Southern Union's growth of New Mexico market demand; and, to this extent, will increase the percentage and total volume of gas utilized in the satisfaction of inter-state market demand.

"(3) In the foreseeable future, some additional wells in the pool may be required to meet the needs of high priority customers within and without the state, but the blanket, optional, infill drilling proposed in this case may not be the most desirable method of increasing deliverability of gas.

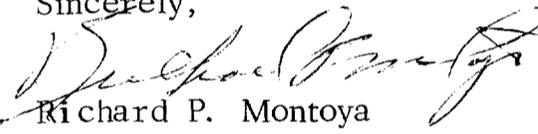
"(4) In any event, the proposed amendment of the allowable formula does not contribute to the prevention of waste or the protection of correlative rights; but is obviously motivated by the desire for a short term increase in the volume of gas to be produced.

"(5) A utility has the obligation to furnish its consumers with adequate, efficient and reasonable service at just and reasonable rates. The approval of the application in this case may impair the ability of Southern Union to fulfill this obligation to present and future New Mexico consumers.

"(6) Southern Union therefore feels compelled to oppose the application of El Paso Natural Gas Company in this case."

These grounds adequately state our concern with your pending proceeding and we ask that you give due consideration to the effect of your decision on New Mexico consumers, present and future.

Sincerely,


Richard P. Montoya
Chairman

OIL CONSERVATION COMMISSION

P. O. BOX 2088

SANTA FE NEW MEXICO 87501

August 27, 1974

C
O
P
Y

William Federici, Esq.
Montgomery, Federici, Andrews,
Hannahs & Buell
350 E. Palace
Santa Fe, New Mexico 87501

Dear Mr. Federici:

The New Mexico Oil Conservation Commission met this morning and extended the time for filing Suggested Findings of Fact in Case 5264 to September 16, 1974.

The Commission hopes this action will make it easier for the parties in this case to comply with its request.

Very truly yours,

WILLIAM F. CARR
General Counsel

WFC/dr

This letter was also mailed to:

*Richard S. Morris
Jack M. Campbell
Edarone Finkle
Richard C. Boyd
Jason W. Kerabin*

Dick Carpenter

J. O. SETH (1883-1963)

A. K. MONTGOMERY
WM. R. FEDERICI
FRANK ANDREWS
FRED C. HANNAHS
SUMNER G. BUELL
SETH D. MONTGOMERY
FRANK ANDREWS III
OWEN M. LOPEZ
JEFFREY R. BRANNEN
JOHN BENNETT POUND

MONTGOMERY, FEDERICI, ANDREWS, HANNAHS & BUELL

ATTORNEYS AND COUNSELORS AT LAW

350 EAST PALACE AVENUE
SANTA FE, NEW MEXICO 87501

POST OFFICE BOX 2307
AREA CODE 505
TELEPHONE 982-3876

August 28, 1974

Mr. William F. Carr
General Counsel
Oil Conservation Commission
PO Box 2088
Santa Fe, New Mexico 87501

Re: Case No. 5264

Dear Bill:

Thanks very much for your letter of August 27 informing me that time for filing suggested findings of fact has been extended to September 16, 1974. This will be most helpful.

Sincerely,



WRF:JF

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION

IN THE MATTER OF:

Application of El Paso Natural Gas Company)
for the amendment of Order No. R-1670) Case
Blanco Mesaverde Pool, San Juan and Rio) No.5264
Arriba Counties, New Mexico.

CERTIFICATE OF SERVICE

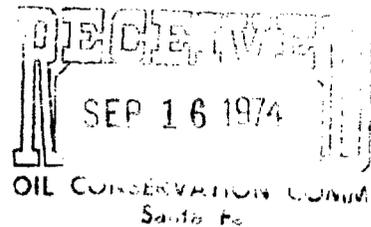
The undersigned, one of the attorneys for the Applicant El Paso Natural Gas Company, certifies that he did on the 19th day of September, 1974, mail a copy of the Applicant's Requested Findings of Fact to additional counsel of record and additional persons entering their appearances at the hearing, as per list attached.

Wm Federico

El Paso 7-11-74

APPLICATION OF EL PASO NATURAL GAS COMPANY FOR AN AMENDMENT OF ORDER NO. R-1670 TO PERMIT THE OPTIONAL DRILLING AND PRODUCTION OF AN ADDITIONAL WELL ON PRORATION UNITS IN THE BLANCO MESAVERDE GAS POOL OF SAN JUAN, RIO ARRIBA AND SANDOVAL COUNTIES, NEW MEXICO, AND TO PROVIDE FOR THE ASSIGNMENT OF ALLOWABLES FOR SUCH ADDITIONAL WELLS AND PRORATION UNITS

CASE NO. 5264



EL PASO NATURAL GAS COMPANY'S REQUESTED FINDINGS OF FACT

Comes now the Applicant, El Paso Natural Gas Company (El Paso), and requests the Commission to make findings of fact in the above styled and docketed proceeding, as follows:

(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 the Blanco Mesaverde Gas Pool, located in San Juan, Rio Arriba and Sandoval Counties, New Mexico, is governed by special rules and regulations, promulgated by the Commission in Order No. R-1670, as amended, which provide for 320-acre proration units and well locations in the NE/4 and SW/4 of each governmental section, and for assignment of an allowable to each proration unit in the pool based on the amount of acreage in the unit and the deliverability of the unit well.

(3) That the applicant, El Paso Natural Gas Company, produces natural gas from wells which it owns and operates in the Blanco Mesaverde Gas Pool and purchases natural gas which is produced through wells owned and operated by others in that pool, which natural gas is transmitted through El Paso's interstate pipeline system.

(4) That the applicant seeks an order amending Order No. R-1670 in the following respects: (i) to permit the optional drilling of an additional well on each 320-acre proration unit in the Blanco Mesaverde Gas Pool, (ii) to determine the deliverability of each proration unit upon which an additional well is drilled by adding the deliverability of each of the two wells, ~~and (iii) to permit the production of the allowable assigned to a proration unit containing two wells from either or both wells.~~ Applicant's proposed rule changes are set forth on Exhibit A attached hereto.

(5) The producing formation of the Blanco Mesaverde Gas Pool is comprised of various overlapping and interconnecting lenticular sands of relatively low permeability, many of which are not in effective communication with existing wells in the pool but which could be efficiently and economically drained and developed by the drilling of additional wells pursuant to the rule changes proposed by the applicant.

() Implementation of such an infill drilling program would substantially increase recoverable reserves, and, if fully implemented, such increase is reasonably estimated to be six trillion cubic feet of gas. *(greater ultimate recovery)*

~~(6) In addition to the substantial increase in recoverable reserves which would result from implementation of an infill drilling program under the proposed rule changes, such additional drilling also would increase substantially the amount of gas which could be made available to supply the current needs of consumers throughout the marketing areas supplied by purchasers of gas produced from this pool. Although the applicant is not the only purchaser of gas in this pool, it expects to be able to purchase all or any portion of the increase which may reasonably be anticipated to result from this program, including such amounts as may be offered to it by other purchasers, in order to meet the market demand of its customers throughout its interstate pipeline transmission system.~~

(7) That approval of the subject application will afford each owner in the Blanco Mesaverde Gas Pool the opportunity to produce his just and equitable share of the gas in the subject pool, will substantially increase reserves and deliverability, and otherwise will prevent waste and protect correlative rights.

(8) That Order No. R-1670 should be amended by adoption of the rule changes set forth on Exhibit A attached hereto.

~~MONTGOMERY, FEDERICI, ANDREWS,
HANNAHS & BUELL~~

~~By~~

~~*William R. Federici*
William R. Federici~~

~~350 East Palace Avenue
P. O. Box 2307
Santa Fe, New Mexico 87501~~

~~Attorneys for El Paso Natural Gas Company~~

~~OF COUNSEL:~~

~~G. Scott Cuming
Richard S. Morris
John B. Chapman
El Paso Natural Gas Company
El Paso, Texas 79978~~

RULE CHANGES PROPOSED BY EL PASO NATURAL GAS COMPANY APPLICABLE
TO BLANCO MESAVERDE GAS POOL AS PROVIDED IN ORDER R-1670

A. WELL LOCATION AND ACREAGE REQUIREMENTS:

Rule 2 (A) Initial wells drilled on a standard proration unit 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 2 (B) The second well authorized to be drilled on a proration unit shall be drilled in the quarter section which does not contain a well and located relative to unit boundaries as provided in Rule 2 (A).

Rule 5 (B) The Secretary-Director of the Commission shall have the authority to approve the drilling of a second well on an existing proration unit without notice and hearing when an application has been filed in due form by that unit's operator requesting permission to drill such second well.

C. ALLOCATION AND GRANTING OF ALLOWABLES:

Rule 9 When calculating the allowable for a proration unit containing two wells, in accordance with Rule 9 of the General Rules and Regulations of Northwest New Mexico, the deliverability of both wells shall be combined in calculating the "AD Factor" and the unit allowable may be produced from either or both wells.

D. BALANCING OF PRODUCTION:

Rule 15 For purposes of balancing underproduction or overproduction in accordance with Rule 15 of the General Rules and Regulations of Northwest New Mexico, both wells on a proration unit shall be considered as one well and the combined production from the two wells shall be compared against the allowable as provided for in Rule 9.

E. CLASSIFICATION OF WELLS:

Rule 16 When determining whether a unit containing two wells should be classified marginal in accordance with Rule 16 of the General Rules and Regulations of Northwest New Mexico, the production from both wells shall be compared against the allowable in determining the classification.

F. REPORTING OF PRODUCTION:

Rule 21 When reporting production in accordance with Rule 21 of the General Rules and Regulations of Northwest New Mexico for proration units on which two wells are located, the total unit production for the month shall be reported in addition to the individual well production.

ILLEGIBLE

DEPARTMENT OF
OIL & GAS
SEP 16 1974

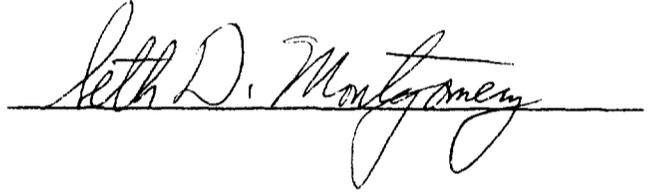
BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION

IN THE MATTER OF:

Application of El Paso Natural Gas Company)
for the amendment of Order No. R-1670,) Case
Blanco Mesaverde Pool, San Juan and Rio) No.5264
Arriba Counties, New Mexico.)

CERTIFICATE OF SERVICE

The undersigned, one of the attorneys for the Applicant El Paso Natural Gas Company, certifies that he did on the 16th day of September, 1974, mail a copy of the Applicant's Requested Findings of Fact to all counsel of record and all persons who entered their appearances at the hearing, as per list attached.



For the New Mexico Oil
Conservation Commission:

William Carr, Esq.
Legal Counsel for the Commission
State Land Office Building
Santa Fe, New Mexico 87501

For Southern Union Production
Company:

Jack M. Campbell, Esq.
Campbell & Bingaman
121 East Palace Avenue
Santa Fe, New Mexico 87501
and
William S. Jameson, Esq.
General Counsel
Southern Union Production Co.
Dallas, Texas

For Mesa Petroleum Co.:

Clarence Hinkle, Esq.
and
Harold Hensley, Esq.
Hinkle, Bondurant, Cox & Eaton
Hinkle Building
Roswell, New Mexico 88201
and
Richard C. Byrd, Esq.
Anderson, Byrd & Rickerson
Ottawa, Kansas 66067
and
Ed H. Selecman, Esq.
General Counsel
Mesa Petroleum Company
PO Box 2009
Amarillo, Texas 79105

For Aztec Oil & Gas Co.:

Clarence Hinkle, Esq.
Hinkle, Bondurant, Cox & Eaton
Hinkle Building
Roswell, New Mexico 88201
and
Kenneth A. Swanson, Esq.
General Counsel
Aztec Oil & Gas Company
2000 First National Bank Bldg.
Dallas, Texas 75202

For Atlantic Richfield
Union Oil Co. of Ca.
Amerada Hess Corp.:

Clarence Hinkle, Esq.
Hinkle, Bondurant, Cox & Eaton
Hinkle Building
Roswell, New Mexico 88201

For Clinton Oil Co.:

Clarence Hinkle, Esq.
Hinkle, Bondurant, Cox & Eaton
Hinkle Building
Roswell, New Mexico 88201
and
Robert C. Spurlock, Esq.
c/o Hinkle, Bondurant, Cox & Eaton
Hinkle Building
Roswell, New Mexico 88201

For Amoco Production Co.:

Oscar Swan, Esq.
Atwood, Malone, Mann & Cooter
Security National Bank Bldg.
Roswell, New Mexico 88201

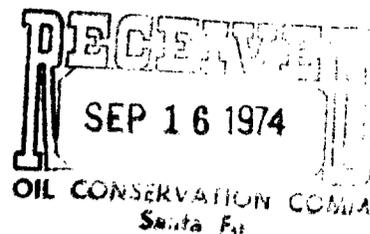
For Southern Union Gas Co.:

Richard N. Carpenter, Esq.
Bigbee, Byrd, Carpenter & Crout
Suite 200, Bokum Building
Santa Fe, New Mexico 87501
and
A. S. Grenier
Jack Hertz
Fidelity Union Tower
Dallas, Texas 75201

BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

APPLICATION OF EL PASO NATURAL GAS COMPANY FOR AN AMENDMENT OF ORDER NO. R-1670 TO PERMIT THE OPTIONAL DRILLING AND PRODUCTION OF AN ADDITIONAL WELL ON PRORATION UNITS IN THE BLANCO MESAVERDE GAS POOL OF SAN JUAN, RIO ARRIBA AND SANDOVAL COUNTIES, NEW MEXICO, AND TO PROVIDE FOR THE ASSIGNMENT OF ALLOWABLES FOR SUCH ADDITIONAL WELLS AND PRORATION UNITS

CASE NO. 5264



EL PASO NATURAL GAS COMPANY'S REQUESTED FINDINGS OF FACT

Comes now the Applicant, El Paso Natural Gas Company (El Paso), and requests the Commission to make findings of fact in the above styled and docketed proceeding, as follows:

(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 the Blanco Mesaverde Gas Pool, located in San Juan, Rio Arriba and Sandoval Counties, New Mexico, is governed by special rules and regulations, promulgated by the Commission in Order No. R-1670, as amended, which provide for 320-acre proration units and well locations in the NE/4 and SW/4 of each governmental section, and for assignment of an allowable to each proration unit in the pool based on the amount of acreage in the unit and the deliverability of the unit well.

(3) That the applicant, El Paso Natural Gas Company, produces natural gas from wells which it owns and operates in the Blanco Mesaverde Gas Pool and purchases natural gas which is produced through wells owned and operated by others in that pool, which natural gas is transmitted through El Paso's interstate pipeline system.

(4) That the applicant seeks an order amending Order No. R-1670 in the following respects: (i) to permit the optional drilling of an additional well on each 320-acre proration unit in the Blanco Mesaverde Gas Pool, (ii) to determine the deliverability of each proration unit upon which an additional well is drilled by adding the deliverability of each of the two wells, and (iii) to permit the production of the allowable assigned to a proration unit containing two wells from either or both wells. Applicant's proposed rule changes are set forth on Exhibit A attached hereto.

(5) The producing formation of the Blanco Mesaverde Gas Pool is comprised of various overlapping and interconnecting lenticular sands of relatively low permeability, many of which are not in effective communication with existing wells in the pool but which could be efficiently and economically drained and developed by the drilling of additional wells pursuant to the rule changes proposed by the applicant. Implementation of such an infill drilling program would substantially increase recoverable reserves, and, if fully implemented, such increase is reasonably estimated to be six trillion cubic feet of gas.

(6) In addition to the substantial increase in recoverable reserves which would result from implementation of an infill drilling program under the proposed rule changes, such additional drilling also would increase substantially the amount of gas which could be made available to supply the current needs of consumers throughout the marketing areas supplied by purchasers of gas produced from this pool. Although the applicant is not the only purchaser of gas in this pool, it expects to be able to purchase all or any portion of the increase which may reasonably be anticipated to result from this program, including such amounts as may be offered to it by other purchasers, in order to meet the market demand of its customers throughout its interstate pipeline transmission system.

(7) That approval of the subject application will afford each owner in the Blanco Mesaverde Gas Pool the opportunity to produce his just and equitable share of the gas in the subject pool, will substantially increase reserves and deliverability, and otherwise will prevent waste and protect correlative rights.

(8) That Order No. R-1670 should be amended by adoption of the rule changes set forth on Exhibit A attached hereto.

MONTGOMERY, FEDERICI, ANDREWS,
HANNAHS & BUELL

By William R. Federici
William R. Federici

OF COUNSEL:

G. Scott Cuming
Richard S. Morris
John B. Chapman
El Paso Natural Gas Company
El Paso, Texas 79978

350 East Palace Avenue
P. O. Box 2307
Santa Fe, New Mexico 87501

Attorneys for El Paso Natural Gas Company

RULE CHANGES PROPOSED BY EL PASO NATURAL GAS COMPANY APPLICABLE TO BLANCO MESAVERDE GAS POOL AS PROVIDED IN ORDER R-1670

A. WELL LOCATION AND ACREAGE REQUIREMENTS:

Rule 2 (A) Initial wells drilled on a standard proration unit 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 2 (B) The second well authorized to be drilled on a proration unit shall be drilled in the quarter section which does not contain a well and located relative to unit boundaries as provided in Rule 2 (A).

Rule 5 (B) The Secretary-Director of the Commission shall have the authority to approve the drilling of a second well on an existing proration unit without notice and hearing when an application has been filed in due form by that unit's operator requesting permission to drill such second well.

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Rule 21 When reporting production in accordance with Rule 21 of the General Rules and Regulations of Northwest New Mexico for proration units on which two wells are located, the total unit production for the month shall be reported in addition to the individual well production.

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LAW OFFICES

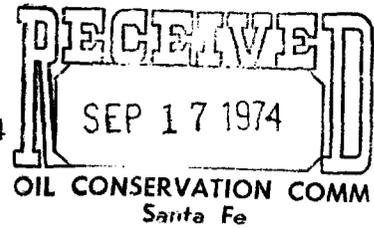
ANDERSON, BYRD & RICHESON

ROBERT A. ANDERSON
RICHARD C. BYRD
JOHN L. RICHESON

FIRST NATIONAL BANK BUILDING
OTTAWA, KANSAS 66067

PHONE
Area Code 913
CHerry 2-1234

September 13, 1974



Mr. A. L. Porter, Jr.
Secretary - Director
Oil Conservation Commission
State of New Mexico
P. O. Box 2088
Santa Fe, New Mexico 87501

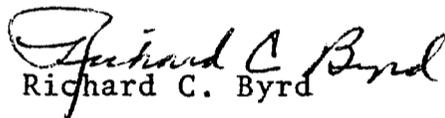
RE: Application of El Paso Natural
Gas Company (Case No. 5264) --
Suggested Findings of Fact of
Mesa Petroleum Co.

Dear Mr. Porter:

Pursuant to the Commission's request at the conclusion
of the hearing in the above-entitled case, Mesa hereby
submits suggested findings and conclusions for your con-
sideration.

Copies of the enclosed findings have been mailed to all
attorneys of record.

Very truly yours,


Richard C. Byrd

ANDERSON, BYRD & RICHESON

RCB:mb
Encl:

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

Application of El Paso Natural Gas)
Company for an Amendment of Order)
No. R-1670 to Permit the Optional)
Drilling and Production of an Addi-)
tional Well on Proration Units San)
Juan, Rio Arriba and Sandoval)
Counties, New Mexico, and to Provide)
for the Assignment of Allowables for)
Such Additional Wells and Proration)
Units.)

Case No. 5264

SUGGESTED FINDINGS OF FACT SUBMITTED
BY MESA PETROLEUM CO.

1. That El Paso Natural Gas Company is a natural gas company under the jurisdiction of the Federal Power Commission. In the Blanco-Mesaverde Pool (hereinafter referred to as "Pool") El Paso is both a purchaser and producer owning an interest in or operating approximately 1,100 of the 2,055 producing wells.

The leases owned by El Paso in the Pool were acquired by El Paso prior to 1969. That under the rules and regulations of the Federal Power Commission El Paso is entitled to recover its actual costs plus a return on the gas produced from its own wells on leases acquired prior to October 7, 1969.

2. That for gas purchased from existing wells in the Pool El Paso is permitted to pay independent producers 24¢ plus adjustment for BTU and taxes (gross price approximately 27¢ per MCF).

3. The price which El Paso would be permitted to pay, under Federal Power Commission rules and regulations, for gas which it purchases from the Pool from the second well drilled on an existing unit is undeterminable at the present time. The Federal Power Commission has not responded to the letter from this Commission dated July 18, 1974 requesting an answer as to whether or not the provisions of the Federal Power Commission's Opinion No. 699, fixing a national area rate of 43¢ (plus BTU adjustment and taxes) for wells drilled on and after 1/1/73, would be applicable to the second well drilled on a producing unit in this Pool.

4. The Commission finds that the average cost of drilling and completing a new well in the Pool is approximately \$152,000 per well. That the average operating cost per well is approximately \$200 per month. The record indicates a maximum additional recovery from an average new well of from 30% to 70% of the original recoverable reserves under an average old well.

5. The evidence in this proceeding demonstrates that at the applicable Rocky Mountain area rate of 24¢ per MCF (plus BTU and taxes) it would not be economically feasible for an independent producer to drill and complete a second well on the existing units in the Pool.

6. Independent producers own fractional interests in many of the wells which El Paso operates and from which it purchases gas. Should a second well be permitted on a unit, to permit the total allowable production to be produced from either the old or the new well would permit the purchaser-operator of the unit to produce the wells in a manner detrimental to the interest of the independent producers who own fractional interests.

CONCLUSIONS

1. This Commission's statutory obligation is to prevent the waste of natural gas and to protect the correlative rights of the mineral owners. These obligations must guide our deliberations and disposition of this application.

2. From the evidence presented, the Commission concludes that it is not economically feasible for an independent producer, as differentiated from a pipeline affiliate, to drill a second well on the existing 320 acre units and sell the gas from the new well at 24¢ per MCF (plus BTU and tax adjustments).

3. To amend the existing field rules to permit the drilling of a second well on each unit as requested by the applicant knowing that the applicant, because of Federal Power Commission regulations

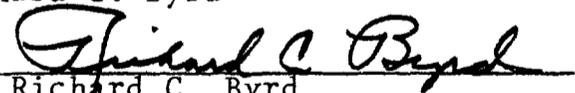
of pipeline company produced gas could recover its costs of drilling additional wells, would put El Paso in a position of being permitted to produce gas from their units at a faster rate than other producers in the Pool. The increased production from El Paso's units would ultimately result in the violation of the correlative rights of the independent producers operating off-set units.

4. Should the Federal Power Commission determine that the national area rate is applicable to gas produced from the second well drilled on the unit in the Pool, it would not be proper to permit El Paso to produce the allowable from either the new well or the old well, whichever it desired. The cost of gas and the amount received by independent producers for gas produced from the old well on the unit would be approximately 20¢ per MCF less than gas produced from the new well on the unit. The Commission, not the operator of the well, should fix the allowable production from each of the wells on the unit. It is the combined deliverability of the two wells which would determine the unit's allowable production. Under such circumstances the production should be assigned to each well based on that well's percent of the total deliverability of the unit.

Respectfully submitted,

Clarence Hinkle,
Ed H. Selecman, and
Richard C. Byrd

By:



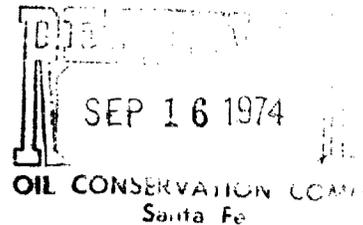
Richard C. Byrd
ANDERSON, BYRD & RICHESON
First National Bank Bldg.
Ottawa, Kansas 66067

Attorneys for Mesa Petroleum Co.

Fin Bell *
JASON

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. 5264

Application of El Paso Natural Gas Company for amendment of Order No. R-1670 to permit the optional drilling and production of an additional well on proration units in the Blanco-Mesaverde Gas Pool of San Juan, Rio Arriba and Sandoval counties, New Mexico, and to provide for the assignment of allowables for such additional wells and proration units.

REQUESTED FINDINGS TENDERED BY SOUTHERN UNION PRODUCTION COMPANY, UNION OIL COMPANY OF CALIFORNIA, AMERADA-HESS CORPORATION, SUN OIL COMPANY, CLINTON OIL COMPANY.

(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 Section 65-3-10, New Mexico Statutes Annotated, 1953 Compilation, empowers and gives the duty to the Commission to prevent the waste of hydrocarbons and to protect the correlative rights of owners of interests in said hydrocarbons.

(3) That Section 65-3-5, New Mexico Statutes Annotated, 1953 Compilation, gives the Commission jurisdiction and authority over all matters relating to the conservation of oil and gas.

(4) That "waste" and "correlative rights" are defined by Sections 65-3-3 and 65-3-29, respectively, New Mexico Statutes Annotated, 1953 Compilation.

(5) That the Blanco-Mesaverde Gas Pool was created by Commission Order No. 799 dated February 25, 1949.

(6) That said Order No. 799 established 320 acre spacing units in the Blanco-Mesaverde Gas Pool and said 320 acre spacing has been in effect since February 25, 1949.

(7) That Commission Order No. R-128-C dated December 16, 1954, provided for prorationing of the Blanco-Mesaverde Gas Pool on a proration formula identical to the formula presently used in said pool and said proration formula has been in effect since December 16, 1954.

(8) That said Order No. R-128-C finds that 320 acre proration units and the proration formula therein adopted prevent waste and protect correlative rights of the owners in the Pool.

(9) That the Applicant proposes to amend Order No. R-1670 to authorize the drilling of a second well on an existing proration unit without notice and hearing, with a provision that in calculating the allowable for a proration unit containing two wells, the deliverability of both wells would be combined in determining the unit's "AD Factor", and the unit allowable could be produced from either or both wells.

(10) That the approval of the application would amount to a change in the proration formula for the Blanco-Mesaverde Gas Pool, and as such is directly related to the protection of correlative rights and the prevention of waste.

(11) Applicant's Exhibit No. 16 shows the average bottom hole pressure of the three widely separated strat test wells which have never been produced, to be declining at essentially the same rate as the field average pressure. The average bottomhold pressure of the three strat test wells shows an increase in pressure decline rate with increases in field production rates. This steady and consistent pressure decline clearly demonstrates that these areas are being drained by the existing wells. No reservoir information was offered by applicant to show what reserves exist within the pool, what reserves exist under each tract in the pool, or what portion of the reserves would be produced under applicant's

proposed change in the spacing rule.

(12) That the Applicant's testimony was based upon evidence utilizing only pressure-production data from present wells and not upon pressure interference or volumetric withdrawal tests conducted within the pool.

(13) That the testimony of Southern Union Production Company shows that large, contiguous areas of the pool have experienced substantial and consistent declines of original pressures as a result of production, indicating that there is communication between wells in the pool and that reasonable reserves will be recovered in said pool without the drilling of additional wells.

(14) That the testimony of Southern Union Production Company shows that it has penetrated isolated stringers in wells it has drilled and that such stringers have not produced measurable increases in gas reserves.

(15) That the approval of the application would result in the drilling of additional wells in the better portion of the pool. Such additional drilling would require the drilling of offset wells that in many cases would be uneconomical, resulting in waste and impairment of correlative rights.

(16) That the evidence show that if the application is granted some owners in the Blanco-Mesaverde Gas Pool will be able to drill infill wells in the immediate future and others will not, due to shortages in drill pipe, casing, rigs and other necessary material supplies thereby resulting in uncompensated drainage and the consequent abuse of correlative rights.

Respectfully submitted,

CAMPBELL AND BINGAMAN, P.A.

By

Jack M. Campbell
Jack M. Campbell

Attorneys for Southern Union Production
P.O. Box 2208
Santa Fe, New Mexico 87501

KELLAHIN AND FOX

By

Jason W. Kellahin
Jason Kellahin

Attorneys for Union Oil Co. of
California, Amerada-Hess Corpor-
ation, Sun Oil Co., Clinton Oil Co.
P.O. Box 1769
Santa Fe, New Mexico 87501

REQUESTED FINDINGS TENDERED BY: SOUTHERN UNION
PRODUCTION COMPANY, UNION OIL COMPANY OF CALIFORNIA,
AMERADA-HESS CORPORATION, SUN OIL COMPANY, CLINTON
OIL COMPANY.

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

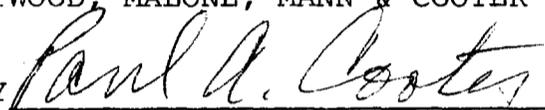
IN THE MATTER OF THE APPLICATION)
OF EL PASO NATURAL GAS COMPANY)
FOR THE AMENDMENT OF ORDER NO.)
R-1670, BLANCO MESAVERDE POOL,)
SAN JUAN AND RIO ARRIBA COUNTIES,)
NEW MEXICO.) No. 5264

ENTRY OF APPEARANCE

The undersigned, Atwood, Malone, Mann & Cooter of Roswell, New Mexico, hereby enter their appearance herein on behalf of Amoco Production Company, with Oscar Swan, Esquire, of Denver, Colorado.

ATWOOD, MALONE, MANN & COOTER

BY



Attorneys for Amoco Production
Company

P. O. Drawer 700
Roswell, New Mexico 88201

LAW OFFICES
HINKLE, BONDURANT, COX & EATON

TELEPHONE (505) 622-6510

CLARENCE E. HINKLE
W. E. BONDURANT, JR.
LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.
ANDREW ALLEN

600 HINKLE BUILDING

POST OFFICE BOX 10

ROSWELL, NEW MEXICO 88201

September 12, 1974

MIDLAND, TEXAS OFFICE
521 MIDLAND TOWER
(915) 683-4691



Mr. A. L. Porter, Jr.
Oil Conservation Commission
Box 2088
Santa Fe, New Mexico 87501

Re: Case No. 5264 - El Paso Natural
Gas Company application for
amendment of Order R-1670

Dear Mr. Porter:

We enclose three copies of Requested Findings of Fact and Conclusions which we have prepared for filing on behalf of Aztec Oil & Gas Company. You will note that we have left blank spaces in the proposed findings 4 and 5 on page 2 relative to the number of wells connected to the respective pipelines of El Paso and Southern Union. Should these findings be used, I am sure the record will reflect the number which should be inserted.

Yours sincerely,

HINKLE, BONDURANT, COX & EATON

By

CEH:cs
Enc.

cc: Kenneth A. Swanson

Jim Carr HINKLE

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO



APPLICATION OF EL PASO NATURAL GAS)
COMPANY FOR AN AMENDMENT OF ORDER)
R-1670 TO PERMIT THE DRILLING AND)
PRODUCTION OF ADDITIONAL WELL ON)
PRORATION UNITS IN THE BLANCO)
MESAVERDE GAS POOL, SAN JUAN, RIO)
ARRIBA AND SANDOVAL COUNTIES.)
_____)

Case No. 5264

REQUESTED FINDINGS OF FACT OF
AZTEC OIL & GAS COMPANY

This case was heard by the Commission on August 13, 1974 upon the application of El Paso Natural Gas Company for the amendment of Order R-1670 relating to the Blanco Mesaverde Pool, San Juan, Rio Arriba and Sandoval Counties, New Mexico. Applicant seeks to amend the pool rules promulgated by Order R-1670 as amended to authorize the Secretary-Director of the Commission to approve the drilling of a second well on an existing proration unit without notice and hearing, provided that the second well would be drilled in the quarter section of the unit which does not contain a well and provided further that in calculating the allowable for a proration unit containing two wells, the deliverability of both wells would be combined for determining the unit's "AD factor" and a unit allowable could be produced from either or both wells.

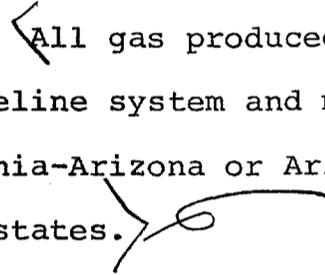
The Commission having considered the testimony and exhibits admitted in evidence at said hearing and being fully advised in the premises finds:

1. That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter hereof.

2. Order R-1670, as amended, and the applicable rules provide for 320 acre spacing and proration units in the Blanco Mesaverde Pool

and, with the exception of a few non-standard units, there are approximately 2,055 producing wells on 320 acre proration units at the present time.

3. That El Paso Natural Gas Company (hereinafter referred to as "El Paso") owns or operates approximately 1,100 of the wells in the Blanco Mesaverde Pool (hereinafter referred to as "Pool") or in excess of 50% of the wells in the Pool.

4. El Paso, in addition to being the owner and operator of the majority of the wells in the pool, is the owner and operator of a gathering system, natural gas pipeline distribution system and is the purchaser or transporter of all of the gas from wells to which its lines are connected, which constitutes approximately ____% of all the wells in the Pool.  All gas produced and purchased by El Paso enters its interstate pipeline system and most of the gas is delivered at either the California-Arizona or Arizona-Nevada boundaries for consumption in these states.

5. Southern Union Gas Company and its wholly owned subsidiary own and operate a gas pipeline gathering system and a gas transportation system and purchase gas from approximately ____% of the wells in the Pool. All gas purchased and transported by Southern Union Gas Company is transported in intrastate commerce for in-state use and consumption except in such cases where gas is purchased or delivered to Southern Union Gas Company in excess of its market demand the excess has been delivered to El Paso for transportation in interstate commerce.

6. El Paso desires to increase its out of state deliverability and Southern Union Gas Company's existing connections are such that no additional gas is needed to meet its intrastate demand. There is no ratable take between the respective pipelines as to gas being produced from the Pool, and most of the gas purchase contracts of Southern Union Gas Company extend throughout the life of the leases on which the wells are located from which gas is being purchased and the owners

of such gas do not have the option to sell or otherwise dispose of gas which Southern Union is unable to purchase or transport in its pipeline.

7. Southern Union Production Company is the operator of approximately 70 wells located mostly in the northwest portion of the Pool. All of these wells are connected to the pipeline system of Southern Union Gas Company and its subsidiary.

8. Aztec Oil & Gas Company has an interest in some 500 wells in the Pool and is operator of 130 wells; 107 of which are connected to Southern Union Gas Company's system and 23 to the El Paso system. Almost all of the wells which Aztec operates are located in the northwest portion of the Pool.

9. The first producing well in the Pool was completed in 1953 and consequently there has been a production history of over 20 years and the information with respect thereto is shown by the Commission records. There is also available accurate information as to bottom hole pressures which have shown a gradual decline over the entire Pool, which is indicative of the fact that there has been communication between wells and that the wells are in fact draining gas from the respective 320 acre proration units.

10. Because of the variations in sand content and producing intervals in the various wells in the Pool, the wells can be classified as falling within four different categories; i.e. (1) the wells which have a deliverability in excess of one million cubic feet per day; (2) the wells which have a deliverability of five hundred thousand to one million cubic feet per day; (3) wells which have a deliverability of two hundred thousand to five hundred thousand cubic feet per day; and (4) those which have a deliverability of less than two hundred thousand cubic feet per day. There are approximately 150 wells in the first category, approximately 170 wells in the second category,

approximately 550 wells in the third category and approximately 1190 wells in the fourth category. The wells in the first two categories are all located in the central portion of the Pool. El Paso is running and purchasing the gas from practically all of the wells in the first two categories, which constitute some 420 wells having the greatest deliverability in the Pool.

11. El Paso proposes to drill additional wells at the rate of 100 or more per year and these wells would most logically be located on the units upon which wells are located having the greatest deliverability. ~~These~~ wells would undoubtedly in many instances offset units upon which are located wells of relatively low deliverability and would require immediate drilling of offset wells regardless of the economics that might be involved. The drilling of additional wells by other operators to meet offset obligations would cause a chain reaction which could require the drilling of an additional 2,055 wells over a relatively short period of time.

12. The gathering facilities and interstate pipeline of El Paso has additional capacity to handle the transportation of increased production from the Pool. The gathering system and pipeline facilities of Southern Union Gas Company has very little, if any, additional capacity for the handling of gas from the Pool. There is a differential in pressure between the two systems of approximately 100 pounds per square inch and the delivery of additional gas to the respective systems will result in increased line pressures. The additional wells which operators would be forced to drill to meet offset obligations in the outlying areas of the Pool may not, in many instances, be able to produce at a pressure so that their gas can be delivered into the pipelines without going to the additional expense of compression facilities which necessarily must be considered in determining the economics involved in the drilling of many of the wells in the outlying

*Cost to operators
↓
"opportunity" to produce gas at all.*

areas. Furthermore, the rapid drilling of wells in the area having the highest deliverability would result in production beyond the capacity of both pipelines.

13. Due to the widespread national program for the drilling of wells because of the energy shortage, tubular goods and drilling rigs are in short supply and cannot be readily obtained without long delays. El Paso has shown that it is in a position to drill 100 or more wells within the next year, but other operators, because of inability to obtain necessary tubular goods and drilling rigs and because of their commitments to drill wells in other areas, will be unable to carry on additional drilling operations at a rate which would permit them to meet offset obligations which would be the result of the drilling program contemplated by El Paso.

14. Immediate drilling by El Paso of a large number of wells in the areas having the greatest potential for deliverability in the Pool will cause drainage in the outlying areas having less potential for deliverability, which coupled with the inability of operators to obtain the tubular goods and drilling rigs necessary to meet offset obligations will cause a violation of correlative rights.

15. Because of the characteristics of the producing formation in the Pool and low porosity and permeability in some areas, complete economical drainage of the entire Pool by the existing wells will necessarily be over a long period of time and the drilling of infill wells may add from 2 to 23% to existing reserves, particularly in the outlying areas. On this account existing reserves can be made more readily available over the next several years by the drilling of infill wells. [However, waste will not be committed nor correlative rights violated by deferring drilling of infill wells for a reasonable period of time until tubular goods and drilling rigs can be obtained without undue delay.]

wait to grant application

*EPNG
✓
others*

16. There are a large number of proven or semi-proven undrilled locations in the Blanco Mesaverde Pool which should be drilled before operators are forced to drill a second well on existing 320 acre proration units. The evidence clearly shows that there is no particular urgency on the part of any operator to drill additional wells except in the case of El Paso, which is for the purpose of meeting its deliverability problems because of out of state demand.

REQUESTED CONCLUSIONS

Based upon the foregoing Findings of Fact, the Commission concludes:

1. That there is no substantial evidence that the present spacing pattern and proration formula in the Blanco Mesaverde Pool fail to prevent waste or protect correlative rights and the approval of the application would result in the drilling of unnecessary wells.

2. That the drilling of infill wells in the Pool may be desirable in order to make available within a shorter period of time the remaining producible gas within the Pool and to recover some additional gas which might not be recovered through the existing wells. However, the correlative rights of all owners and operators in the Pool cannot be adequately protected by proceeding with an unlimited and uncontrolled drilling program which might result from the immediate approval of the subject application because of the following:

(a) The Commission recognizes that there is a critical national shortage of tubular goods necessary for the drilling of oil and gas wells and that drilling rigs are not readily available and therefore it would not be possible for all operators to promptly meet offset obligations caused by an unlimited and uncontrolled drilling program and thereby protect correlative rights.

(b) The prompt drilling by El Paso of a large number of wells in the areas of the Pool having the highest deliverability

would result in drainage of outlying areas before many of the operators could meet offset obligations and thereby protect correlative rights.

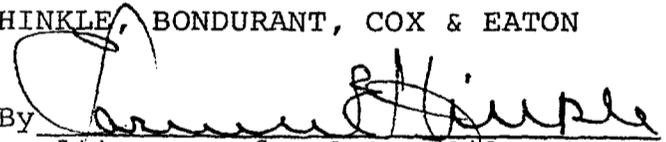
(c) The rapid drilling of wells in the areas having the highest deliverability would also make gas available beyond the capacity of the pipelines to transport the same.

3. The Commission having considered all facts and circumstances further concludes that the most equitable and ideal way to protect the correlative rights of all parties concerned and to prevent waste would be through fieldwide unitization of the Blanco Mesaverde Pool. The Commission has no jurisdiction to force unitization, but recommends that such a course be voluntarily pursued by all operators involved and an earnest effort made to effect unitization if possible to do so within a reasonable period of time.

4. That the Commission retain jurisdiction of this cause and that a supplemental hearing be held in July 1975 for the purpose of determining at that time whether or not conditions are such that the approval of the subject application would be in the interest of prevention of waste and the protection of correlative rights.

Respectfully submitted,

HINKLE, BONDURANT, COX & EATON

By 

Attorneys for Aztec Oil & Gas
Company

P.O. Box 10

Roswell, New Mexico 88201

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

1
2 IN THE MATTER OF THE HEARING
3 CALLED BY THE OIL CONSERVATION
4 COMMISSION OF NEW MEXICO FOR
5 THE PURPOSE OF CONSIDERING:

CASE NO. 5264 ^{71670-T}
Order No. R-~~4916~~

6 APPLICATION OF EL PASO NATURAL GAS
7 COMPANY FOR AN AMENDMENT OF ORDER NO. ^{M.M.}
8 R-1670, BLANCO MESAVERDE ~~RES~~ POOL, TO
9 PERMIT THE OPTIONAL DRILLING AND PRODUC-
10 TION OF AN ADDITIONAL WELL ON PRORATION
11 UNITS, SAN JUAN AND RIO ARriba COUNTIES,
12 NEW MEXICO, AND TO PROVIDE FOR THE ASSIGNMENT
13 OF ALLOWABLES FOR SUCH ADDITIONAL WELLS AND
14 PRORATION UNITS.

ORDER OF THE COMMISSION

15 BY THE COMMISSION:

16 This cause came on for hearing at 9 a.m. on August 13 and
17 August 14, 1974, at Santa Fe, New Mexico, before the Oil Conser-
18 vation Commission of New Mexico, hereinafter referred to as
19 the "Commission."

20 NOW, on this _____ day of November, 1974, the Commission,
21 a quorum being present, having considered the testimony presented
22 and the exhibits received at said hearing, and being fully advised
23 in the premises,

24 FINDS:

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

28 (2) That the Blanco Mesaverde ~~RES~~ Pool, located in San
29 Juan, Rio Arriba and Sandoval Counties, New Mexico, was created
30 by Commission Order No. 799 dated February 25, 1949.

31 (3) That the Blanco Mesaverde ~~RES~~ Pool is governed by
32 special rules and regulations, promulgated by the Commission in
Order No. R-1670, as amended, which provide for 320-acre
proration units and well locations in the NE/4 and SW/4 of each
governmental section, and for ^{the} assignment of allowable to each
proration unit in the pool based on the amount of acreage in
the unit and the deliverability of the unit well.

1 -2-
2 CASE NO.
3 Order No. R-

4 (4) That the applicant, El Paso Natural Gas Company, seeks
5 an order amending said Order No. R-1670 to permit the optional
6 drilling of an additional well on each 320-acre proration unit
7 in the Blanco Mesaverde ~~Gas~~ Pool; to determine the deliverability
8 of each proration unit upon which an additional well is drilled
9 by adding the deliverabilities of the two wells; to permit the
10 production of the allowable assigned to a proration unit contain-
11 ing two wells from ~~either or~~ both wells in any proportion; to
12 consider both wells on a proration unit as one well for purposes
13 of balancing underproduction or overproduction; to report the
14 production of each well on the unit as well as the total unit
15 production; and to compare the unit production against the unit
16 allowable for determining whether a unit should be classified
17 marginal or non-marginal.

18
19 (5) That the Blanco-Mesaverde ~~Gas~~ Pool has been developed
20 for approximately 20 years on 320-acre proration units.

21 (6) That to change the unit size now in said pool would
22 disturb the equities under many of the existing proration units.

23 (7) That the proration unit size in the Blanco Mesaverde
24 ~~Gas~~ Pool should continue to be 320 acres.

25 (8) That Section 65-3-10, New Mexico Statutes Annotated,
26 1953 Compilation, empowers the Commission to prevent waste of
27 hydrocarbons and to protect the correlative rights of the owners
28 of each interest in said hydrocarbons.

29 (9) That Section 65-3-5, New Mexico Statutes Annotated,
30 1953 Compilation, confers jurisdiction on the Commission over all
31 matters relating to the conversion of oil and gas.

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-3-
CASE NO.
Order No. R-

(10) That "waste" is defined by Sections 65-3-3, New Mexico Statutes Annotated, 1953 Compilation.

(11) That the evidence reveals that the Blanco Mesaverde ~~Gas~~ Pool is not a homogeneous, uniform reservoir. ~~(Tr. 205)~~

(12) That the producing formation of the Blanco Mesaverde ~~Gas~~ Pool is comprised of various overlapping, interconnecting, and lenticular sands of relatively low permeability, many of which are not being efficiently drained by existing wells in the pool but which could be ^{more} efficiently and economically drained and developed by the drilling of additional wells pursuant to the rule changes proposed by the applicant. ~~(Tr. 141, 212)~~

(13) That infill drilling will substantially increase recoverable reserves from the Blanco Mesaverde ~~Gas~~ Pool. (Tr. 188)

(14) That infill drilling will result in greater ultimate recovery of the reserves under the various proration units in the pool.

(15) That infill drilling in the Blanco Mesaverde ~~Gas~~ Pool will result in more efficient use of reservoir energy and will tend to ensure greater ultimate recovery of gas from the pool, thereby preventing waste. ~~(Tr. 210)~~

(16) That if infill drilling is implemented in the Blanco Mesaverde ~~Gas~~ Pool, each operator will be afforded the opportunity to produce, without waste, his just and equitable share of the gas from the Pool, and his correlative rights, as defined by Section 65-3-29, New Mexico Statutes Annotated, 1953 Compilation, therefore, will not be impaired. ~~(Tr. 221)~~

(17) That both wells on a proration unit should be produced so long as it is economically feasible to do so.

(18) That the application should be approved.

~~(19) That jurisdiction of this cause is retained for the purpose of such further orders as the Commission may deem necessary~~

IT IS THEREFORE ORDERED:

1
2 (1) That the Special Rules for the Blanco Mesaverde Pool
3 in San Juan, Rio Arriba and Sandoval Counties, New Mexico, as
4 promulgated by Order No. R-1670, as amended, are hereby amended
5 to permit the ^{optional} drilling of a second well on each proration unit;
6 to provide that the deliverability of a proration unit containing
7 two wells shall be the sum of the deliverabilities of each of the
8 wells; to provide that the unit allowable may be produced from
9 ~~either~~ or both of the wells in any proportion; to consider both
10 wells on the proration unit as one well for purposes of balancing
11 underproduction or overproduction; to provide for the reporting
12 of production from each well individually and to require the
13 reporting of total production from the unit; and to compare the
14 unit production against the unit allowable in determining whether
15 a unit should be classified marginal or non-marginal.

16 (2) That Rule 2 of the Special Rules for the Blanco
17 Mesaverde Pool, as promulgated by Order No. R-1670, as amended,
18 is hereby amended to read in its entirety as follows:

19 "RULE 2(A) The initial well drilled on a proration
20 unit shall be located 990 feet from the outer ^{boundary} of
21 either the Northeast or Southwest quarter of the
22 section, subject to a variation of 200 feet for
23 topographic conditions. Further tolerance shall be
24 allowed by the Commission only in cases of extremely
25 rough terrain where compliance would necessarily
26 increase drilling costs.

27 "RULE 2(B) The second well drilled on a proration
28 unit shall be located in the quarter section of
29 the unit not containing a well, and shall be
30 located with respect to the unit boundaries as
31 described in Rule 2 A above.

"The plats (Form C-102) accompanying the Application for
Permit to Drill (OCC Form C-101 or Federal Form 9-331-C) for the
second well on a proration unit shall have outlined thereon the
boundaries of the unit and shall show the location of the first
well on the unit as well as the proposed new well.

→ "RULE 2 (C). In the event a second well is drilled on any
proration unit, both wells shall be produced for so long as
it is economically feasible to do so "

1 (3) That the Special Rules for the Blanco Mesaverde Pool
2 as promulgated by Order No. R-1670, as amended, are hereby
3 amended by the addition of the following Special Rules:

4 RULE 9 (A). The product obtained by multiplying
5 each proration unit's acreage factor by the
6 calculated deliverability (expressed as MCF per day)
7 for the well(s) on the unit shall be known as the
8 AD Factor for the unit. The acreage factor shall
9 be determined to ~~the nearest hundredth of a unit~~ ^{the second decimal place}
10 by dividing the acreage within the proration unit
11 by 320, subject to the acreage tolerances provided
12 in Rule 5(A). The AD Factor shall be computed to
13 the nearest whole ~~unit number~~.

14 RULE 9 (B). The monthly allowable to be assigned
15 to each marginal ^{proration} unit shall be equal to its latest
16 available monthly production.

17 RULE 9 (C). The pool allowable remaining each month
18 after deducting the total allowable assigned to
19 marginal ^{proration} units shall be allocated among the non-
20 marginal units entitled to an allowable in the
21 following manner:

22 1. Seventy-five percent (75%) of the pool
23 allowable remaining to be allocated to non-
24 marginal units shall be allocated among such
25 units in the proportion that each unit's "AD
26 Factor" bears to the total "AD Factor" for
27 all non-marginal units in the pool.

28 2. Twenty-five percent (25%) of the pool allowable
29 remaining to be allocated to non-marginal units
30 shall be allocated among such units in the propor-
31 tion that each unit's acreage factor bears to the
32 total acreage factor for all non-marginal units in
the pool.

The current
RULE 9 (D). ~~Annual~~ deliverability tests taken *in accordance with*
~~the "Gas Well Testing Procedures - San Juan Basin, New Mexico,"~~
~~year~~ shall be used in calculating allowables for *the proration*
12-month
units in the pool for the ~~twelve-month~~ period
beginning April 1 of the following year.

RULE 9 (E). When calculating the allowable for a
proration unit containing two wells, in accordance
with Rule 9 *of these rules* ~~of the General Rules and Regulations~~
~~of New Mexico, New Mexico,~~ the deliverability of
both wells shall be added in calculating the ^QAD
Factor and the unit allowable may be produced
from ~~either~~ both wells.

(14) That ^{said} the Special Rules for the Blanco Mesaverde Pool
are hereby amended by the addition of the following Special
Rule 10(C):

RULE 10 (C). The calculated deliverability at the
"deliverability pressure" shall be determined in
accordance with the provisions of the current "Gas
Well Testing Rules and Procedures - San Juan Basin,
New Mexico."

No well shall be eligible for reclassification to
"Exempt Marginal" status unless it is located on
a marginal proration unit.

(5) That ^{said} Special Rules for the Blanco Mesaverde Pool
are hereby amended by the addition of the following Special
Rule 12:

RULE 12. The full production of gas from each
well, including drilling gas, shall be charged
against the ^{proration} unit'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.

(6) That ^{said} the Special Rules for the Blanco Mesaverde Pool
are hereby amended by the addition of the following Special
Rule 14:

RULE 14 (A). Underproduction: Any non-marginal *proration*
unit 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

regarding
WE may want a Rule 10.
Exempt marginal wta

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1 at the end of such gas proration period shall be
2 cancelled.

3 RULE 14 (B). Production during any one month of
4 a gas proration period in excess of the allowable
5 assigned to a ^{proration} unit for such month shall be applied
6 against the underproduction carried into such
7 period in determining the amount of allowable,
8 if any, to be cancelled.

9
10 (7) That ^{said} ~~the~~ Special Rules for the Blanco Mesaverde Pool
11 are hereby amended by the addition of the following Special
12 Rule 15:

13 RULE 15 (A). Overproduction: Any unit which has
14 an overproduced status as of the end of a gas pro-
15 ration period shall carry such overproduction forward
16 into the next gas proration period. Said overproduc-
17 tion shall be made up during the succeeding gas
18 proration period. Any unit which has not made up
19 the overproduction carried into a gas proration
20 period by the end of said period shall not be
21 produced until such overproduction is made up.

22 RULE 15 (B). If, during any month, it is discovered
23 that a ^{proration} unit is overproduced in an amount exceeding
24 six times its average monthly allowable for the
25 preceding twelve months (or, in the case of a newly
26 connected well, six times its average monthly allowable
27 for the months available), it shall not be produced
28 that month nor each succeeding month until it is
29 overproduced in an amount six times or less its
30 average monthly allowable, as determined herein-
31 above.
32

1 RULE 15 (C). Allowable assigned to a ^{proration} unit during
2 any one month of a gas proration period in excess
3 of the production for the same month shall be
4 applied against the overproduction chargeable
5 to such unit in determining the amount of over-
6 production which must be made up pursuant to the
7 provisions of Rules 15 (A) or 15 (B) above.

8 RULE 15 (D). The Secretary-Director of the
9 Commission shall have authority to permit a well
10 which is subject to shut-in, pursuant to Rules
11 15 (A) or 15 (B) above, to produce up to 500 MCF
12 of gas per month upon proper showing to the
13 Secretary-Director that complete shut-in would
14 cause undue hardship, provided however, such
15 permission shall be rescinded for any well
16 produced in excess of the monthly rate authorized
17 by the Secretary-Director.

18 RULE 15 (E). The Commission may allow overproduc-
19 tion to be made up at a lesser rate than permitted
20 under Rules 15 (A), 15 (B) or 15(D) above upon a
21 showing at public hearing that the same is
22 necessary to avoid material damage to the well.

23 RULE 15 (F). Any allowable accruing to a ^{proration} unit
24 at the end of a gas proration period due to the
25 cancellation of underage in the pool and the
26 redistribution thereof shall be applied against
27 the unit's overproduction.
28
29
30
31
32

1 RULE 15 (G). The Secretary-Director of the Commission
2 shall have authority to grant a pool-wide moratorium
3 of up to three months on the shutting in of gas wells
4 in a pool during periods of high-demand emergency
5 upon proper showing that such emergency exists, and
6 that a significant number of the wells in the pool
7 are subject to shut-in pursuant to the provisions
8 of Rules 15 (A) or 15 (B) above. No moratorium
9 beyond the aforementioned three months shall be
10 granted except after notice and hearing.

11 (8) That ^{said} ~~the~~ Special Rules for the Blanco Mesaverde Pool
12 are hereby amended by the addition of the following Section E:

13 E. CLASSIFICATION OF UNITS

14 RULE 16 (A). The proration period (as defined in
15 Rule 13) shall be ~~six~~ divided into four classifi-
16 cation periods of three months each, commencing on
17 April 1, July 1, October 1, and January 1. After
18 the production data is available for the last
19 month of each classification period, any unit which
20 had an underproduced status at the beginning of
21 the proration period shall be classified marginal
22 if its highest single month's production during
23 the classification period is less than its average
24 monthly allowable during said classification period;
25 provided however, that the operator of any unit so
26 classified, or other interested party, shall have
27 15 days after receipt of notification of marginal
28 classification in which to submit satisfactory
29 evidence to the Commission that the unit is not
30 of marginal character and should not be so classi-
31 fied.
32

1 RULE 16 (B). The Secretary-Director may reclassify
2 a marginal or non-marginal ^{proration} unit at any time the
3 unit's production data, deliverability data, or
4 other evidence as to the unit's producing ability
5 justifies such reclassification.

6 RULE 17. A ^{proration} unit which is classified as marginal
7 shall not be permitted to accumulate underproduction,
8 and any underproduction accrued to the unit prior to
9 its classification as marginal shall be cancelled.

10 RULE 18. If, at the end of a proration period, a
11 marginal ^{proration} unit has produced more than the total
12 allowable for the period, assigned to a non-marginal
13 unit of like deliverability and acreage, the marginal
14 unit shall be reclassified non-marginal and its
15 allowable and net status adjusted accordingly. (If
16 the unit has been classified as marginal for one
17 proration period only, or a portion of one proration
18 period only, any underproduction cancelled as the
19 result of such classification shall be reinstated
20 upon reclassification back to non-marginal status.
21 All uncompensated-for overproduction accruing to
22 the ~~well~~ ^{unit} while marginal shall be chargeable upon
23 reclassification to non-marginal.)

24 RULE 19. A proration unit containing a well which
25 has been reworked or recompleted shall be classified
26 non-marginal as of the date of reconnection of the
27 well to a pipeline until such time as production
28 data, deliverability data, or other evidence as
29 to the unit's producing ability indicates that the
30 unit should be classified marginal.

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RULE 20. All ^{proration} units not classified ~~as~~ marginal shall be classified ~~as~~ non-marginal.

1
2 (9) That Rule 21 (A) of ^{said} Special Rules for the Blanco
3 Mesaverde Pool is hereby amended to read in its entirety as
4 follows:

5 "RULE 21 (A). The monthly gas production from each well
6 ~~shall~~ shall be metered separately and the gas production
7 therefrom shall be reported to the Commission on
8 Form C-115 in accordance with Rule 1115 of the
9 Commission's Rules and Regulations, so as to
10 reach the Commission on or before the 24th day
11 of the month next succeeding the month in which
12 the gas reported was produced. The operator shall
13 show on such report what disposition has been made
14 of the gas produced. The sum of the production from
15 both wells on the ^{proration} unit shall also be reported for
16 multiple-well units. "

17 (10) That ^{said} the Special Rules for the Blanco Mesaverde Pool
18 are hereby amended by the addition of the following Special
19 Rule 23:

20 RULE 23. Failure to comply with the provisions
21 of this order or the rules contained herein shall
22 result in the cancellation of allowable assigned
23 to the affected proration unit. No further
24 allowable shall be assigned to the affected unit
25 until all rules and regulations are complied with.
26 The Secretary-Director shall notify the operator
27 of the unit ~~with~~ and the purchaser, in ~~wxxx~~ writing,
28 of the date of allowable cancellation and the
29 reason therefor.

30 (11) That jurisdiction etc

31 DONE AT

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. 4682

APPLICATION OF EL PASO NATURAL
GAS COMPANY FOR AMENDMENT OF THE
RULES AND REGULATIONS GOVERNING
THE BLANCO-MESAVERDE GAS POOL,
SAN JUAN AND RIO ARriba COUNTIES,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

These matters come before the Commission at 9 a.m. on June 29, 1972, at Santa Fe, New Mexico, before the Oil Conservation Commission, hereinafter referred to as the "Commission," pursuant to motions to intervene in the above-entitled cause and a motion for an order from the Commission limiting and defining the evidence it will receive and consider in the above-entitled cause and restricting such evidence to those matters provided for by the Statutes of New Mexico, and a motion for the continuance of the above-entitled cause until such time as the Commission has prepared an environmental impact statement.

NOW, on this 6th day of July, 1972, the Commission, a quorum being present, having considered each of the above-described motions, the arguments presented therewith, 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 Section 65-3-10, New Mexico Statutes Annotated, 1953 Compilation, empowers and gives the duty to the Commission to prevent the waste of hydrocarbons and to protect the correlative rights of owners of interests in said hydrocarbons.
- (3) That Section 65-3-5, New Mexico Statutes Annotated, 1953 Compilation, gives the Commission jurisdiction and authority over all matters relating to the conservation of oil and gas.
- (4) That "waste" and "correlative rights" are defined by Sections 65-3-3 and 65-3-29, respectively, New Mexico Statutes Annotated, 1953 Compilation.
- (5) That the public has a vital interest in the conservation of the natural resources of the State of New Mexico.

(6) That the Commission's decision to approve or disapprove the application of El Paso Natural Gas Company in Case 4682 must be predicated upon the prevention of the waste of hydrocarbons and the protection of the correlative rights of owners of property in the Blanco-Mesaverde Gas Pool.

(7) That the Commission will receive evidence that is relevant to the prevention of waste of hydrocarbons and the protection of correlative rights.

(8) Evidence concerning market demand, curtailment of gas supplies, energy crisis, and environmental impact will be received by the Commission and considered in its determination to approve or disapprove the application if the party offering same can show the relevance of such matters to the prevention of waste and the protection of correlative rights.

(9) The Commission also has the authority to gather for informational purposes evidence concerning market demand, curtailment of gas supplies, energy crisis, and environmental matters, though such are not to be considered in its determination of approval or disapproval of the subject application.

(10) That the Commission will receive evidence concerning market demand, curtailment of gas supplies, energy crisis, and environmental matters if offered by a party merely for informational purposes.

(11) That after it has made its decision to approve or disapprove the application upon the basis of evidence that is relevant to waste and protection of correlative rights, and if that decision should be to approve the application, it will consider evidence offered for informational purposes only to the fullest extent possible in the implementation of the decision.

(12) That the New Mexico Oil Conservation Commission is not required by Section 12-20-6, New Mexico Statutes Annotated, 1953 Compilation, to prepare an environmental impact statement prior to the hearing of this case.

IT IS THEREFORE ORDERED:

(1) In accordance with the above, the three petitioners, the New Mexico Environmental Improvement Agency, the New Mexico Municipal League, and the New Mexico Public Service Commission each are hereby granted permission to intervene in the above-styled cause, subject to the following:

- A. Evidence offered or which is elicited on cross-examination which is not relevant to the waste of hydrocarbons shall be admitted for informational purposes only.

B. Evidence which is offered or which is elicited on cross-examination which is relevant to the waste of hydrocarbons shall be admitted for all purposes.

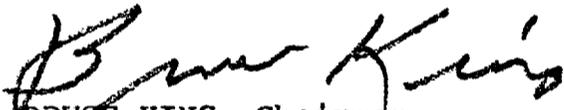
(2) To the extent that the above findings are in conflict with the motion of Southern Union Production Company, Southern Union Gathering Company, and Southern Union Gas Company, said motion is denied; to the extent the above findings are not in conflict with said motion, the motion is granted.

(3) That the motion of the New Mexico Environmental Improvement Agency to continue the above-entitled cause until such time as the New Mexico Oil Conservation Commission has prepared an environmental impact statement is hereby denied.

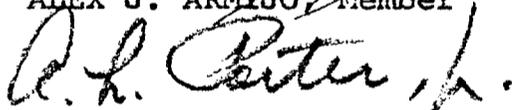
(4) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

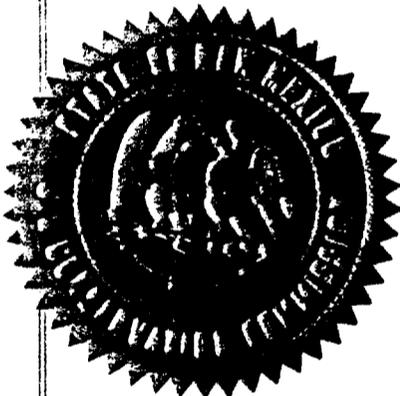
DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


BRUCE KING, Chairman


ALEX J. ARMIÑO, Member


A. L. PORTER, Jr., Member & Secretary



S E A L

dr/

38

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. 4682
Order No. R-4498

APPLICATION OF EL PASO NATURAL GAS
COMPANY FOR AMENDMENT OF THE RULES
AND REGULATIONS GOVERNING THE BLANCO-
MESAVERDE GAS POOL, SAN JUAN AND RIO
ARRIBA COUNTIES, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on June 29, 1972, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 27th day of March, 1973, 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 applicant has requested that Case 4682 be dismissed without prejudice.
- (2) That as a result of the hearing on June 29, 1972, an order was adopted by the Commission resolving certain procedural questions.
- (3) That should Case 4682 or the subject matter thereof be raised in a subsequent proceeding before the Commission, the Commission should determine at that time whether or not the record of the June 29, 1972, hearing and the order adopted thereafter should be incorporated in the subsequent proceeding.
- (4) That the applicant's request for dismissal without prejudice should be granted.

IT IS THEREFORE ORDERED:

- (1) That Case No. 4682 is hereby dismissed without prejudice.

-2-

Case No. 4682
Order No. R-4498

(2) That in any application to reconsider the subject matter of Case 4682 the Commission shall first determine whether or not it will incorporate the record of the June 29, 1972, hearing before the Commission and the findings and order entered by the Commission in this case.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

Bruce King
BRUCE KING, Chairman

Alex J. Armiijo
ALEX J. ARMIJO, Member

A. L. Porter, Jr.
A. L. PORTER, Jr., Member & Secretary

S E A L

dr/



OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

November 15, 1974

I. R. TRUJILLO
CHAIRMAN
LAND COMMISSIONER
ALEX J. ARMIJO
MEMBER
STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

Re: CASE NO. 5264

ORDER NO. R-1670-T

Applicant:

El Paso Natural Gas Company

Mr. William Federici
Montgomery, Federici, Andrews,
Hannahs & Buell
Attorneys at Law
Post Office Box 2307
Santa Fe, New Mexico

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

Aztec OCC x

Other Copies to all interested parties

BEFORE THE OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Application of El Paso Natural Gas)
Company for an Amendment of Order)
No. R-1670 to Permit the Optional)
Drilling and Production of an Addi-)
tional Well on Proration Units San)
Juan, Rio Arriba and Sandoval)
Counties, New Mexico, and to Provide)
for the Assignment of Allowables for)
Such Additional Wells and Proration)
Units.)

Case No. 5264

SUGGESTED FINDINGS OF FACT SUBMITTED
BY MESA PETROLEUM CO.

1. That El Paso Natural Gas Company is a natural gas company under the jurisdiction of the Federal Power Commission. In the Blanco-Mesaverde Pool (hereinafter referred to as "Pool") El Paso is both a purchaser and producer owning an interest in or operating approximately 1,100 of the 2,055 producing wells.

The leases owned by El Paso in the Pool were acquired by El Paso prior to 1969. That under the rules and regulations of the Federal Power Commission El Paso is entitled to recover its actual costs plus a return on the gas produced from its own wells on leases acquired prior to October 7, 1969.

2. That for gas purchased from existing wells in the Pool El Paso is permitted to pay independent producers 24¢ plus adjustment for BTU and taxes (gross price approximately 27¢ per MCF).

3. The price which El Paso would be permitted to pay, under Federal Power Commission rules and regulations, for gas which it purchases from the Pool from the second well drilled on an existing unit is undeterminable at the present time. The Federal Power Commission has not responded to the letter from this Commission dated July 18, 1974 requesting an answer as to whether or not the provisions of the Federal Power Commission's Opinion No. 699, fixing a national area rate of 43¢ (plus BTU adjustment and taxes) for wells drilled on and after 1/1/73, would be applicable to the second well drilled on a producing unit in this Pool.

4. The Commission finds that the average cost of drilling and completing a new well in the Pool is approximately \$152,000 per well. That the average operating cost per well is approximately \$200 per month. The record indicates a maximum additional recovery from an average new well of from 30% to 70% of the original recoverable reserves under an average old well.

5. The evidence in this proceeding demonstrates that at the applicable Rocky Mountain area rate of 24¢ per MCF (plus BTU and taxes) it would not be economically feasible for an independent producer to drill and complete a second well on the existing units in the Pool.

6. Independent producers own fractional interests in many of the wells which El Paso operates and from which it purchases gas. Should a second well be permitted on a unit, to permit the total allowable production to be produced from either the old or the new well would permit the purchaser-operator of the unit to produce the wells in a manner detrimental to the interest of the independent producers who own fractional interests.

CONCLUSIONS

1. This Commission's statutory obligation is to prevent the waste of natural gas and to protect the correlative rights of the mineral owners. These obligations must guide our deliberations and disposition of this application.

2. From the evidence presented, the Commission concludes that it is not economically feasible for an independent producer, as differentiated from a pipeline affiliate, to drill a second well on the existing 320 acre units and sell the gas from the new well at 24¢ per MCF (plus BTU and tax adjustments).

3. To amend the existing field rules to permit the drilling of a second well on each unit as requested by the applicant knowing that the applicant, because of Federal Power Commission regulations

of pipeline company produced gas could recover its costs of drilling additional wells, would put El Paso in a position of being permitted to produce gas from their units at a faster rate than other producers in the Pool. The increased production from El Paso's units would ultimately result in the violation of the correlative rights of the independent producers operating off-set units.

4. Should the Federal Power Commission determine that the national area rate is applicable to gas produced from the second well drilled on the unit in the Pool, it would not be proper to permit El Paso to produce the allowable from either the new well or the old well, whichever it desired. The cost of gas and the amount received by independent producers for gas produced from the old well on the unit would be approximately 20¢ per MCF less than gas produced from the new well on the unit. The Commission, not the operator of the well, should fix the allowable production from each of the wells on the unit. It is the combined deliverability of the two wells which would determine the unit's allowable production. Under such circumstances the production should be assigned to each well based on that well's percent of the total deliverability of the unit.

Respectfully submitted,

Clarence Hinkle,
Ed H. Selecman, and
Richard C. Byrd

By:



Richard C. Byrd
ANDERSON, BYRD & RICHESON
First National Bank Bldg.
Ottawa, Kansas 66067

Attorneys for Mesa Petroleum Co.

LAW OFFICES

ANDERSON, BYRD & RICHESON

FIRST NATIONAL BANK BUILDING

OTTAWA, KANSAS 66067

ROBERT A. ANDERSON
RICHARD C. BYRD
JOHN L. RICHESON

PHONE
Area Code 913
CHerry 2-1234



September 13, 1974

Mr. A. L. Porter, Jr.
Secretary - Director
Oil Conservation Commission
State of New Mexico
P. O. Box 2088
Santa Fe, New Mexico 87501

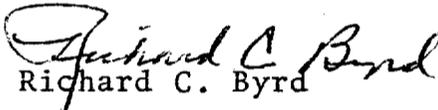
RE: Application of El Paso Natural
Gas Company (Case No. 5264) --
Suggested Findings of Fact of
Mesa Petroleum Co.

Dear Mr. Porter:

Pursuant to the Commission's request at the conclusion
of the hearing in the above-entitled case, Mesa hereby
submits suggested findings and conclusions for your con-
sideration.

Copies of the enclosed findings have been mailed to all
attorneys of record.

Very truly yours,


Richard C. Byrd

ANDERSON, BYRD & RICHESON

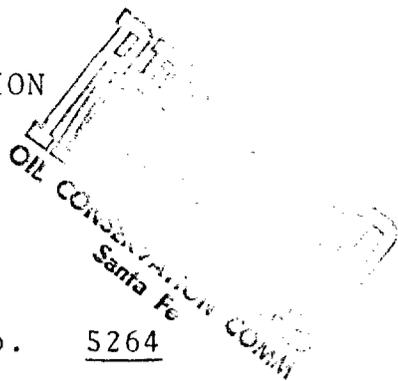
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Encl:

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

Application of El Paso Natural Gas)
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No. R-1670 to Permit the Optional)
Drilling and Production of an Addi-)
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Case No. 5264



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1. That El Paso Natural Gas Company is a natural gas company under the jurisdiction of the Federal Power Commission. In the Blanco-Mesaverde Pool (hereinafter referred to as "Pool") El Paso is both a purchaser and producer owning an interest in or operating approximately 1,100 of the 2,055 producing wells.

The leases owned by El Paso in the Pool were acquired by El Paso prior to 1969. That under the rules and regulations of the Federal Power Commission El Paso is entitled to recover its actual costs plus a return on the gas produced from its own wells on leases acquired prior to October 7, 1969.

2. That for gas purchased from existing wells in the Pool El Paso is permitted to pay independent producers 24¢ plus adjustment for BTU and taxes (gross price approximately 27¢ per MCF).

3. The price which El Paso would be permitted to pay, under Federal Power Commission rules and regulations, for gas which it purchases from the Pool from the second well drilled on an existing unit is undeterminable at the present time. The Federal Power Commission has not responded to the letter from this Commission dated July 18, 1974 requesting an answer as to whether or not the provisions of the Federal Power Commission's Opinion No. 699, fixing a national area rate of 43¢ (plus BTU adjustment and taxes) for wells drilled on and after 1/1/73, would be applicable to the second well drilled on a producing unit in this Pool.

4. The Commission finds that the average cost of drilling and completing a new well in the Pool is approximately \$152,000 per well. That the average operating cost per well is approximately \$200 per month. The record indicates a maximum additional recovery from an average new well of from 30% to 70% of the original recoverable reserves under an average old well.

5. The evidence in this proceeding demonstrates that at the applicable Rocky Mountain area rate of 24¢ per MCF (plus BTU and taxes) it would not be economically feasible for an independent producer to drill and complete a second well on the existing units in the Pool.

6. Independent producers own fractional interests in many of the wells which El Paso operates and from which it purchases gas. Should a second well be permitted on a unit, to permit the total allowable production to be produced from either the old or the new well would permit the purchaser-operator of the unit to produce the wells in a manner detrimental to the interest of the independent producers who own fractional interests.

CONCLUSIONS

1. This Commission's statutory obligation is to prevent the waste of natural gas and to protect the correlative rights of the mineral owners. These obligations must guide our deliberations and disposition of this application.

2. From the evidence presented, the Commission concludes that it is not economically feasible for an independent producer, as differentiated from a pipeline affiliate, to drill a second well on the existing 320 acre units and sell the gas from the new well at 24¢ per MCF (plus BTU and tax adjustments).

3. To amend the existing field rules to permit the drilling of a second well on each unit as requested by the applicant knowing that the applicant, because of Federal Power Commission regulations

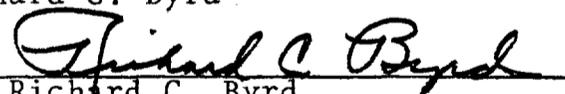
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4. Should the Federal Power Commission determine that the national area rate is applicable to gas produced from the second well drilled on the unit in the Pool, it would not be proper to permit El Paso to produce the allowable from either the new well or the old well, whichever it desired. The cost of gas and the amount received by independent producers for gas produced from the old well on the unit would be approximately 20¢ per MCF less than gas produced from the new well on the unit. The Commission, not the operator of the well, should fix the allowable production from each of the wells on the unit. It is the combined deliverability of the two wells which would determine the unit's allowable production. Under such circumstances the production should be assigned to each well based on that well's percent of the total deliverability of the unit.

Respectfully submitted,

Clarence Hinkle,
Ed H. Selecman, and
Richard C. Byrd

By:



Richard C. Byrd
ANDERSON, BYRD & RICHESON
First National Bank Bldg.
Ottawa, Kansas 66067

Attorneys for Mesa Petroleum Co.

Jim Galt 842D

BEFORE THE OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Application of El Paso Natural Gas)
Company for an Amendment of Order)
No. R-1670 to Permit the Optional)
Drilling and Production of an Addi-)
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Cost +

The leases owned by El Paso in the Pool were acquired by El Paso prior to 1969. That under the rules and regulations of the Federal Power Commission El Paso is entitled to recover its actual costs plus a return on the gas produced from its own wells on leases acquired prior to October 7, 1969.

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respond to price increase of gas

4. The Commission finds that the average cost of drilling and completing a new well in the Pool is approximately \$152,000 per well. That the average operating cost per well is approximately \$200 per month. *Response* <The record indicates a maximum additional recovery from an average new well of from 30% to 70% of the original recoverable reserves under an average old well.>

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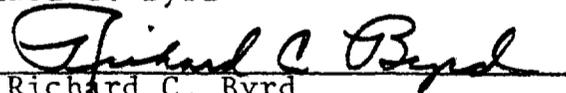
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Clarence Hinkle,
Ed H. Selecman, and
Richard C. Byrd

By:



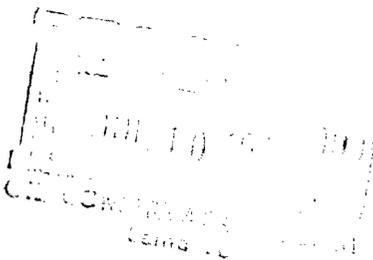
Richard C. Byrd
ANDERSON, BYRD & RICHESON
First National Bank Bldg.
Ottawa, Kansas 66067

Attorneys for Mesa Petroleum Co.

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF EL PASO NATURAL GAS COMPANY FOR AN AMENDMENT OF ORDER NO. R-1670 TO PERMIT THE OPTIONAL DRILLING AND PRODUCTION OF AN ADDITIONAL WELL ON PRORATION UNITS SAN JUAN, RIO ARRIBA AND SANDOVAL COUNTIES, NEW MEXICO, AND TO PROVIDE FOR THE ASSIGNMENT OF ALLOWABLES FOR SUCH ADDITIONAL WELLS AND PRORATION UNITS.



CASE NO. 5264

MOTION FOR POSTPONEMENT

TO THE HONORABLE OIL CONSERVATION COMMISSION OF NEW MEXICO:

Comes now Mesa Petroleum Co. of Amarillo, Texas, hereinafter referred to as Mesa, acting by and through the undersigned attorneys, and enters its appearance in this cause and requests that the hearing set for August 13, 1974 be postponed, and as grounds for this motion would respectfully show:

1. Mesa owns an interest in more than 450 wells and is the operator of 28 wells in the Blanco Mesaverde Gas Pool, San Juan, Rio Arriba and Sandoval Counties of the State of New Mexico. The granting of El Paso's application could require that Mesa drill approximately 36 additional net wells.
2. The rule changes proposed by El Paso applicable to the Blanco Mesaverde Gas Pool as provided in Order No. R-1670 will authorize the drilling of a second well on an existing proration unit and the unit allowable be produced from either or both wells.

On June 21, 1974, the Federal Power Commission issued its Opinion and Order prescribing a uniform national rate for sales of natural gas produced from wells commenced on or after January 1, 1973, Opinion 699, Docket No. R-389-B. It cannot be determined from such opinion what the pricing policies and procedures may be to determine prices of gas produced from additional wells commenced on or after January 1, 1973, particularly to be applied in connection with any order which the Oil Conservation Commission may issue in this hearing. Until such time as the Federal Power

Commission issues an opinion clarifying the effect of its Opinion and Order of June 21, 1974 on the sale of gas produced from the additional wells drilled on existing proration units, it is impossible for Mesa to determine its position with respect to El Paso's application in this cause.

3. The granting of Mesa's Motion for Continuance will neither cause waste nor violate the correlative rights of the owners of interests in the oil and gas reserves underlying the Blanco Mesaverde Gas Pool.

WHEREFORE, Mesa respectfully requests that the hearing on the subject application of El Paso be postponed until such time as the Federal Power Commission issues its order and opinion clarifying the effect of its Opinion and Order of June 21, 1974 (Opinion 699, Docket No. R-389-B) on the sales of gas produced from the additional wells drilled on existing proration units, as provided for in the proposed rule changes in the subject application. In the event the Commission desires a hearing on this motion, it is further requested that such hearing be held on a date convenient to the Commission prior to August 13, 1974.

Respectfully submitted,

MESA PETROLEUM CO.

D. D. Dent

P. O. Box 2009
Amarillo, Texas 79105

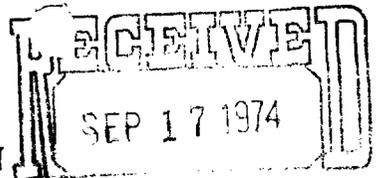
Richard C. Byrd

Anderson, Byrd & Richeson
First National Bank Building
Ottawa, Kansas 66067

Clarence E. Hinkle

Hinkle, Bondurant, Cox & Eaton
P. O. Box 10
Roswell, New Mexico 88201

Attorneys for MESA PETROLEUM CO.



LAW OFFICES
ANDERSON, BYRD & RICHESON

FIRST NATIONAL BANK BUILDING
OTTAWA, KANSAS 66067

OIL CONSERVATION COMMISSION
Santa Fe
Area Code 913
CHerry 2-1234

ROBERT A. ANDERSON
RICHARD C. BYRD
JOHN L. RICHESON

September 13, 1974

Mr. A. L. Porter, Jr.
Secretary - Director
Oil Conservation Commission
State of New Mexico
P. O. Box 2088
Santa Fe, New Mexico 87501

RE: Application of El Paso Natural
Gas Company (Case No. 5264) --
Suggested Findings of Fact of
Mesa Petroleum Co.

Dear Mr. Porter:

Pursuant to the Commission's request at the conclusion
of the hearing in the above-entitled case, Mesa hereby
submits suggested findings and conclusions for your con-
sideration.

Copies of the enclosed findings have been mailed to all
attorneys of record.

Very truly yours,


Richard C. Byrd

ANDERSON, BYRD & RICHESON

RCB:mb
Encl:

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

Application of El Paso Natural Gas)
Company for an Amendment of Order)
No. R-1670 to Permit the Optional)
Drilling and Production of an Addi-)
tional Well on Proration Units San)
Juan, Rio Arriba and Sandoval)
Counties, New Mexico, and to Provide)
for the Assignment of Allowables for)
Such Additional Wells and Proration)
Units.)

Case No. 5264

SUGGESTED FINDINGS OF FACT SUBMITTED
BY MESA PETROLEUM CO.

1. That El Paso Natural Gas Company is a natural gas company under the jurisdiction of the Federal Power Commission. In the Blanco-Mesaverde Pool (hereinafter referred to as "Pool") El Paso is both a purchaser and producer owning an interest in or operating approximately 1,100 of the 2,055 producing wells.

The leases owned by El Paso in the Pool were acquired by El Paso prior to 1969. That under the rules and regulations of the Federal Power Commission El Paso is entitled to recover its actual costs plus a return on the gas produced from its own wells on leases acquired prior to October 7, 1969.

2. That for gas purchased from existing wells in the Pool El Paso is permitted to pay independent producers 24¢ plus adjustment for BTU and taxes (gross price approximately 27¢ per MCF).

3. The price which El Paso would be permitted to pay, under Federal Power Commission rules and regulations, for gas which it purchases from the Pool from the second well drilled on an existing unit is undeterminable at the present time. The Federal Power Commission has not responded to the letter from this Commission dated July 18, 1974 requesting an answer as to whether or not the provisions of the Federal Power Commission's Opinion No. 699, fixing a national area rate of 43¢ (plus BTU adjustment and taxes) for wells drilled on and after 1/1/73, would be applicable to the second well drilled on a producing unit in this Pool.

4. The Commission finds that the average cost of drilling and completing a new well in the Pool is approximately \$152,000 per well. That the average operating cost per well is approximately \$200 per month. The record indicates a maximum additional recovery from an average new well of from 30% to 70% of the original recoverable reserves under an average old well.

5. The evidence in this proceeding demonstrates that at the applicable Rocky Mountain area rate of 24¢ per MCF (plus BTU and taxes) it would not be economically feasible for an independent producer to drill and complete a second well on the existing units in the Pool.

6. Independent producers own fractional interests in many of the wells which El Paso operates and from which it purchases gas. Should a second well be permitted on a unit, to permit the total allowable production to be produced from either the old or the new well would permit the purchaser-operator of the unit to produce the wells in a manner detrimental to the interest of the independent producers who own fractional interests.

CONCLUSIONS

1. This Commission's statutory obligation is to prevent the waste of natural gas and to protect the correlative rights of the mineral owners. These obligations must guide our deliberations and disposition of this application.

2. From the evidence presented, the Commission concludes that it is not economically feasible for an independent producer, as differentiated from a pipeline affiliate, to drill a second well on the existing 320 acre units and sell the gas from the new well at 24¢ per MCF (plus BTU and tax adjustments).

3. To amend the existing field rules to permit the drilling of a second well on each unit as requested by the applicant knowing that the applicant, because of Federal Power Commission regulations

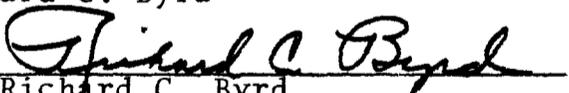
of pipeline company produced gas could recover its costs of drilling additional wells, would put El Paso in a position of being permitted to produce gas from their units at a faster rate than other producers in the Pool. The increased production from El Paso's units would ultimately result in the violation of the correlative rights of the independent producers operating off-set units.

4. Should the Federal Power Commission determine that the national area rate is applicable to gas produced from the second well drilled on the unit in the Pool, it would not be proper to permit El Paso to produce the allowable from either the new well or the old well, whichever it desired. The cost of gas and the amount received by independent producers for gas produced from the old well on the unit would be approximately 20¢ per MCF less than gas produced from the new well on the unit. The Commission, not the operator of the well, should fix the allowable production from each of the wells on the unit. It is the combined deliverability of the two wells which would determine the unit's allowable production. Under such circumstances the production should be assigned to each well based on that well's percent of the total deliverability of the unit.

Respectfully submitted,

Clarence Hinkle,
Ed H. Selecman, and
Richard C. Byrd

By:

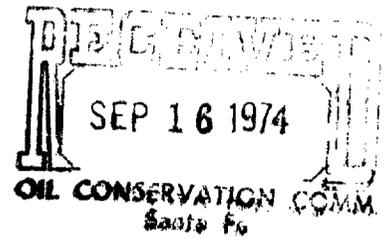


Richard C. Byrd
ANDERSON, BYRD & RICHESON
First National Bank Bldg.
Ottawa, Kansas 66067

Attorneys for Mesa Petroleum Co.

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BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION



APPLICATION OF EL PASO NATURAL GAS COMPANY FOR AN AMENDMENT OF ORDER NO. R-1670 TO PERMIT THE OPTIONAL DRILLING AND PRODUCTION OF AN ADDITIONAL WELL ON PRORATION UNITS IN THE BLANCO MESAVERDE GAS POOL OF SAN JUAN, RIO ARRIBA AND SANDOVAL COUNTIES, NEW MEXICO, AND TO PROVIDE FOR THE ASSIGNMENT OF ALLOWABLES FOR SUCH ADDITIONAL WELLS AND PRORATION UNITS.

CASE NO. 5264

SUGGESTED FINDINGS OF FACT
SUBMITTED BY SOUTHERN UNION GAS COMPANY

Comes now Southern Union Gas Company, a participant in and party to this proceeding, and respectfully submits its suggested and requested Findings of Fact as follows:

1. The Commission has jurisdiction of this cause and the subject matter hereof.
2. The public has a vital interest in the conservation of natural gas and other resources in the State of New Mexico.
3. This proceeding was commenced by the application of El Paso Natural Gas Company (EPNG) to amend Order No. R-1670 to permit double drilling on existing proration units within the Blanco-Mesaverde Gas Pool and to change the allowable formula to include the deliverability of the double drilled well additive to that of the first well.
4. The basic statutes (NMSA 1953) governing the approval or disapproval of the EPNG application are: §§65-3-2, prohibiting waste; 65-3-3, defining waste; 65-3-5, concerning the Commission's powers and duties; 65-3-10, referring to this Commission's duty to prevent waste and protect correlative rights; 65-3-1-13(c), relating to the formulation of an allowable formula; 65-3-14, relating to the equitable allocation of allowable production

1 and spacing; 65-3-15(c), concerning purchases by common purchasers; and
2 65-3-29(h), defining correlative rights.

3 5. The Blanco Mesaverde Pool presently has some 2,058 producing
4 gas wells, each located on a 320-acre spacing and proration unit. The total
5 production allowable for the pool is divided among the wells under a rather
6 complex allowable formula which considers both the acreage dedicated to the
7 well and the well's pipeline deliverability. The spacing rules for this pool and
8 the allowable formula have been in effect for approximately 23 years and 20
9 years, respectively.
10

11 6. By its application, EPNG is seeking to increase deliverability
12 from the pool by the double-drilling of additional wells on existing 320-acre
13 proration units. However, rather than petitioning the Commission to change
14 the spacing for the pool from 320 acres to 160 acres, EPNG seeks an order per-
15 mitting the drilling of a second well on any 320-acre unit and amending the
16 prorating formula so that the acreage factor for the wells would not be affected
17 but the deliverability of the two wells would be additive. Normally under New
18 Mexico practice, the drilling of a second well would require the formation of
19 two non-standard 160-acre proration units, each with an acreage factor of
20 0.5 to be applied to the allowable formula which tends to reduce the allowable
21 for the well because of its shortage of acreage. A double-drilled proration
22 unit would receive a larger allowable than a proration unit the operator of which
23 would not or could not drill the additional well.
24
25

26 7. Under such a rule, there is a very real likelihood of drainage of
27 gas underlying units with one well to units with two wells. Other operators in
28 the pool, therefore, realize that if the rule is adopted, they will be obligated
29 under their leases to drill additional wells to prevent such drainage even
30 though the pool spacing rules would not require additional drilling.
31

32 8. The Commission must assume that the existing allowable formula

1 is valid until it is successfully attacked.

2 9. There has been a lack of substantial evidence presented in the
3 record of this case to support the basic findings in the language of Continental
4 Oil Co. v. Oil Conservation Com'n., 70 N.M. 310, 373 P.2d 809, or their
5 equivalents, which findings or their equivalents are necessary to and upon
6 which jurisdiction of this Commission to approve the EPNG application depends.
7

8 10. The existing allowable formula currently adequately prevents
9 waste and protects correlative rights. Waste would not be more prevented nor
10 would correlative rights be better protected under the proposed new formula,
11 at the current time.

12 11. At this stage of field and office study of the relationship between
13 double drilling in the pool and any increased reserves in the pool, there is no
14 substantial evidence that approval of the EPNG application will substantially
15 increase recoverable reserves in the Blanco Mesaverde Gas Pool. The results
16 of existing studies are speculative and conjectural.
17

18 12. Approval of EPNG's application would result in the production
19 of natural gas from the Blanco Mesaverde Gas Pool in excess of the demand for
20 natural gas for reasonable current requirements, for current consumption and
21 for use within or outside the state, together with the demand for such amounts
22 as are necessary for building up or maintaining reasonable storage reserves.
23

24 13. Approval of the EPNG proposal would not provide for the
25 allocation of the allowable production among gas wells in the Blanco Mesaverde
26 Gas Pool delivering to a gas transportation facility upon a reasonable basis and
27 recognizing correlative rights throughout the pool.
28

29 14. Approval of EPNG's application would not, insofar as is prac-
30 tible, prevent drainage between producing tracts in the Blanco Mesaverde Gas
31 Pool which is not equalized by counter-drainage.
32

1 15. The Commission must assume that the existing spacing is valid
2 until it is successfully attacked.

3 16. At this stage of field and office investigation of the drainage of
4 gas wells in the pool, there is no substantial evidence that the existing prora-
5 tion units in the Blanco Mesaverde Gas Pool containing one gas well do not
6 efficiently and economically drain and develop the area within such existing
7 proration units. The results of existing studies are speculative and conjectural.
8

9 17. There is no substantial evidence that consideration of the eco-
10 nomic loss caused by the drilling of unnecessary wells, the protection of
11 correlative rights, including those of royalty owners, the prevention of waste,
12 the avoidance of the augmentation of risks arising from drilling of an excessive
13 number of wells and the prevention of reduced recovery which might result
14 from the drilling of too few wells, supports the proposed change in spacing, at
15 the current time.
16

17 18. The existing spacing currently adequately prevents waste and
18 protects correlative rights. Waste would not be more prevented nor would
19 correlative rights be better protected under EPNG's proposed new spacing, at
20 the current time.
21

22 19. EPNG, as producer and purchaser, is in a markedly different
23 and more favorable position than other producers in the pool, in relation to
24 economically justifying double-drilling now, in terms of having pipe and other
25 drilling and completion materials and services available now and in terms of the
26 siting of acreage within the pool currently owned or controlled.

27 20. Due to current shortages in drilling and completion goods,
28 equipment and services, the differential pricing to different producers and
29 ambiguity over the applicability of the new uniform national rate for sales of
30 natural gas to interstate commerce to the double-drilled well and/or total or
31 proportion of the gas produced from the double-drilled proration unit, not all
32

1 owners of property in the Blanco Mesaverde Gas Pool would have practical
2 opportunity to produce without waste his just and equitable share of the gas in
3 the pool, if the EPNG application were approved at the present time.

4 21. Funds available to operators required to double drill, and also
5 tubular good allocations, would have to be diverted from other exploratory and
6 developmental programs. It is in the public interest to encourage the explor-
7 ation for and development of new reserves of natural gas outside of already
8 defined pools.

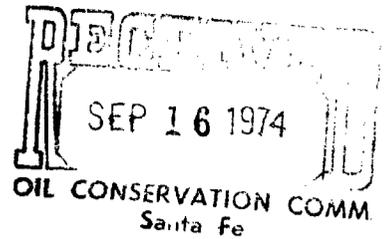
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10 22. Delay in approving the EPNG plan would more closely correlate
11 supply and reasonable market demand, both within and outside New Mexico.

12 23. Southern Union Gas Company has a vital stake and interest in
13 the outcome of this proceeding arising from separate but interdependent cir-
14 cumstances, to-wit, as a purchaser of natural gas from producers within this
15 and other San Juan Basin pools; as an owner of gas transportation facilities
16 serving gas wells therein; and as a public utility in New Mexico seeking to
17 furnish New Mexico consumers with adequate, efficient and reasonable gas
18 service at just and reasonable rates. Gas from this and other San Juan Basin
19 pools purchased by Southern Union Gas Company is the exclusive source of
20 supply for approximately 500,000 New Mexicans in Albuquerque, Santa Fe and
21 other areas of Southern Union Gas Company's Northwestern and Albuquerque
22 service divisions. This is no current market demand for these New Mexico
23 consumers for the additional gas to be produced under the EPNG application.
24 The New Mexico Public Service Commission, charged by law with the super-
25 vision and regulation of public utilities' gas service, shares the concerns
26 expressed by Southern Union Gas Company.

27
28 24. If substantial additional reserves could be developed by double-
29 drilling in this pool, such would be accomplished even if the approval of double-
30 drilling were to be deferred until a later date. The likelihood of double-drilling
31
32

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. 5264

Application of El Paso Natural
Gas Company for amendment of
Order No. R-1670 to permit the
optional drilling and production
of an additional well on prora-
tion units in the Blanco-Mesaverde
Gas Pool of San Juan, Rio Arriba and
Sandoval counties, New Mexico, and
to provide for the assignment of
allowables for such additional wells
and proration units.

REQUESTED FINDINGS TENDERED BY SOUTHERN UNION
PRODUCTION COMPANY, UNION OIL COMPANY OF CAL-
IFORNIA, AMERADA-HESS CORPORATION, SUN OIL COM-
PANY, ~~GLENN OIL COMPANY~~ *dwk*

(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 Section 65-3-10, New Mexico Statutes Annotated,
1953 Compilation, empowers and gives the duty to the Commission
to prevent the waste of hydrocarbons and to protect the correla-
tive rights of owners of interests in said hydrocarbons.

(3) That Section 65-3-5, New Mexico Statutes Annotated,
1953 Compilation, gives the Commission jurisdiction and authority
over all matters relating to the conservation of oil and gas.

(4) That "waste" and "correlative rights" are defined by
Sections 65-3-3 and 65-3-29, respectively, New Mexico Statutes
Annotated, 1953 Compilation.

(5) That the Blanco-Mesaverde Gas Pool was created by Commission Order No. 799 dated February 25, 1949.

(6) That said Order No. 799 established 320 acre spacing units in the Blanco-Mesaverde Gas Pool and said 320 acre spacing has been in effect since February 25, 1949.

(7) That Commission Order No. R-128-C dated December 16, 1954, provided for prorationing of the Blanco-Mesaverde Gas Pool on a proration formula identical to the formula presently used in said pool and said proration formula has been in effect since December 16, 1954.

(8) That said Order No. R-128-C finds that 320 acre proration units and the proration formula therein adopted prevent waste and protect correlative rights of the owners in the Pool.

(9) That the Applicant proposes to amend Order No. R-1670 to authorize the drilling of a second well on an existing proration unit without notice and hearing, with a provision that in calculating the allowable for a proration unit containing two wells, the deliverability of both wells would be combined in determining the unit's "AD Factor", and the unit allowable could be produced from either or both wells.

(10) That the approval of the application would amount to a change in the proration formula for the Blanco-Mesaverde Gas Pool, and as such is directly related to the protection of correlative rights and the prevention of waste.

(11) Applicant's Exhibit No. 16 shows the average bottom hole pressure of the three widely separated strat test wells which have never been produced, to be declining at essentially the same rate as the field average pressure. The average bottomhold pressure of the three strat test wells shows an increase in pressure decline rate with increases in field production rates. This steady and consistent pressure decline clearly demonstrates that these areas are being drained by the existing wells. No reservoir information was offered by applicant to show what reserves exist within the pool, what reserves exist under each tract in the pool, or what portion of the reserves would be produced under applicant's

proposed change in the spacing rule.

(12) That the Applicant's testimony was based upon evidence utilizing only pressure-production data from present wells and not upon pressure interference or volumetric withdrawal tests conducted within the pool.

(13) That the testimony of Southern Union Production Company shows that large, contiguous areas of the pool have experienced substantial and consistent declines of original pressures as a result of production, indicating that there is communication between wells in the pool and that reasonable reserves will be recovered in said pool without the drilling of additional wells.

(14) That the testimony of Southern Union Production Company shows that it has penetrated isolated stringers in wells it has drilled and that such stringers have not produced measurable increases in gas reserves.

(15) That the approval of the application would result in the drilling of additional wells in the better portion of the pool. Such additional drilling would require the drilling of offset wells that in many cases would be uneconomical, resulting in waste and impairment of correlative rights.

(16) That the evidence show that if the application is granted some owners in the Blanco-Mesaverde Gas Pool will be able to drill infill wells in the immediate future and others will not, due to shortages in drill pipe, casing, rigs and other necessary material supplies thereby resulting in uncompensated drainage and the consequent abuse of correlative rights.

Respectfully submitted,

GAMPBELL AND BINGAMAN, P.A.

By  Jack M. Campbell

Attorneys for Southern Union Production
P.O. Box 2208
Santa Fe, New Mexico 87501

KELLAHIN AND FOX

By Jason W. Kellahin
Jason Kellahin

Attorneys for Union Oil Co. of
California, Amerada-Hess Corpor-
ation, Sun Oil Co., ~~Clintco Oil Co.~~ JWC
P.O. Box 1769
Santa Fe, New Mexico 87501

REQUESTED FINDINGS TENDERED BY: SOUTHERN UNION
PRODUCTION COMPANY, UNION OIL COMPANY OF CALIFORNIA,
AMERADA-HESS CORPORATION, SUN OIL COMPANY, ~~CLINTCO~~ JWC
~~OIL COMPANY.~~