El Paso Gas Request Awaits OCC

By DAVE STEINBERG
Of the Journal's
Santa Fe Bureau

SANTA FE — The New Mexico Oil Conservation Commission has under advisement a simple request with far-reaching implications for the natural gas industry and consumer.

It is a request by the El Paso Natural Gas Co. for an amendment to the drilling rules in the Blanco Mesaverde Pool that would permit all operators there to drill a second well on 320-acre spacing at their option.

THE POOL, located in parts of Rio Arriba and San Juan Counties, is and should continue to be one of the most prolific gas fields in the world, according to OCC and industry estimates.

El Paso has calculated that through 1973, 3.7 trillion cubic feet of gas have been produced in the pool, leaving another five trillion cubic feet to be trapped.

El Paso also has estimated that new wells would bring up 6.3 trillion cubic feet of gas which old wells have failed to reach.

By comparison, about one trillion cubic feet of gas is produced annually in the state, most for shipment out-of-state.

There are 2054 gas wells in the field, according to OCC figures. Of that number, 1425 are operated by El Paso, plus others which El Paso has under contract for the produced gas to flow into El Paso-owned pipelines.

THE LARGEST percentage of El Paso's gas customers are in California and Arizona.

"The additional gas supply, in terms of reserves and deliverability, which would become available as the result of approval of this application is of critical importance in order that El Paso can more nearly fulfill the market demand for gas throughout its system," El Paso's application for an amendment reads in part.

Though El Paso raised the issue of market demand, the OCC is limited by statute to consider only the issues of prevention of waste and the protection of correlative rights, that is, the rights of leaseholders to produce their fair share of gas.

Both of these issues are intimately involved in this case.

There also is the geology of the pool, or wellfield. It is considered a tight formation of sandstone. That means it yields gas very slowly as a rule. It is estimated that some of the wells would take as long as 198 years to produce all of their gas reserves.

THIS GEOLOGICAL condition, however, is not uniform throughout the field. At the heart of the field, the sandstone is looser, more porous, and therefore the gas can flow faster to the surface.

El Paso controls and operates a number of wells in and around the heart of the pool.

Amoco Production Co., Northwest Pipeline Co. [illegible] eral independent gas producers, including Bob Wynn of Santa Fe, supported El Paso's application during a recent two-day OCC hearing on El Paso's request for the amendment.

NORTHWEST Pipeline has a line from the pool that serves customers in the pacific northwest. Southern Union Gas Co., which has the third pipeline into the pool, has most of its natural gas customers within the state of New Mexico.

Southern Union, Atlantic Richfield Co., Union Oil Co. of California and Amerada Hess Oil Co. were among the gas suppliers who opposed El Paso's application.

A number of companies operating wells in other parts of the field are also in opposition. They include Tenneco Oil Co., Marathon Oil Co., Southern Union Production Co., a subsidiary of Southern Union Gas, Aztec Oil and Gas Corp. and Mesa Petroleum Corp., which recently acquired Pubco Petroleum Corp.

TENNECO OIL CO. filed a letter into the record stating the major objections to the amendment request:

— That El Paso, as a public utility and therefore unlike other operators, can increase profits by increasing investment and could drill more wells profitably in locations where a nonutility producer could not.

— This increased production by El Paso would likely mean a drainage or migration of gas from neighboring wells to El Paso's wells.

Tenneco and Southern Union also argued that this situation would then force other producers to begin intensive drilling to prevent the migration.

In turn, the en masse intensive drilling would increase the supply of natural gas sooner than anticipated.

THE GAS could only be fed into the three pipelines, however, Southern Union contends it has sufficient gas this winter for its New Mexico customers.

But under its contracts with independent producers, Southern Union would be obligated to buy the excess gas. Consequently, the excess would be sold to El Paso and Northwest for their respective out-of-state consumers, so the prevailing logic of opponents goes.

The increased production, Southern Union alleges, would more quickly deplete the whole pool, making it more difficult for it to insure a longterm supply of natural gas to in-state customers.

The OCC, in keeping with its statutory limitation, struck from the record the testimony on market demand.

Even if stepped up production were contemplated, opponents contend that the critical shortage of drilling rigs and the difficulty of obtaining tubular steel pipe for the wells would keep them from drilling space.

YET EL PASO has said it contemplates a program of 200 new wells being drilled a year.

El Paso maintains that the new drilling would recover extra gas that ordinarily would not be recovered and that more gas would be made available in the long run.

The Mesaverde Pool first produced gas in 1928. The current OCC rules governing drilling there have been in effect since 1948.

Tied in to the problem is the question of what the ultimate price of gas will be as set by the Federal Power Commission, as well as under what category — "old" or "new" — the gas the proposed drilling will reach.