STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

30 March 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Read & Stevens, Inc. for termination of gas prorationing cancellation of overproduction and emergency relief from shut-in requirements, Buffalo Valley-Pennsylvaian Gas Pool, Chaves County, New Mexico. CASE 9346

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: Charles E. Roybal
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: James G. Bruce
Attorney at Law
HINKLE LAW FIRM
P. O. Box 2068
Santa Fe, New Mexico 87504

For El Paso Natural Gas: John F. Nance
Senior Attorney
El Paso Natural Gas Company
P. O. Box 1492
El Paso, Texas 79978

A P P E A R A N C E S

For Mewbourne Oil: W. Thomas Kellahin
Attorney at Law
KELLAHIN, KELLAHIN & AUBREY
P. O. Box 2265
Santa Fe, New Mexico 87501

I N D E X

E X H I B I T S

MR. STOGNER: Call next Case Number 9346.

MR. ROYBAL: App;lication of Read & Stevens, Inc. for termination of gas prorationing, cancellation of over-production and emergency relief from shut-in requirements Buffalo Valley-Pennsylvanian Gas Pool, Chaves County, New Mexico.

MR. STOGNER: There should be a comma between gas prorationing and cancellation.

Call for appearances in this matter.

MR. BRUCE: Mr. Examiner, my name is Jim Bruce from the Hinkle Law Firm in Santa Fe, representing the applicant in this case.

MR. STOGNER: Are there any other appearances?

MR. NANCE: Mr. Examiner, my name is John Nance. I'm representing El Paso Natural Gas Company.

MR. STOGNER: Are you going to have any witnesses, Mr. Nance?

MR. NANCE: El Paso does not plan to have a witness. No, sir.

MR. STOGNER: Okay. Are there

any other appearances?

MR. WEBER: Mr. Examiner, I'm Bill Weber, representing TransWestern Pipeline Company. I have no witnesses.

MR. STOGNER: What is your capacity with TransWestern, Mr. Weber?

MR. WEBER: I am a Senior Gas Supply Representative.

MR. STOGNER: Are there any other appearances?

MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin from the Santa Fe law firm of Kellahin, Kellahin & Aubrey. I"m appearing on behalf of Mewbourne Oil Company. M-E-W-B-O-U-R-N-E.

MR. STOGNER: Oil Company?

MR. KELLAHIN: Yes, sir.

MR. STOGNER: Are you going to have any witnesses, Mr. Kellahin?

MR. KELLAHIN: Not for today's hearing. When it's appropriate, I have a preliminary matter to raise with you on the notices.

MR. STOGNER: Okay, Mr. Kellahin.

Are there any other appearances at this time?

You may continue, Mr. Bruce.

MR. BRUCE: I'll defer to Mr. Kellahin.

MR. STOGNER: Mr. Kellahin,

MR. KELLAHIN: Mr. Examiner, my client called me yesterday and I was informed that the notice letter that they received for purposes of this hearing was a letter sent out by Read & Stevens on March 23rd of this year.

Mewbourne Oil Company is an interest owner in one of the wells in the Buffalo Valley Pool and is interested in this case.

The information I have is that the March 23rd letter is the only letter that they have received. They received that last Thursday on the 24t.

As you know, the notice rules require under 1207, Subsection B, that notice be sent at least 20 days prior to the hearing.

I've advised Mr. Bruce of my concern yesterday over the notice issue and my client has directed me to request the Commission that the case be continued until the April 13th hearing at which time we will have had sufficient opportunity to review the application and prepare a presentation for the Examiner.

We are not prepared to go for-

ward today because of the notice issue. We simply have not had enough time to review the application and (unclear) to make a presentation.

MR. STOGNER: And this notice, you said it was dated the --

MR. KELLAHIN: The 23rd.

MR. STOGNER: And when did you receive it?

MR. KELLAHIN: The next day, on the 24th, which is last Thursday.

There may have been other notices sent. If so, I am unaware of them and perhaps Mr. Bruce can tell us, but that's all.

MR. STOGNER: Mr. Bruce?

MR. BRUCE: Mr. Examiner, I checked with my client and I believe the March 23rd date is correct. I believe also, and Mr. Kellahin may correct me, that we do have the permission of Mewbourne to put on our witness today subject to, if necessary, reappearing on the 13th of April and continuing the case until April 13th to receive additonal comments or whatever (unclear).

MR. KELLAHIN: I certainly have no objection to that, Mr. Examiner. I don't want to put Mr. Read to any disadvantage by making part of his presentation today and then having to come back in two weeks and be sub-

ject to cross examination at that point, but if applicant desires to go forward today, I'm certainly willing to sit here and listen to his presentation, and I would have no objection to (unclear).

MR. STOGNER: Mr. Bruce, when were you aware of this discrepancy?

MR. BRUCE: Yesterday at about 2:00 o'clock.

MR. STOGNER: Mr. Kellahin, why didn't Mewbourne start action on this a little bit sooner?

MR. KELLAHIN: I don't know. They routed it to their engineers. I was called yesterday at 2:00. I inquired as to what had occurred. They said they got their notice last Thursday and were looking at it, called me on Tuesday, and I called Mr. Bruce within five minutes, advised him of my concern so that he would have an opportunity to notify his client before he left Roswell of the fact that it appears that we're going to have to have some more time, and go on from there.

MR. STOGNER: And, Mr. Bruce, what do you propose today?

MR. BRUCE: I would like to put on my witness, my sole witness.

MR. STOGNER: And continue the case until the 13th of April --

MR. BRUCE: Yes, sir.

MR. STOGNER: -- at which time will you present more testimony or --

MR. BRUCE: We do not have plans to present any more testimony, no. We would just like to keep it open to -- to allow Mewbourne a chance.

MR. STOGNER: And, Mr. Kellahin, you would present evidence at that time.

MR. KELLAHIN: Yes, sir.

MR. STOGNER: And call a witness.

MR. KELLAHIN: That's my plan.

MR. STOGNER: Mr. Bruce, do you know of any other discrepancies in the notification process other than Mr. -- other than Mewbourne?

MR. BRUCE: I am not certain. I believe my -- my client can testify as to that. Also I believe he contacted the other interest owners by phone, or other operators by phone, by the phone and they received both written and oral notice of the hearing, and everybody else has indicated they have no objection to this case.

MR. STOGNER: Have you got waivers to that extent? Or is this just by telephone conversation?

MR. BRUCE: By phone conversa-

tion.

MR. READ: Telephone conversation.

MR. STOGNER: Okay. Why don't we go ahead and -- and continue with the examination of the witness today and we may have -- that may shed some light on the situation on that and we'll have to act on that.

MR. KELLAHIN: Let me ask a question so that I can save us some time today, if I may.

MR. STOGNER: Okay.

MR. KELLAHIN: Whether Mr. Read is -- it won't be too great an inconvenience to see if he'll e available for us on the April 13th hearing date. If he cannot be, then I will attempt in my own feeble way to ask him the questions that concern me, but if he can come back in two weeks, then perhaps my own client can answer my questions rather than trying to examine Mr. Read.

MR. STOGNER: Mr. Bruce?

MR. READ: I would prefer to put on my testimony today if it's convenient; just save me an extra trip up here from Roswell; that's the only concern I have right now. But if it's necessary I'll make a special trip back.

MR. KELLAHIN: It would be my preference to have Mr. Read return on the 13th or I'll

advise Mr. Bruce just as soon as I can of whether it's necessary for Mr. Read to return or not. I'll try not to impose an inconvenience on him but I'm really at a disadvantage because know what my client proposes to do with regards to the application.

MR. STOGNER: And, Mr. Bruce, I assume you understand the situation here and will act accordingly, so (unclear) with Mr. Kellahin --

MR. BRUCE: Yes, sir.

MR. STOGNER: -- and I think after we hear some of the testimony you all can settle that at that time.

Shall we continue?

MR. BRUCE: Sure.

MR. STOGNER: Okay, Mr. Bruce?

CHARLES B. READ,

being called as a witness, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. BRUCE:

Q Will you please state your full name and city of residence, please?

A Charles B. Read, Roswell, New Mexico.

Q And what is your occupation and who is

your employer, Mr. Read?

A I'm President of Read & Stevens Oil Company.

Q And have you previously testified before the OCD?

A Yes, I have.

Q And are you familiar with operations in the Buffalo Valley-Pennsylvanian Gas Pool?

A Yes, sir.

Q And your previous testimony was as an engineer, I believe.

A That's correct.

MR. BRUCE: Mr. Examiner, are the witness' credentials acceptable?

MR. STOGNER: Before I answer that question, let's swear him in at this time.

MR. BRUCE: Uh-huh.

MR. STOGNER: Are there any other witnesses?

Please stand.

(Mr. Read sworn upon his oath.)

MR. STOGNER: Let the record show that I'll accept your witness' qualifications.

MR. BRUCE: And can we grandfather in the first four or five questions?

MR. STOGNER: We shall, if there are no objections.

If there are no objections we shall grandfather the last four or five questions.

CHARLES B. READ,

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION CONTINUED

BY MR. BRUCE:

Q Mr. Read, briefly what does Read & Stevens, Incorporated seek in this case?

A Our company proposes to seek termination of prorationing in the Buffalo Valley-Pennsylvanian Gas Pool and cancellation of overproduction for wells in the pool.

Q Would you please sumamrize the reasons Read & Stevens seeks to terminate prorationing?

A Read & Stevens believes that prorationing is no loner needed because the findings upon which prorationing was ordered for this pool are no -- no longer exist.

First there is a demand for gas which Read & Stevens cannot meet under current prorationing rules.

Second, the geology of the field as developed over the past twenty years shows that prorationing is not necessary to protect correlative rights.

Third, there have been substantial changes in gas purchasing and marketing practices over the past two to three years, which make the assignment of allowables inequitable.

Finally, prorationing leads to economic hardship on operators who are willing to sell gas at market prices by limiting income causing higher operating costs and causing longer payout periods for wells drilled in the field.

Deliverability of wells varies and needs -- we need good gas wells to pay for the low quality, poor deliverability wells.

Q Would you please refer to Exhibit Number One and describe it briefly?

A Exhibit Number One shows the Buffalo Valley Field in blue triangles and immediately south of that field is the Diamond Mound Field, which is shown by hexagonal colored yellow.

Q And is the Diamond Mound an Atoka Morrow Gas Field?

A That is correct.

Q And is it prorated or un-prorated?

A It is not prorated.

Q Would you please move on to Exhibit Number Two and briefly discuss it?

A Exhibit Number Two outlines the Buffalo Valley Field and the acreage which is operated by Read & Stevens has been shown in yellow, and other acreage in which Read & Stevens has an interest with our investor group is shown in blue. We are the non-operator in acreage shown in blue. We are the operator on acreage shown in yellow.

Q Describe Read & Stevens experience in this pool.

A Read and Stevens drilled the second well in this pool some 22 years ago and since that period of time we presently operate 18 wells in the field and we represent a group of our investors who have participated over many years in development of the entire field. There are approximately 30 wells in the field at the present time and we have an interest in 8 other wells as a non-operator, but we do operate 18 of the 30 wells.

Q So you have an interest or -- or operate wells or represent your interest group in approximately 24 or 25 of the wells in the pool.

A It's 26 wells and there are 4 wells in the field that we do not have an interest in or are not represented.

Q Could you please discuss the production from the Buffalo Valley Pool, well, over the past year or so?

A The production from the Buffalo Valley Field is predominately gas with condensate associated with the production, and we have -- it's producing from the Atoka Morrow formation, which is Lower Pennsylvanian in age. There are differences of geological opinion as to what is classified as Atoka and what is Morrow, but basically we call it the Atoka-Morrow porosity that is producing throughout the field. It is a land channel depositional area of which the channel porosities vary from 1 to 5 different porosities throughout the field and it does not necessarily all porosities or all sand depositions do not underlie every well in the field. You might drill one well and you'll have a producing porosity from the channel sand and the offset well may have 4 or 5 sand lenses in it that would be productive.

So it is indeterminate where the gas production will come from from well to well. It is primarily a porosity and permeability condition. There is no water associated with the production. It is dry gas with high BTU, BTU of roughly 1125 BTU, and a small amount of condensate with the production.

Q So, in essence, you could drill a very

good well in one unit and in an offsetting unit drill a dry hole or a very poor producer.

A We've drilled several dry holes in the area and we've drilled several marginal wells, and we've also drilled some good wells, so we have found the productive horizon and also we have found the nonproductive limits of the field in certain areas.

Q Are all wells currently in the field connected to a pipeline?

A All of our wells are connected to a pipeline, yes, and it is my presumption the other wells by other operators are also connected.

Q With respect to -- well, in the pool how many wells would you consider high capacity or good producing wells?

A In the wells that are owned by Read & Stevens that we operate and we consider a high capacity well a well capable of producing 400 MCF per day or more, we have 7 of those wells that reach that capability.

We have 11 wells that have deliverabilities of less than 400 MCF per day.

Q And how many wells operated by other parties would you consider high capacity?

A I really haven't made that study. Probably of the 18 wells I would say you can maybe assume 50

percent; usually that's a reasonable assumption.

Of the other 12 wells in all probability you might expect 6 of them to be high capacity wells and 6 of them to be low capacity wells.

Q Are any of Read & Stevens high capacity wells shut-in?

A Well, we have experienced shut-in on numerous occasions over the past year and we were shut-in on three occasions during the month of January and February becaue of pipeline curtailment, primarily.

We have other wells right now that are awaiting a sale of gas that are shut-in by pipeline purchasers.

Q You previously just went over briefly some of the geology of the Buffalo Valley Pool. I would refer you to Exhibit Number Three, the cross section on the wall. Would you discuss that in more detail, please?

A The cross section on the right is a cross section from north to south across the main channel development in the field of the Atoka-Morrow sand, starting at the north, which is a dry hole that was drilled by Cities Service several years ago, and progressing south of their 5 wells which are centered right through the center of the field and, as you will see, the second -- the second log up there, we have one sand porosity that is producing.

The next well you have three productive sands.

The next well there are four sands productive, and then on the south edge of the field you have roughly four more sands, all of which the thickness of the sands vary from well to well. The porosity and permeability conditions vary and the -- of course, which would affect the reserves associated with each one of those boreholes.

Q Are the sands discontinuous in nature?

A Yes, they are. They are discontinuous from one well to the -- to the next.

Q Would you please now move on to Exhibit Four, the cross section of the Diamond Mound Pool, and discuss that briefly?

A The Diamond Mound Pool is a cross section of the nonprorated field to the south, which produces from virtually the same formation as the Buffalo Valley Field. It's all Atoka-Morrow in age, and proceeding from west to east across the field you'll see that in the first well there are five sands productive; the next well, two sands; I can't see the other one but the next well there's one sand; and then another well with two sands being productive. And that cross section extends east to west across the Diamond Mound Field, and it's representative of production in that particular area.

Q Because of the discontinuities in the porosity, would you consider it unlikely that a -- that -- if one well is producing and a well in the next unit is shut-in or not producing, that it would have its correlative rights adversely affected?

A I don't think that the correlative rights would be adversely affected because the field has pretty well reached a stabilization of deliverability, and the low deliverability wells are producing in most cases when there are pipeline purchasers available at maximum capacity and the good wells, which have deliverability in excess of 400,000 per day, are also producing at maximum capacity.

So most wells in the field have the opportunity to produce at maximum deliverability providing there is a market for the gas.

Q In your opinion will continuation of prorationing cause hardship to interest owners in the pool?

A Yes. I think prorationing will continue to create hardship because we, as operators, have to sell our gas when pipeline conditions make demand for gas; that is especially true during winter months and we have a high demand for gas in the winter months, a low demand for gas in the summer months, and we have wells that we had drilled in the field that have never paid out, are marginal wells that have extremely long periods of pay out, and then we have

some good wells that we need to produce the good wells at maximum capacity to receive their return on our investment and to pay for the dry holes we've drilled; to pay for the marginal wells, and also to pay for those wells that are shut-in that do not have pipeline -- are shut-in because of curtailment of the pipeline purchaser.

Q Which pipelines serve this field?

A There are three pipelines in the field at the present time, Phillips Petroleum Company, El Paso Natural Gas, and Transwestern.

Q And who are the other operators in the pool?

A We have -- Belnorth has one well. BHP has two wells. DEPCO owns four wells. Mewbourne Oil Company has one well. And Mountain States Petroleum has four wells and Yates Petroleum, two wells.

Q Mr. Read, would you briefly describe changes in gas marketing over the last, say, two or three years, which have affected Read & Stevens?

A Well, we have experienced fluctuating prices. There has been no stability in gas pricing in the area. Prices have fluctuated from one time we were selling gas, approximately three years ago, in the range of $3.25 an MCF, and last summer we sold gas for as low as $1.25 an MCF.

We have experienced severe shut-in per-

iods. We've sold gas in many cases 1 or 2 days a month because there was no pipeline purchaser that was interested in purchasing our gas.

We have other wells that we've had on production for -- and we used to sell gas for 4 or 5 days a month and then shut them in for 25 days a months.

During the month of December, January and February and March we have virtually been operating at full capacity and full deliverability because the demand for gas has been very firm and we have been able to sell 100 percent of our deliverability approximately 30 days out of each month.

Prices have varied over the past year from $1.25 in the summer to as high as $2.05 during the month of February.

Q How does Read & Stevens market its gas currently? How do you market your gas currently?

A We, of course, are trying to market our gas under a contract that we have executed many old contracts that were executed many years ago. We have also been selling -- we have gotten releases on a month to month basis to sell gas on the spot market and at the present time we have 6 to 7 gas purchasing marketing companies that have been interested in buying our gas on a 30-day basis on a -- at spot market prices, and in order to market that gas we

get 30-day releases from our contract purchasers and have been marketing on a 30-day basis.

In some cases we have gotten releases and terminated our old contracts. We have cancelled the old contracts and we have renegotiated new contracts with other purchasers for a one year period.

The gas is based on a market clearing price on a month to month basis of which either the operator or the pipeline purchaser can cancel the contract on 30 days notice.

Q Previously you said that many of your wells in the past produced only a day or two a month because people were not interested in purchasing gas from those wells.

Did you mean that they were not interested in purchasing at $3.00 per MCF?

A Well, in some cases we had gas contracts that were as high as $2.55 and in the $3.00 range, that they elected not to purchase gas under contract and then in other areas we had agreed to sell gas at negotiated prices that were not acceptable to the pipeline purchaser and so we sold to third party marketing companies, and then there were many other cases where we had no market for our gas and we had to shut the wells in and numerous occasions we were shut-in for sometimes 29 and 30 days a month. On other occasions we

were shut-in for 25 days a month with no sales being made of our products.

Q In your opinion, do current allowables on your wells take into account the varying month to month market conditions?

A No, the marketing demand fluctuates from month to month and the current allowables are not designed to meet market demand and consequently, we have months of 4 or 5 month shut-in period, where we don't have any allowable whatsoever, and then we get a demand to buy our gas and we never know what the price of that gas is going to be from -- except for 30 days in advance, and we negotiate our sales usually around the 25th day of the month for sale on -- beginning the following -- first day of the following month, and we usually make the best sale of that gas at the best price that is available to us at that time.

Q Under your current prorated allowables can Read & Stevens sell its gas on the spot market?

A Well, in many cases we have overproduced and it was necessary to meet market demands and the allowables were not sufficient for us to sell on the spot market, and we had periods of overproduction that the allowables were not sufficient to meet the deliverability capabilities of the well and they were not sufficient for us to meet the market demands for our gas.

Q If the prorationing is terminated in the field would you ask that all overproduction on your wells be cancelled?

A Yes, I would. We produce gas under emergency conditions both for the benefit of the pipeline purchaser and for the benefit of Read & Stevens, because we had had substantial periods of shut-in and curtailment and then during the winter months, when the demand was high and the prices were favorable, why, we elected to -- to sell our gas and we resulted in a period of overproduction in excess of our allowable.

Q Do you have anything further you would like to state in this matter?

A Not really. I could only comment that from Read & Stevens standpoint prorationing does not serve to the best interest of the operators in the field and we have talked to other operators who have indicated that they were not satisfied with prorationing and actually I don't see any purpose right now in continuing an order that is 19 years old. The order was requested by Cities Service Oil Company and they only had one well in the field and that well was plugged and abandoned approximately 8 years ago.

We have made no request during the 19 years of prorationing to continue prorationing. I think perhaps at one time when the field was prorated, there were

only 6 wells in the field and at that time it was uncertain of what the deliverabilty capabilities would be. It were -- there were a lot of uncertainties at that time as to price of gas and the market conditions, and, of course, nobody at that time knew how big the field was going to be, but we think that the field has now developed to where it has reasonably explored most of the limits. There will be other wells drilled, I'm sure, in the field as time as goes on, depending upon the price of gas and the demand for gas on a month to month basis.

But at the present time based on proration, market demand, and pricing, it's really not economical to drill wells or explore gas in the Buffalo Valley Field.

Q In your opinion will the granting of this application be in the interest of conservation, the prevention of waste, and the protection of correlative rights?

A Yes, I think that it will be beneficial to all operators. I think it will be beneficial to the correlative rights of all owners in the field. And certainly it will give the operators an opportunity to develop more wells if they are justified and to market their gas at a fair market value and protect their investment.

Q Were Exhibits One through Four prepared by you or under your direction?

A That is correct.

MR. BRUCE: Mr. Examiner, I would move the admission of Exhibits One through Four.

MR. STOGNER: Exhibits One through Four will be admitted into evidence.

MR. BRUCE: Mr. Examiner, one issue regarding the notice.

We did submit as Exhibit Number Five the notification letter sent out to certain of the interest owners on March 3rd as I did check my client's records and there were three parties to whom notice was not sent out until March 23rd.

MR. STOGNER: Who are those parties?

MR. BRUCE: These are Mewbourne Oil Company, Belnorth and Mountain States Petroleum. Since this matter is being kept open to April 13th, I will write and so notify those parties of their right to protest, if necessary.

A We did contact Mountain States and they said they had no objection to our application.

We contacted them by telephone.

MR. STOGNER: Was whoever you talked to with Mountain States, were they going to write a letter to that effect?

A They said they would but I don't have

that letter today.

MR. STOGNER: When did you call them?

A Well, I didn't call them myself but within the last week, I would say; since about the 23rd we started polling the operators.

MR. STOGNER: Who called them?

A My landman, Mr. Randall Fort.

MR. STOGNER: Is he here today?

A No, he isn't.

MR. STOGNER: Okay. I suggest you try to get something in writing from Mountain States, if you would.

MR. BRUCE: I will submit copies of the certified return receipts after the hearing, Mr. Examiner, if that's okay.

MR. STOGNER: Yes, we'll make that part of the record and would appreciate it.

Do you have any further questions? I'm sorry, do you have any further questions of Mr. Read?

MR. BRUCE: Not at this time, Mr. Examiner.

MR. STOGNER: Mr. Nance, do you

have any questions of this witness?

MR. NANCE: Yes, I do, Mr. Examiner.

CROSS EXAMINATION

BY MR. NANCE:

Q Mr. Read, can you hear me from here or do I need to get up to the table?

A That's okay, go ahead.

Q All right. Mr. Read, what is your opinion of the general purpose of prorationing in a gas pool?

A Well, I would say the purpose of it is to give every operator the opportunity to produce his fair share of the gas under his proration unit, or an equitable portion of the gas allocated to the field.

Q Is it your opinion that the allowables that have been assigned in the pool have been something other than the market demand for gas in the field?

A Yes. I think that the -- what we have been given, allowables in the field with no relation to market demand. We have had allowables that were insufficient for us to sell gas based on market demand.

We have had other occasions, too, when allowables were granted when the pipeline purchasers would not buy gas.

Q Do you feel that there are opertors in the field who are receiving allowables that are in excess of the gas that they can produce or that they have a demand for?

A I really don't think so. There are some wells that are overproduced and some wells that are underproduced. It's about 50/50. Some allowables (sic) that have very marginal capabilities are given very, very low allowables and there are other stronger wells that have capabilities of producing larger quantities of gas at which the allowable is not sufficient to allocate the good wells to produce at their maximum, most efficient rate.

Q Are the allowables in the pool based upon to any extent the deliverability of the wells or are they strictly a function of the acreage (unclear)?

A Well, I don't think they're based on deliverability because they certainly don't agree with our deliverability potential of the wells and there is a proration scheduling that I think is highly inequitable at the present time and does not take into consideration many things that are important to the operator to recover his exploration costs.

You have a very similar situation, which I have just mentioned, the field to the south, the Diamond Mound Field, which has about, I'd say, thirty wells in it,

and producing from virtually the same environment, the same Lower Pennsylvanian formation, the Atoka-Morrow, and the wells have very, very similar porosity, permeability conditions. The pipeline systems buy gas from both field. They buy gas from the Buffalo Valley Field and they buy gas from the Diamond Mound Field, and the Diamond Mound Field is a nonprorated field primarily because the operators never asked for it, and I think the only reason we're being prorated now is because Cities Service requested prorationing when there were many unknowns in the field back in 1969 and -- and from Read & Stevens standpoint, we have never requested proration, prorationing in the Buffalo Valley Field. And I, I don't think it's equitable and I think it's -- the system of allocation is obsolete, outmoded, and it should be an operator's decision as to which is the best and most economical and efficient way to produce that gas, and then the operator has the same responsibility to go find a gas market for his gas when he does produce it, and if the pipelines are not available, then the operator has got to go find a marketing company and get an allocation and a tariff to move the gas through the pipeline system and sell to third party purchasers.

Q Do you recognize the possibility that if proration is terminated in the field, that operators who are not blessed with -- with wells capable of productions as

good as those of Read & Stevens, and who are, maybe, not as willing as Read & Stevens to enter into the type of sales agreements that -- that you all are currently engaged in, may have their opportunity to produce their fair share, using your words, of production in the field taken away from them? Is that -- is that a possibility?

A I don't -- anything is a possibility, but I don't think you could prove that point because you have sand lenses from well to well that may or may not be produced in the offset well, and if one well has an allowable of X cubic feet and another well has a separate allowable, that doesn't necessarily mean they're going to come from the same sand body.

And, secondly, you have -- right now you have disparity in the field because some operators may or may not elect to sell gas at spot market price and other operators by demand have elected to accept the spot market price, and so it's an economic decision, I think, to be made by the operator and shouldn't be a regulatory decision that is controlled by matters other than supply and demand.

MR. NANCE: Mr. Examiner, if I could have just a moment to confer with El Paso's expert?

(Thereupon a brief recess was taken.)

MR. STOGNER: Okay, Mr. Nance, you may continue.

MR. NANCE: Thank you, Mr. Examiner.

Q Mr. Read, you've described what in your opinion are the lens characteristics of various producing zones in the -- in the pool.

Is it your opinion that there's no pressure communication at all between wells in the pool?

A Well, that depends. In some areas there will be pressure communication; other areas there will not be, and we have drilled wells, as an example, our last two wells that we drilled had excellent pressures in them that did not -- that were not associated with field pressures of 19 years decline.

So it's -- from one well to the -- from one well to the next as to what -- whether they are communicated or not.

Q If there are wells, though, in pressure communication with each other in the pool, and one of those wells is shut-in, the other is produced, there would be drainage of the shut-in well, is that correct?

A There could be. We experience the same thing in our pipeline shut-in periods when one well will be selling gas to the pipeline and another well will not be

selling gas, offset wells, and you have, of course, in that particular case, one well being produced and the offset well being shut-in because of pipeline curtailment.

Q Do you feel that what you're proposing would better address the situation of, shall we say, imbalances in the production among the wells than the existing proration system that would allocate overproduction to those wells which do produce in excess of their allowable and underproduction giving other wells an opportunity ultimtely to produce reserves that they should be entitled to produce?

A Well, most wells are producing at their -- when they are on production, are producing at their maximum capability, but everybody in the field and especially the operators who have developed the field, you don't try to -- some wells may have a 5-year payout, some may have a 7 or 8-year payout, and then there are other wells that have better deliverability, they have better reservoir conditions, and you take the good wells and mix them with the bad wells and hope that you can pay out your investment to continue a development of the field -- of the field itself.

Q Do you feel that an alternative would be to work within the existing proration system to -- to get what you consider to be more realistic allowables assigned to the better producing wells?

A I don't think you can set a set of rules

or regulations that would apply throughout the field. I think if one operator feels that he has a drainage condition, or something like that, then he could bring it to the Commission if he wanted to protest the offset owner, but I think you've got a possibility, and I couldn't prove it, but you've got two fields here that almost connect to each other and you have a situation where the Diamond Mound Field could actually may or may not, it's hard to prove; could be draining or depleting the Buffalo Valley Field. There -- it's just a channel sand development, is what it is, but I just don't think you can set up a set of rules that's going to be fair and equitable to every well in the field.

Q Now, you've indicated in your application that you feel, perhaps, the marginal wells in the field are getting a greater than equitable share of allowable and the better proucing wells are getting less than their fair share of of allowable. Is that still your opinion?

A Well, I'm not saying the marginal wells are getting more than their fair share. I think there probably - I really haven't' studied that exact point, but it's -- there is disparity throughout the field, both the large wells and mediocre wells and the marginal wells not having an allowable that is equitable to everybody.

Q Do you think perhaps even another solution would be to seek reclassification of some of the mar-

ginal wells as nonmarginal and have allowables then re-allocated on that basis?

A Well, I don't think that from the marginal wells standpoint, I can't see where that would help a lot. You still have your maximum deliverability wells in there that is where the cash flow is going to come from and that's where the operator is going to pay for his exploration program.

The small increase that you would get from the marginal wells would be very, very minimal compared to the opportunity to drill a well and produce it at the maximum, most efficient rate.

MR. NANCE: Mr. Examiner, I don't believe El Paso has any more questions at this point.

MR. STOGNER: Thank you, Mr. Nance.

Mr. Kellahin?

MR. STOGNER: Mr. Examiner.

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Read, if we might use as a display for reference this --

A Yes.

Q -- one that shows the boundary of the

Buffalo Valley Pool, I believe it's your Exhibit Number Two. Do you have a copy of that, Mr. Read?

A Well, I've got one here some place. It got away from me. Go ahead, I think I know -- yeah.

Q All right, sir. The dark black dotted outline that's overlaid with the yellow outline represents the current boundary for the Buffalo Valley Pool?

A That's correct.

Q And that is a pool that's designated by the Division as being a common source of supply for production from the Atoka and Morrow?

A That is correct.

Q On your cross section can you approximate for me what the vertical limits are for the production from the Buffalo Valley Pool?

A We are talking from the top of the Atoka, which is described here as a structural marker, to the top of the Chester, which is primarily the Mississippian formation. So you're looking in the Lower Pennsylvanian zone of production.

Q On Exhibit Number Two you have shown those spacing units outlined in blue, in which Read & Stevens has a working interest but are not the operator.

A I would say Read & Stevens and our investors. Read & Stevens, we have people that we are represent-

ing at this hearing today who are non-operators and have given us authority to testify in their behalf.

Q Spacing for the pool is 320 acres?

A That's correct.

Q In the yellow area, those are areas in which Read & Stevens is the operator?

A That's correct.

Q Are each of the blue shaded and the yellow shaded spacing units, spacing units that currently have producing wells in the pool?

A Yes.

Q When we look at the area within the pool boundary that is not colored in either color, are there any of those 320-acre spacing units that don't currently have a producing Buffalo Valley well in them?

A No. I need to -- I don't think -- let me look here.

Yes, there are where dry holes have been drilled. There, the south half of 11, which has dry hole on it and then there is not a well on the north half of 31, and a well has been plugged and abandoned on the south half of 35.

To answer your question, there are proration units that do not have producing wells.

Q Have you studied the March of '88 prora-

tion schedule for production from the Buffalo Valley Pool?

A Well, as you know, there is a moratorium on proration for the month of March that expires on March 31st.

Q I want to get you into a month of allowable production that you are familiar with, January, February, March, you pick a month, the most recent month in which you've had an opportunity to review the production from the pool and from the wells in the pool. What month are you most familiar with?

A Any month that you prefer.

Q Pick February, for exmaple.

A Okay.

Q What as the total pool allowable for the month of February, Mr. Read?

A I don't have it by total pool. I presume it's in a proration schedule. I have it by a well-by-well basis.

Q Have you made any study to determine whether or not the pool on a poolwide basis for any given month is overproduced or underproduced in terms of its allowable?

A Not by -- I haven't made that study by a pool-by-pool basis, but I have on a well-by-well basis.

Q Of the wells that are classified as non-

marginal --

A Yes, sir.

Q -- what is the volume of gas on a daily basis that is the transition in this pool between a marginal classification and a nonmarginal classification?

A It depends on what you call the definition of marginal, I guess. I -- I used a number awhile ago that we consider high deliverability and low deliverability of 400 MCF per day.

Q That was what I was wanting to ask you, is this 400 MCF a day the point at which you have a well that is classified as a nonmarginal well?

A Well, what you have to do in any kind of exploration program is develop a rate of deliverability that will give you an opportunity to return your investment over a reasonable period of time.

Q I've not made myself clear. I'm trying to determine what the transition is between marginal and nonmarginal. The marginal wells are allowed, because they cannot make the well allowable, they can produce at their capacity.

A If they have a market for the gas.

Q That's right.

A If they --

Q Assuming a market for the gas, they pro-

duce at capacity.

A That's correct.

Q And the pool allowable that is assigned for the pool, that total number, is first reduced by the total deliverabilities of the marginal wells, is that not correct?

A Well, I think that's questionable as to how the deliverability has been determined of what is marginal and what is a nonmarginal well.

Q For purposes of this pool the prorationing was established with 100 percent acreage allocation in establishing allowables, was it not?

A That's correct. It was based on an acreage basis.

Q All right. My question is to determine how much of the monthly pool allowable is being consumed by the marginal wells. Do you know?

A Oh, it could be -- I could figure it out. I can't answer it right now.

Q Well, I'm just trying to determine the extent at which you've made a study of the function of the pool in its performance in relation to the allowables and if you dont' know now, it's no reason for you to know. I'm just inquiring as to what you do know.

A Well, the -- and I repeat myself, but the

allowables and the amount of gas that are -- the amount that is produced are not necessarily based on allowables. It's based on pipeline demand. You may have an allowable, you may have a marginal well with an allowable and no pipeline connection or you're in curtailment by the pipeline purchaser.

Q Let me see if I can go about this a different way.

A Okay.

Q Of your nonmarginal wells how many of those are there?

A I would say that we have roughly 7 out of 18.

Q Okay. Read & Stevens operates about 7 nonmarginal wells out of a total number of 18 nonmarginal wells in the pool?

A I would say there are 11 nonmarginal -- no, we have 11 nonmarginal or 11 wells of marginal production and I say below 400 MCF per day out of a --

Q Well --

A -- total of 30 wells in the field. I have not figured how many of the other operators have nonmarginal wells. I'm --

Q All right.

A -- I'm just saying --

Q I'm trying to clarify --

A -- roughly 50/50. You're running into -- we've got 18 wells that we operate. There are 30 wells in the field, so probably the other 12 wells, I would imagine they're -- probably half of them are marginal wells.

Q Using your criteria of 400 MCF a day, out of the wells Read & Stevens operates you believe there are about 7 nonmarginal wells.

A I'd say marginal or less. I mean nonmarginal, I would say we -- we have 7 wells that I know are Read & Stevens that historically produce less than 400 MCF per day.

Q All right, so we have 11, then, that are nonmarginal.

A Well --

Q I'm not trying to trick you, Mr. Read --

A No, we --

Q -- I'm just trying to --

A When you say nonmarginal, that could be a high deliverability well.

Q No, sir, it's in the proration schedule.

A Okay.

Q It's the one with the letter N.

A Okay.

Q It's nonmarginal.

A Okay.

Q All right? That's what I'm --

A All right.

Q -- trying to get at.

A Okay.

Q How many of those do you have in the February schedule that are nonmarginal?

A I don't know. I haven't studied that.

Q All right. Of the nonmarginal wells that Read & Stevens operate how many of those are overproduced six times?

A Are you talking about the overproduced? That would be the nonmarginal wells, 2 wells.

Q Nonmarginal wells that are overproduced to the extent that they are more than six times overproduced.

A We had two wells and then we came up with a new formula here, a correction formula, and I really don't know for sure. Mr. Lyons corrected his figures and I don't know whether those two wells are overproduced today or not, but they were beyond the six month period.

Q Of those two wells do you recall how may times overproduced either one of those was?

A Six times.

Q More --

A More than six times.

Q And they were subject to shut-in at that time?

A Yes, that's correct.

Q Do you recall when those wells first became at least one time overproduced?

A January of 1988.

Q That would be six times overproduced in January of '88.

A Yes, sir.

Q Prior to that how long a period of time were those wells being overproduced in excess of their allowable before they hit the six times overproduced number?

A Well, I would presume six months because I don't have any records of prior to -- we had no overproduction prior to 1987 and then there became a very strong demand for spot market gas and we had an opportunity to sell gas on the spot market, which we elected to do, and we sold that gas, as much of that gas as we could sell to the pipeline purchasers, and we did exceed the allowable.

Q How many of your nonmarginal wells have the capacity to produce in excess of their allowable and not be shut-in for being six times overproduced?

A I don't think we have any. I mean I would say most of our nonmarginal wells are producing at capacity right now, at -- well, we have six wells, we have

seven wells, that are marginal wells that are overproduced at the present time, but not six times. I'm just saying they are overproduced.

Q Do you know whether or not on a poolwide basis the total deliverability capacity of all the producing wells, marginal and nonmarginal, will exceed the allowable?

A I don't -- I don't know whether they would or not. I mean, that's --

Q And you've made no --

A Here again you get back to the deliverability and there have been many wells in that Buffalo Valley Field that have been shut-in because of pipeline curtailment that have the capability of producing the gas but there is not a pipeline purchaser willing to buy the gas, except in certain months out of the year. We have a very difficult time selling gas in the summer months.

Q Can you identify for us on Exhibit Number Two the high capacity wells that you've referred to, or is there some way that I know by looking at the proration schedule how you have identified those wells as high capacity wells?

A Well, the Harris No. 8 and 9, and the Langley Com No. 1, the (not understood) Com No. 1. That'a about it.

Q Have you made an effort to determine

whether or not the --

A Wait a minute, the Harris 6 is another well. Those are the high capacity wells.

Q All right. Have you made an effort to determine whether or not any of the marginal wells will have their production further curtailed or displaced by having your nonmarignal wells being produced at the capacity or at the rates that you want to produce them?

A Well, we don't know that until we come up with a -- I just haven't studied that projection.

Q For the history of the prorationing for the Buffalo Valley Pool, Mr. Read, have your wells ever been more than six times overproduced other than in the recent past few months?

A Not to my knowledge.

Q This problem has only occurred for your operations since what time, sir?

A January of 1988.

Q Have you made an effort to study the production history over the life of prorationing to determine on an annual basis whether or not the pool is overproduced or underproduced in terms of its allowable?

A Well, I -- I don't know that. If we had the capabilities to sell the gas in a particular case, if you don't have the allowable you can't sell the gas but if

you do have the allowable there may be other markets for gas and those other markets are rapidly developing right now, other than the three pipeline purchasers that are in the field itself.

But if we don't have the allowable we can't sell to third party marketing people.

Q Prior to today's hearing, Mr. Read, have you discussed with the Division increasing allowables for the Buffalo Valley Pool?

A No. When this -- yes, I did in January when we were shut-in and we got our first notice that we were overproduced, and we discussed it with the proration engineer, Mr. Lyons, and asked for relief to continue production, and subsequently there was an order issued to all producers for the months of January and February of 1988 that --

Q That was for all prorated pools in southeastern New Mexico.

A That was for all prorated pools, and then that was extended from February the 29th until March 31st and one more month extension, until March 31st of '88.

Q Have you determined whether or not there will be any further moratoriums on shut-in for overproduced wells?

A We have received no notice and we have

made no request and that was the purpose of this hearing, is to try to resolve the problem.

Q What is the annual balancing period for prorationing in -- in the Buffalo Valley Pool? Does it run from April 1st to March 30th of each year?

A I really don't know the answer to that question.

Q There are three pipeline transporters taking production from the pool now?

A That's correct.

Q Does Read & Stevens transport gas to all three of thoe pipelines?

A We have in the past, yes.

Q Currently to which transporters do you provide your gas?

A Well, we are transporting gas through the Phillips system and the El Paso system and the Transwestern system.

Q So all three that you -- you generally use all three.

A Yes, sir.

Q Have you determined from each of the pipelines whether or not they will take the type of production, volumes of production you desire for your nonmarginal wells and still have the ability to take the low

capacity or marginal production from the other wells in the pool?

A We've made a request numerous occasions to sell all the gas we can sell from marginal wells; also from the nonmarginal wells.

Q For the wells that you operate that are marginal, do you see any indication that their production will be curtailed or restricted if your application isn't approved?

A Well, the existing pipeline companies may curtail the demand in the summer months, which is -- occurred last year, but we also, if they don't -- do not take that production, we have other marketing people who are interested in buying our gas during the summer months and in our opinion we can sell all the gas we can produce.

Q From both the marginal and the nonmarginal wells?

A Yes, sir.

Q Are those pipelines taking ratably as best you know from those wells connected that you operate?

A No.

Q They are not?

A No, sir.

MR. KELLAHIN: I have nothing further.

MR. STOGNER: Thank you, Mr. Kellahin.

Mr. Lyon, do you have any questions?

QUESTIONS BY MR. LYON:

Q Vic Lyon, Chief Engineer for the Division.

Mr. Read, I'm sorry I didn't hear all of your testimony. I intended to sit in on all of that, so not having heard the first part of your testimony I am not in a position to ask you questions about that.

One of the things I did hear you say is that the allowables have been very erratic and that there were times when there was even zero allowable. Can you name me a single time when there was a zero allowable?

A I won't name all operators but we did make a study of the field and this is Belnorth had a zero allowable in July, October, November --

Q Where -- where is that? What pool is that?

A Belnorth is the operator.

Q In this pool?

A In the Buffalo Valley Field.

Q What pipeline is he attached to?

A I don't have that information. I'm sure it's in the proration schedule.

Q I don't see a Belnorth listed on the schedule.

MR. BRUCE: Mr. Lyon, I think --

A They're selling gas, I --

Q Come again?

MR. BRUCE: Is there one under Enron Oil and Gas?

Q Yes.

MR. BRUCE: I belive that would be it.

MR. LYON: Okay.

MR. BRUCE: The Lulu No. 2 Well?

Q That's the Lulu No. 2?

A Beg pardon?

Q That's the Lulu No. 2 Well?

A Yeah, the -- yeah, right. Yes, sir.

Q Okay, when -- what were you going to say about that well?

A There was no allowable assigned to that well during te month of July, October, and November o 1987.

Q Mr. Read, do you know that that's a mar-

ginal well?

A It could be.

Q Do you know that the allowable for a marginal well is shown as what its production was the second prior month?

A Could be.

Q And if a well didn't produce the second prior month then that it would have no allowable, but that does not mean that you can't produce.

A Well, there -- the problem we have run into is wells being shut-in for one month or two months or three months at a time because of pipeline curtailment and then there is no allowable assigned to that well and it goes back on production and there is no allowable to the well.

Q Well, it doesn't have any allowable because it didn't produce the second prior month, but that's just an estimate of what its allowable would be. Marginal wells don't carry an overproduced or underproduced status, so that's -- that's just an estimate, so the reason that there's no allowable shown is because it hadn't produced.

But that's no reason that you can't produce the well.

Did Read & Stevens drill all the wells that they now operate?

A Yes, sir.

Q Do you know what wells Cities Service operated when they asked for proration in this pool?

A Yes, they operated one well in Section 35, 14 South, 27 East, and that well was plugged and abandoned.

When they made the request for prorationing back in 1969 they were operating that well and then that well was plugged and abandoned in 1980 and they are o longer operating any producing wells in the Buffalo Valley Field.

Q Were you present at the hearing at which Order R-1670-H resulted, which -- which caused the Commission to start prorationing?

A When was that, nineteen years ago?

Q 1969.

A Beg pardon?

Q 1969.

A I don't recall whether I was there or not. I've attended a lot of hearings in Santa Fe but I don't keep a diary on them.

Q If you were there did you make an objection?

A I did not make an objection. We did not because, as I testified earlier, there were only six wells in the field and the limits and the boundaries of the field and the producing capabilities, the reservoir conditions,

the pressures, the porosities and the permeabilities, the structures, were all unknown at that time and in all probability it was a good -- it may have been a good idea at that time.

I'm saying now we have different market conditions. We have more than one pipeline. We only had -- my recollection is that we only had one pipeline in there in 1969, and I could stand to be corrected on that, because there was only one pipeline into the area and then later on we negotiated with Transwestern and then we got El Paso into the field.

But our market conditions have changed considerably and pricing has -- has gone both up and down. In 1969 pricing was low. It has escalated up to 1978 and then we've seen decline in pricing.

Q Mr. Read, do you think that it would be more likely or less likely for unratable takes to exist in a pool with three pipelines rather than one pipeline?

A Well, you just don't know because most -- both El Paso and Transwestern are selling their gas to -- the bulk of it, from New Mexico going to California, so it's based on market demand in the California area.

Phillips, their taking our gas from the Buffalo Valley Field and going to the Lusk Plant and selling at the tailgate to El Paso, and I dont', really don't know

where that gas goes to, but we have had pipeline curtailment by both El Paso and Transwestern.

Q Don't you think that under curtailed production by pipelines due ot market situations that there's more need for prortion than if all wells were just producing all they could produce without any curtailment?

A I don't see the advantage of it. I don't see ratable take as every operator ought to be allowed to produce whatever the capabilities are of his wells.

Q So -- so you don't -- you think that the Division should just turn its head and allow unratable tak-

where that gas goes to, but we have had pipeline curtailment by both El Paso and Transwestern.

Q Don't you think that under curtailed production by pipelines due ot market situations that there's more need for proration than if all wells were just producing all they could produce without any curtailment?

A I don't see the advantage of it. I don't see ratable take as every operator ought to be allowed to produce whatever the capabilities are of his wells.

Q So -- so you don't -- you think that the Division should just turn its head and allow unratable taking without doing anything about it?

A I think it should be left to an operator's decision. We're the ones that are putting enormous sums of money into the exploration and development of the field and there -- right now, I think that there could be more wells drilled in the field at some point in time if the economics were profitable.

Q Are you familiar with -- with Order R-8170?

A I guess I should say I'm not familiar with it. Is that the --

Q That's our basic proration order.

A Oh, for Buffalo Valley?

Q It includes a rule for Buffalo Valley.

A I've -- I've read the --

Q The balancing rules apply to all proration pools

A I'm not an expertise (sic) in it, I'll be very frank with you. We do not have a --

Q Are you --

A -- full time engineer working for Read & Stevens.

Q Are you familiar with the Division's responsibilities under the statute to prevent waste and protect correlative rights?

A Yes, I am.

Q And our authority under -- under that statute?

A Yes, I am. I -- I do not see where that is an issue at this time because I do not see -- we're very well familiar with the producing history, the engineering and geology, and I don't see where waste or correlative rights are being adversely affected.

Q Well, might that not be influenced by the fact that you have the overproduced wells?

A I don't think that anybody could prove that point as to whether the offset operators have been drained or correlative rights have been violated. It's just strictly a function of the sands that are present in each

well on a well-to-well basis.

Q Can you proof that?

A Well, I think we could if it came before the Commission, if we had to.

But you also have a period of overproduction that might occur because of seasonal demands of which all operators have the same opportunity to produce the gas under the same conditions at the same price, and they have the same right to produce the gas that Read & Stevens, or all operators have the same producing opportunity if their well is capable of producing.

Q Can you tell me when your well was first indicated in the proration schedule to be more than six times overproduced?

A January of 1988, and here again I question that because you gave me some different numbers that I haven't calculated since then and my basic numbers were that the well was 3.9 or something different and it may or may not have been overproduced.

Q I hand you copies of pages out of a November, 1987 proration schedule. Can you see your Harris Federal No. 8 listed on there?

A It's pretty hard to read the printing but you have it outlined --

Q (Not clearly understood.)

A Yes, sir.

Q Do you know what that asterisk means?

A No, I don't know what the asterisk means.

Q That asterisk means that the well is more than six times overproduced, and is shut-in until it is less than six times overproduced.

I hand you the December '87 proration schedule. Is that asterisk not still there?

A That's correct.

Q And the January, 1988 schedule and does it not show the asterisk still there?

A That's correct.

Q All right, now you received that notice in your November schedule that the well was six times over-produced in January, isn't that right?

A That's right.

Q What was the production in January of 1988 --

A The production --

Q -- from that well?

A The production from that well?

Q It shows on the schedule.

A 35,829,000.

Q And that was supposed to have been shut-in.

A Well, there was a moratorium that we -- I talked to you, I talked to Mr. Lemay, and realized we were overproduced, and the moratorium was granted for the month of January, February and March to continue production.

Q Do you know when the date of that -- that order, memorandum came out granting the -- the moratorium?

A It came out roughly January 26th.

Q And the --

A That's when we received the order but we discussed it, I discussed it with you and the Commissioner approximately January the 8th or 9th when we got your notice of shut-in. That's when we called the Commission.

Q Right.

A And we understood that there was going to be an order issued on all prorated fields and that was verbal, but we also received authority to continue producing, verbal authority to continue producing the well.

Q You received verbal authority to continue producing?

A We got authority from -- to turn the wells back on, yes, sir.

Q And when was that?

A Oh, it was about -- well, I don't have the exact dates but we were shut-in about two weeks from about the 0th of January and I have it here --

Q So you did shut the well in?

A Well, it was shut-in, yes.

Q But you still produced 35,000,000 cubic feet that -- that --

A It was shut-in part of the time during the month.

Q Mr. Read, I believe you stated that your overproduced status was on the 1st of January?

A That was the first that I was aware.

Q Was -- was six times over?

A That's -- here again, that was the first time we were aware of it, and we were not familiar with the formula that was being used at that time for determining overproduction and we understood that there were some errors in the Oil Conservation Commission on how they based their allowable.

Q The provisions for that determination is in the Order R-8170, if you'll read it.

Now, this the proration schedule for February, 1988. Would you find that -- your Harris Federal No. 8 well?

A Yes, sir.

Q Have you found it?

A Yes, sir.

Q And what is the amount of overproduction

shown on there?

A 207.000,000.

Q All right. Do you see the figure to the left of that on the same line?

A Yes, sir.

Q What is that figure?

A 147,347,000.

Q For your information, that is six times the average allowable for the past twelve months.

Now would you argue with me that that's 8.4 times overproduced?

A You are probably correct.

Q Excuse me, just a second.

A Here again I was under the -- with the understanding that we were operating during the months of January, February and March with a moratorium overproduction and that was the reason we continued producing our wells.

Q You did realize, didn't you, that -- that whatever you overproduced during that time, you would have to make up?

A But I -- that is the reason that -- yes, I realized that that was the reasoning and that was the purpose of having -- making a request for this hearing, to try to resolve the problem.

Q Would you -- would you look at -- would

you look at the information that -- is that last schedule that was -- the February schedule -- is that legible? I have other copies that may be more legible.

A Yes, sir.

Q Looking at the other wells that operate in there, do you see any -- any information that is not correct?

A Well, I -- I haven't had an opportunity to study everyone of these numbers. I would presume that they are correct.

I do not have a summary of our production --

Q Well, would you look at the wells under El Paso Natural Gas.

Do you have the Towles Federal No. 2?

A Yes, sir, go ahead.

Q Okay. What is the classification of that well? If you'll look at the end --

A Yeah, yes, sir, the end --

Q -- right after the description, that's means nonmargnal.

A Nonmarginal, right.

Q Does it show any production for that well? That's the -- that's the space right after the unit designation, the 1 or 1.00. There's not a figure there --

A No, I do not see any sales for that month.

Q Do you know if that well was producing?

A For the month of December?

Q Yes.

A I have it produced in December.

Q Okay, do you know that for the entire period in 1987 that that well was shown as a nonmarginal well on your -- on the proration schedule; that it had no production credited to it; and that that well was asssigned its share of the nonmarginal production or nonmarginal allowable, which would have gone to the other wells in the pool if you had notified us that that was incorrect?

A That could be correct. We received the allowable and it ws being produced within the allowable.

Q Mr. Read, do you get copies of the dockets that the Commission mails out?

A Yes, sir.

Q Did you get the notice of the gas proration seminar that I put on in Hobbs in August?

A It could be but I did not see it. We have several people in our company that review those notices.

Q Did you or anybody in your organization attend that?

A No, they did not.

Q Well, I don't know whether you're aware of this, but we started a new allocation system and I tried to explain that to everybody and tried to explain to them how the allowable system works, how the balancing works, and it appears to me that you don't understand enough about the gas proration system to have an opinion about if you need proration or not.

A We try to work with the guidelines of what we have and with the people that we have available. We do not have a proration engineer and we do not have the expertise to attend all the industry meetings that are held, numerous meetings, as you well know.

We do the best we can.

MR. STOGNER: Thank you, Mr. Lyons.

Anybody else have any questions of this witness?

Mr. Bruce:

MR. BRUCE: No, sir.

MR. STOGNER: Thank you, Mr. Bruce.

Any other questions of this witness at this time?

Mr. Read may be excused.

Mr. Kellahin, do you still request your motion to continue this case untll the April 13th hearing?

MR. KELLAHIN: Yes, sir, I do, Mr. Examiner.

MR. STOGNER: Are you going to require Mr. Read's presence at that time?

MR. KELLAHIN: Probably not, but I need a few days to confer with my client and I'll notify Mr. Bruce just as soon as I can. Hopefully we'll avoid another trip for Mr. Read.

MR. STOGNER: Okay, and any communication of the same send us a copy for the file.

MR. KELLAHIN: Be happy to do so.

MR. STOGNER: At this time does anybody wish to make any statements?

This case will be continued to the April 13th docket.

MR. BRUCE: I would like to reserve a closing statement until the 13th.

MR. NANCE: El Paso would do the same.

MR. STOGNER: Is there anything else for -- to come before this case today?

If not, I'm going to continue this case --

MR. WEBER: I wanted to present a letter from Transwestern's management and we do not oppose Read & Stevens' application.

MR. STOGNER: Mr. Weber, could you verify something for me? Is this -- are you making this on the grounds of Transwestern as a producer or --

MR. WEBER: No, Transwestern as a purchaser.

MR. STOGNER: As a purchaser, and do you speak for Enron as a producer of --

MR. WEBER: No, I don't.

MR. STOGNER: Okay. Does anybody else have anything further in this case today?

The case will be continued to the April 13th docket and we'll take about a five minute recess.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9346. heard by me on 30 March 1988.

, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

13 April 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Read & Stevens, Inc. for termination of gas prorationing, cancellation of overproduction, and emergency relief from from shut-in requirements, Buffalo Valley-Pennsylvanian Gas Pool, Chaves County, New Mexico. CASE 9346

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: Charles E. Roybal
Legal Counsel for the Division
Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico 87501

For the Applicant:

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9346, heard by me on April 13 19 88.

David R. Catanach, Examiner
Oil Conservation Division