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

30 January 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of David Fasken for termination of prorationing in the Burton Flat-Morrow Gas Pool, Eddy County, New Mexico. CASE 8463

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

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I N D E X

E X H I B I T S

MR. STOGNER: Call next Case 8463.

MR. TAYLOR: The application of David Fasken for termination of prorationing in the Burton Flats Morrow Gas Pool, Eddy County, New Mexico.

MR. PADILLA: Mr. Examiner, I'm Ernest L. Padilla, Santa Fe, New Mexico, for the applicant.

I have an appearance in this case. Originally Mr. Sumner Buell made the application for the applicant.

MR. STOGNER: Call for any other appearances.

MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of Santa Fe, New Mexico, appearing on behalf of Cities Service.

MR. STOGNER: Any other appearances?

MR. KENDRICK: H. L. Kendrick, El Paso Natural Gas.

MR. STOGNER: Are there any other appearances in this matter?

If not, will all witnesses please stand to be sworn at this time?

(Witnesses sworn.)

JAMES B. HENRY,

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

DIRECT EXAMINATION

BY MR. PADILLA:

Q Mr. Henry, for the record would you please state your name and where you reside and what your connection is with the applicant?

A My name is James B. Henry. I reside in Midland, Texas. I have a consulting engineering firm of Henry Engineering that represents Mr. Fasken in engineering matters and also we operate his producing properties. We do all of this drilling and take care of his properties on a long term retainer and have been in that relationship with Mr. Fasken and his family since 1964.

Q Will you tell us briefly what the purpose of today's hearing is?

A The purpose of today's hearing is to ask the Commission to rescind the prorationing of the Burton Flat Field, that is, the Burton Flat Morrow Gas Pool, in Eddy County.

We're asking that that be rescinded because we believe the field is over the hill and has reached a stage of depletion such that prorationing is no longer effective and is, in fact, having an adverse effect on the

production from the field.

Q Now, Mr. Henry, what is your experience with the Burton Flats Pool and then also what is your experience with the Morrow formation in general in the area of the Burton Flats Pool?

A Well, I've been associated with Morrow Sand development in Eddy County for the last twenty years.

We have drilled and completed some fifty wells in the Burton -- in the Eddy County Morrow trend.

We've been associated with Burton Flat early on because of acreage in the proximity of the field.

I have drilled and completed five wells in the field.

Q Have you previously testified before the Oil Conservation Division or the Oil Conservation Commission and had your credentials accepted as a matter of record?

A Yes, I have.

MR. PADILLA: Mr. Examiner, we tender Mr. Henry as an expert petroleum engineer.

MR. STOGNER: He is so qualified.

Q Mr. Henry, let me refer you to what we have marked as Applicant's Exhibit Number One and have you identify that and tell us what it contains.

A Exhibit Number One is a map of the Burton Flat Morrow Gas Pool.

The area shaded in yellow is the acreage

included in that pool according to the Oil Conservation Division's nomenclature.

You'll note down here that this encompasses part of four townships, being Township 20 South, Range 27 East, Township 20 South, Range 28 East, Township 21 South, Range 26 East, and Township 21 South, Range 27 East.

With respect to Township 21, 27, in Section 19 there are two wells in that section that are prorated on the proration schedule in the Burton Flat Field that are not included in the nomenclature.

There's also a window in Section 28 of 20, 28, that's excluded from the nomenclature.

Q Mr. Henry, you've labeled the wells in that field with different colors. Can you explain to the Examiner what your symbols mean?

A Okay. All of the wells that have been circled and highlighted in the orange color are the marginal wells in the Burton Flat Morrow Gas Pool.

You will note that some of these, up at about 11:00 o'clock on the orange circle, have a little red dot and those are the marginal wells in the Burton Flat Field that do not have any allowable at all. They're listed as marginal but on the January, 1985, proration schedule they were devoid of allowable noted on there.

I might say that there are two red dots. They are a little hard to tell from the orange dots. There's one in Section 19 of 21, 27, in the section that's

prorated but not in the nomenclature, and there's one up in Section 26 of 20, 27, and those are listed on the proration schedule as new completions, and they've been carried that way, I believe, the last three proration schedules, being November, December, and January proration schedules.

The wells circled in blue, there are six of them in the field, are nonmarginal wells that are under-produced, indicating that they're not making their allowable or at least are not being produced at their allowable.

The wells with the green hexagons, there are six of them, represent the top allowable nonmarignal wells in the field that are overproduced.

Q On an eyeball basis of most of the wells on the -- shown on Exhibit One are marginal wells. Is that --

A Yes, they are.

Q -- a correct eyeball view? Okay.

A I might point that there are -- in these proration schedules included in the nomenclature there are a lot of those that have never been drilled and some that have -- many that have been abandoned.

Q Mr. Henry, while we're on Exhibit Number One, would you point to the Examiner where other Morrow Fields in relation to the Burton Flats Morrow Pool?

A Yes. To the north of this field we have an Angel Ranch Morrow Gas Pool that comes within one-half mile of this field, and along the south line of Section 6 of

20, 28, and along the south line of Section 1 of Township 20, 27.

Q Is that a prorated gas pool, Mr. --

A No, it is --

Q -- Henry?

A -- not. It's a non-prorated Morrow gas pool.

The East Burton Flat comes within a half a mile of this field up in the northeast corner, Section 12 of 20, 28 is the East Burton Flat, which is a non-prorated Morrow gas pool.

Down to the south, coming around the map clockwise, or around the pool clockwise, in Section 23 and Section 28 and Section 34, of 21, 27, the East Carlsbad Morrow non-prorated gas pool is contiguous to this pool.

On the immediate south, along the south lines of Sections 32, 33, and 34, of Township 21, 27, the field is contiguous to the South Carlsbad Morrow Gas Pool, and over to the west, starting up in -- well, we start in Section 2 of Township 21, 26, we'll find that the south line and east line of that are contiguous with the Avalon Morrow Field, and going on up into Township 20, 27, there's two and a half miles of contiguous boundary there, being along the boundary lines of Sections 22, 27, and 34.

Q Mr. Henry --

A And that is a non-prorated gas pool.

Q -- are all of those pools that you have

mentioned non-prorated?

A Yes, they are.

Q And they're producing from the Morrow formation.

A They are producing.

Q Let's go on now to what we have marked as Exhibit Number Two and have you tell us what that is and what it contains.

A Okay. Exhibit Number Two is a recap of the proration schedule data for November, 1984, December, 1984, and January, 1984.

If you look at the first line there, it says the number of proration units per nomenclature is 126 proration units in this prorated area of the Burton Flat Morrow Gas Pool.

You'll note that the sections along the north line of Townships 21, 26, and 21, 27, are 900-plus acre sections that have been elongated by the surveying in the past and are now governmental sections but actually each of those contains three proration units.

The proration schedules for November listed 73 wells; the one for December '84 listed 72; and in January, 1985, there were a total of 72 wells on the proration schedule.

I've broken those down into three categories and then I've broken down two of those categories into -- into two sub-categories.

The three basic things here are the new connections, which are two wells. If you'll follow the center line of each of these columns of numbers you'll find that there are two wells that are new connections in November, two in December, and two in January.

With respect to marginal wells there were 59 in November, 58 in December, and 58 in January, and the non-marginal wells dropped down a couple of lines, there are 12 of those.

Within the marginal wells the upper number is the number that have allowables and the lower number there are the marginal wells without allowables. So, as you can see, the marginal wells without allowables have increased from 8 to 12 during this three-month period and the non-marginal wells with allowables have decreased correspondingly.

Down in the marginal or non-marginal -- down in the non-marginal wells we find that we have two categories listed here, the underproduced and the overproduced and starting out we have to -- in November, 5 underproduced wells; December, 5 underproduced wells; and 6 underproduced in January of '85, while the non-marginal overproduced wells were 7, and 7, and 6 for those three months.

So it's indicating the -- from the proration schedule, that most of these wells are marginal and the new connections will, I believe, go marginal, at least they are not being produced at top allowable rates, and they are

generally in an overproduced category because they do not have any allowable at all assigned to them on the proration schedule.

The larger proportion of these wells, of course, are marginal. There are very few left that are still in the prorated category or that are being affected by the prorationing of this field.

Q Referring back now to Exhibit Number One, Mr. Henry, what is your description of the wells that you have in a -- well, in green in a hexagon? What --

A As you'll notice, those wells representing the non-marginal wells that are overproduced, indicating that they have producing capacity in excess of the allowable, are widely scattered. There are no two of them closer than a mile and a half to each other. You can -- they are widely scattered. They are -- they're in all four of the townships here and we think that these are isolated sand lenses that are not being affected by prior depletion and that they're very poor communication in this, as in all Morrow fields. We do not see that the Burton Flat Field has any unique characteristics with respect to sand continuity that's not present in most other Morrow gas pools, which are characterized by limited capacity reservoirs, a multiplicity of them that are very tortuously connected, if at all, over any very large distance, and by very large distance I mean over any more than one proration unit.

Q Is the David Fasken well in Section 1 of

Township 21 South, Range 26, typical of that description?

A Yes, it is. I'd like to refer to this as a 281-acre non-standard unit in the north unit of this long section, being Section 1 of 21, 26.

There are three marginal wells offsetting it to the north that we operate for Mr. Fasken, being the Maralo Federal 1 and 2 in Section 35 of 20, 27, and the El Paso Federal No. 5, located in Section 1 of 20 --21, 26.

Now, this green highlighted well there, the Gulf Federal No. 1 of David Fasken's, was the last well drilled in that area, and it is the best well at the present time.

I'd also like to point out that not highlighted immediately to the southeast of that well there is a No. 3 Well that was drilled, we drilled for Mr. Fasken. We completed it. It potentialed for 11,000,000 feet of gas a day from the Morrow, or had a deliverability of over 11,000,000 on initial completion. It had produced, depleted, abandoned in the Morrow and plugged back to a Canyon zone, and this green hachured well, that Gulf Federal No. 1, drilled in the other end of that old proration unit, is a replacement well for that proration unit, and found essentially virgin pressure.

Q Looking at this particular area ard comparing the David Fasken wells in Sections 1 and 35, how do those wells compare with the wells that David Fasken operates in the Avalon Field?

A They are very similar wells. We operate, immediately to the west of Section 1, three wells in Section 2 and three wells in Section 3 for Mr. Fasken, and they are prorated in the Avalon -- not prorated, they're nonprorated wells in the Avalon Morrow Pool, and the -- while the sands are hard to correlate across here, there are occasions when you can correlate a little stringer here and there, but we do not see any really effective communication between those wells.

Q Let's go on now to what we have marked as Exhibit Number Three and have you tell us what that is and what it contains.

A Okay. In Exhibit Number Three in the first column here I have reproduced the last column of Exhibit Number Two for clarification here, and I have in the second column labeled a percent of field, and what I'm trying to show here is that of the 126 proration units in the Burton Flat Field, and of course that represents 100 percent of the field, the active wells in there are 72 active wells, which represents 72 proration units, or really 7o -- yeah, 72 proration units for those, would be 57.1 percent of the field now has an active well of any kind in it, which means, of course, the balance, or the 42.9 percent of the field has either been abandoned or never drilled.

There are two new completions in the field. They represent 1.6 percent of the proration units in the field.

There are 58 marginal wells in the field, which represent 46 percent of the total field area.

There are within that 36 percent of the proration units in the field have some sort of marginal allowable. 9-1/2 percent do not have any allowable, of the wells that are on the proration schedule.

Of the non-marginal wells there are 9-1/2 percent of the field covered by those wells and only 4.75 percent are overproduced, indicating that they have ability to make their allowable or have been produced, at least.

Q Is that all you have on Exhibit Number Three, Mr. Henry?

A Yes, it just shows the percentages of those items in the field.

Q Let's refer now to what we have marked as Exhibit Number Four and have you tell us what that is and what it contains.

A Exhibit Number Four is a comparison of the gas nominations for the Burton Flat Morrow Gas Pool compared with the gas production and with the overproduction status of the field as reflected on those proration schedules.

Now the gas nominations at the hearing and those listed on the proration schedule are very, very slight discrepancy. I don't know what -- do not know what accounts for that, but these are the ones that came from the Statehouse Reporter, I believe, is where most of these came

from as to the gas nominations.

They -- they check very closely with those on the proration schedule.

Q What conclusions do you draw from that Exhibit Number Four?

A You'll notice that beginning in September, 1984, the gas nominations were 696,410 mcf per month. The gas production was only 530,454, and you'll notice the similar comparison on down through there, that the gas production is following a trend substantially lower, by about 25 to 30 percent lower than the gas nominations, which indicates to me that the field is being restricted here by the shut-in overproduced wells to producing less than the demand for gas. The only thing that has worked to advantage here is to reduce this overproduction figure and the field got in this status, of course, earlier than this by being overproduced, which indicates that prior to September there was a demand for gas greater than the allowable or the wells wouldn't have been overproduced.

Q Does that conclusion unduly restrict David Fasken's ability to produce out of his well in Section 1?

A Yes, it reduces David Fasken's well and all the other nonprorated, or excuse me, nonmarginal wells in the field, and we do not see that it serves any purpose to continually restrict that well when the gas takes have been above the allowable. The well was shut in temporarily

to reduce that allowable for about three months. We now have another exhibit we'll show that shows that this demand has now increased due to a request from the pipeline.

Q You're referring to Exhibit Number Five, is that correct?

A Yes, that is.

Q What does that show?

A That letter -- that exhibit is a reproduction of a memorandum from Mr. Stamets issuing a moratorium on the wells shut in for overproduction in fields in New Mexico, and you'll notice on the third line, second listed field down in the subparagraph, that Burton Flat Morrow is included in this.

So the field is not being produced at the nominations. The make-up of the overproduction is working against the oil producers here and against the pipelines in that they'd requested additional gas from the field.

And the last paragraph of that takes note that the overproduction during this moratorium will be accumulated and serve to shut the well in further when it is -- when this 90-day moratorium is over we'll be in a substantially overproduced position.

Q When, Mr. Henry, was the Burton Flats Morrow Pool originally prorated?

A It was prorated in 1974. The date of that order, I believe, was January the 16th.

Q I've got a copy here.

MR. PADILLA: Mr. Examiner, we request the Division take administrative notice of Order No. R-4706.

MR. KELLAHIN: Excuse me. Do you have extra copies of those orders available for us?

MR. PADILLA: Certainly.

MR. STOGNER: This Examiner will take administrative notice of the said order.

MR. PADILLA: I've included extra copies, Mr. Examiner.

MR. STOGNER: Okay.

Q Mr. Henry, what conditions existed in the Burton Flats Morrow Pool that do not exist today in respect to this case?

A At the time the field was prorated there were six wells in close proximity to each other producing in the Burton Flat Field. That's set out in Finding Number Nine of the Commission in respect to that case, and at that time the wells were producing according to Finding Number Nine 29,300 mcf per day. That extends to 879,000 mcf per month, and you'll note back on Exhibit Number Four that that is about the present nominations for 126 proration units.

So the field at that time had some very high capacity wells.

Now, I think that the Commission took note of that and the fact that at that time, as set out in Finding Number Three, there were three pipelines in the

field, and to assure ratable take at this early stage the Commission prorated the field and I think very wisely did so. At that time there was a need for prorationing in the field and we don't question that at all.

Our point now is that this field has outlived its necessity for that prorationing.

Q And is that because of the great number of marginal wells in the field?

A Great number of marginal wells and the fact that there's more demand for gas than the field is able to produce at the present time.

And that's a very unusual condition in these days of excessive gas production.

Q Mr. Henry, do you have anything else to add to your testimony?

A No. I might take note of the other findings in that case that set out that the -- particularly Finding Number Twenty -- that the stringers of sand in this field are not continuous across the pool but are interconnected by the perforations in various completions in the pool.

That was a finding of the Commission there and they -- this was a Commission-called hearing and the Commission's engineer, Mr. Nutter, and their geologist, Mr. Ulvog, both concurred in the fact that these were discontinuous stringers and the prospect of their being interconnected at the wellbore represented that possibility of

continuity.

I would submit to you now the high capacity wells are separated by more than a mile distance and I think you would find that it is very unlikely that any of the high pressure, or the overproduced nonmarginal wells have the same sand stringer productive in them.

MR. PADILLA: Mr. Examiner, we pass the witness for cross examination.

MR. STOGNER: Mr. Padilla, at this time would you like to submit the --

MR. PADILLA: Certainly would. Offer Exhibits One through Five, Mr. Stogner.

MR. STOGNER: Is there any objection?

If not, these exhibits will be admitted into evidence.

Mr. Kellahin, your witness.

MR. KELLAHIN: Thank you, Mr. Examiner.

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Henry, you're a petroleum engineer, are you not, sir?

A Yes. I am.

Q What's your relationship to Bill Henry? He's your brother, isn't he?

A He is not.

Q You're really not related?

A We're friends. Our relationship is friends.

Q All right. How long have you been involved, Mr. Henry, in the Burton Flats Morrow Gas Pool in Eddy County, New Mexico?

A I've been involved with it since its inception of drilling and the -- we've had an ongoing exploratory program in Eddy County since 19 -- about 1964 that I've been associated with it. Our client had some association with the Eddy County Morrow prior to that time and some non-operated wells, going back, I believe, to about 1961.

In connection with my retainer I have maintained a file of all the Morrow completions in Eddy County. We order all the logs. We review all the published data and any other data we have access to, to study the completion techniques and the producing trends of the Morrow, and so very early on, as fast as the logs were released we've acquired those and studied Burton Flat Field.

I drilled the first well in the Burton Flat Field in about 1974.

Q You said that you thought originally back in 1974 that the conservation practice of prorating this pool was a good idea then.

A Yes.

Q As a petrolroleum engineer, Mr. Henry,

would you describe for us what elements are necessary, in your opinion, to establish prorationing in a gas pool?

A I would refer back to the transcript of the original hearing and say that I concur with the four reasons that Mr. Nutter set out in there as to why this field should be prorated, and --

MR. STOGNER: Mr. Henry, what case number is this?

MR. KELLAHIN: Excuse me, Mr. Examiner, for your convenience we'd like you to take administrative notice of Case 5111, I believe is the right portion.

A I have an excerpt from it here. I do not have the case number.

Q All right. The original case in '74 was a consolidation of two cases, one for the Strawn Gas Pool; the other for the Morrow Gas Pool. The testimony of Mr. Nutter, I think, in this transcript applies to both, and for your convenience, sir, in order to follow Mr. Henry, if you --

A I found the case number, Mr. Examiner. It's 5111.

MR. STOGNER: All right, this hearing will take administrative notice of Case Number 5111.

Now what page are you on now?

A I'm referring to page 36 and I'm saying that I concur with what Mr. Nutter said in that case, that

the first of these -- in answer to a question, what are the principal factors that the Commission considers in determining whether gas prorationing is necessary, Mr. Nutter's reply was, the Commission has four basic parameters for determining whether to institute gas prorationing in any given gas pool.

The first of these is whether the producing capacity of the reservoir is in excess of the apparent market demand for the reservoir.

The second parameter is whether there is in the gas pool more than one purchaser.

The third parameter considers whether there are nonstandard proration units in the field; that is, units which contain either more or less acreage than the standard units for the pool.

And fourth, the fourth basic consideration is whether there are unorthodox locations which have been approved in the pool and which have penalty factors applied to them because of their unorthodox locations.

I believe that I could adopt those reasons as my own.

Q Is it not a fair statement, Mr. Henry, to say that as a conservation practice this Commission, and other Commissions in gas pools, will address prorationing when the supply or the ability of the wells to deliver gas to the market exceeds the market?

A That's correct.

Q That is one situation in which a conservation commission considers gas prorationing.

A I would think that's one that Mr. Nutter said right here.

Q In addition, when there is a greater market than a supply, the Commission can also consider that gas prorationing may be necessary for a pool in order not too quickly to expend the energy of the reservoir by producing the existing wells too fast.

So in either situation we can see conservation in gas prorationing, can we not?

A I would say that if the supply of gas available for sale exceeds the market, then it needs to be prorated.

Q All right, and what if the supply of gas does not exceed the market?

A If the supply of gas does not exceed the market, then I do not feel that prorationing, that factor in prorationing, to be taken into consideration.

It would not be a criteria for necessarily prorating the field.

Q The existence of multiple pipeline purchasers in '74, I believe you said there was three?

A Yes.

Q How many pipeline purchasers are there now? I believe there are nine, Mr. Henry.

A There are ten in there now.

Q All right.

A There -- and I believe that three of these, Cities Service Oil Company, Monsanto Company, and Harvey E. Yates, I do not believe are more than gatherers in here that resell to other pipelines. I cannot speak specifically to that, but that's my impression because there are areas where we're listed as a pipeline, that is, David Fasken is listed as a pipeline, and his sole purpose is to gather and resell the gas at a common sales point.

So as far as the real pipelines in there now, there are Cabot, El Paso Natural Gas, Natural Gas Pipeline Company of America, Llano, Incorporated, Transwestern Pipeline, Gas Company of New Mexico, and Phillips Petroleum.

It's my understanding that Phillips is a low pressure line and it takes gas from wells that are not capable of producing into a high pressure line.

Q I believe you told us that there are 72 proration units currently in the pool.

A Yes.

Q Within the limits of the pool are there any proration units that have not in the past or now have wells in this pool?

A Yes. There are 54 of them that do not now have an active well.

Q All right.

A In the Morrow. In the Morrow, I'm saying.

Q Yes, sir, I'm concerned about the Morrow.

A Okay.

Q So within the pool we've got 54 proration units that don't have producing Morrow wells on them.

A That's correct.

Q What portion of the current allowable for this pool can be produced by the nonmarginal wells?

A What percent can be produced?

Q Yes, sir.

A I do not have the capacity data on the wells.

The David Fasken well is today producing at 2-1/2-million feet a day and I do not have the -- the back pressure test, nor the deliverability test of the other operators' wells.

Q Of the 72 proration units, what portion of those proration units are nonmarginal, meaning nonmarginal underproduced and nonmarginal overproduced?

A They're shown on Exhibit Number Four, excuse me, Exhibit Number Three.

Q And we have a total of twelve.

A Yes. Six underproduced category and six in the overproduced category.

Q And we do not know, or we haven't made the study to determine, what the capacity of those twelve wells are to deliver what portion of the allowable assigned to the pool.

A No, we have not.

Q Would the fact that the pool currently cannot deliver the amount of gas allocated to this pool under the allowable, would that not be a factor that would encourage operators to go out and further drill in this pool?

A If they were assured that they could produce the wells at capacity, that would be a factor.

To go out there and drill a well that's going to be artificially restricted, I would say no.

As a matter of fact, we have done that very thing here with the Fasken Gulf Federal No. 1 Well that I referred to in Section 1 of 21, 26. That was the specific reason for drilling the well.

Q Can you tell us which of the marginal wells in the pool will be abandoned without the benefit of the marginal well status allowed by gas prorationing rule?

A I'm sorry, I didn't follow your question.

Q Yes, sir.

A Would you state that again, please?

Q Yes, sir. Will the elimination of gas prorationing have any adverse effect on marginal wells --

A No.

Q -- that are now marginal because of the rule?

A No.

Q Why not?

A Wells would be allowed to produce at ca-

pacity.

Q Only so if -- only so long as we have a condition where the market demand exceeds the current capacity of the pool to produce.

A Not necessarily.

Q All right, if the deliverability of the pool wells exceeds the market, then in that situation there would be an effect on marginal wells.

A In the -- yes, in that that has been addressed by us specifically in the Avalon Morrow Field immediately to the west. We've seen no adverse effect from this in an identical situation.

The El Paso Gas Pipeline Company that's connected to our wells tells us they only have a market for so much at their California border and when the gas -- we obviously can't sell them more gas than they can sell, and they call us up on Thursday and, as an example, and tell us they'd like the wells shut in till Monday, and we shut them in till Monday and open them back up, and this goes on with respect to marginal wells; they occasionally give us a schedule of which wells they'd like to have shut in and they try to rotate those wells, and -- that's between the producers, and I believe that same thing would work with any pipeline in any field, and I might say that I don't see any problems with that in any of the other nonprorated fields.

Q Can you tell us how many times overproduced the Fasken's Well is?

A It's overproduced in January the 1st about 400,000. I believe it's on the proration schedule. Just a moment and I'll read that to you.

MR. STOGNER: Let the record also show that we will take administrative notice of the January, 1985, proration schedule.

A Okay, that proration schedule shows that the Fasken well, has an overproduced status of 349,911 mcf.

Q And El Paso is the gas purchaser for the production from that well?

A Yes, they are.

Q Can you identify for us, Mr. Henry, the gas purchaser for the nonmarginal, underproduced wells?

A In the Burton Flat Field?

Q Yes, sir, in the Morrow Field.

A Okay. Okay, the Mobil Producing Texas and New Mexico Federal 12 Com Well is connected to Gas Company of New Mexico.

The Monsanto (not understood) Federal is connected to Transwestern.

The Cities Service Tracy Com A No. 1 is connected to El Paso.

The Cities Service Government AG-1 is connected to El Paso.

The Elizondo A Federal No. 3 is connected to El Paso. Those are all Cities Service wells.

And the Texas Oil and Gas Pioneer Federal

-- I'm sorry, that well is a new connection and it doesn't apply.

I believe that covers the six wells. Did I cover them all?

Q No, sir, I end up with five.

A Beg pardon?

Q I ended up with five. GasCo's got the Mobil Texas Well.

A TXO Pioneer Federal, yes, that's the one. It's connected to Cabot Pipeline.

MR. STOGNER: Mr. Henry, is that the Challenger Well or the Pioneer Well?

A It's the -- I'm sorry, it's the Challenger Well, it is.

MR. STOGNER: Okay.

A I beg your pardon. They're in the same section but it is the Challenger Well. That is the Texas Oil and Gas Challenger. I'll stand corrected.

Q Let me direct your attention, Mr. Henry, to the three Cities Service wells connected to El Paso --

A Okay.

Q -- that are nonmarginal and underproduced, in relation to the Fasken well that is connected to El Paso that is nonmarginal and overproduced. What causes that to happen, do you know?

A I do not have any idea.

The Fasken well is overproduced because

the -- as long as El Paso would take the gas we sold it, and until we reached the overproduced status, which the Commission shut us back because we had exceeded the limit on the old production.

Q Some of these nonmarginal wells in an underproduced status have been shut in for some time, have they not?

A I do not know.

Q All right, let's look at the proration schedule on the Mobil Texas 12 Com Well.

A Just a moment.

Q All right, sir.

A Mobil Texas Federal 12, is that the one you're asking about?

Q Yes, sir.

A All right.

Q Can you tell whether or not the production of that well's been shut in?

A The well is underproduced by 287,006 mcf and it did not produce any in November and that's the last record I have on it, is what's in the proration schedule, and I would assume, being underproduced and no production, that the well's not capable of production. But I would -- that would be the only logical reason I could see for it.

Q When we use the phrase "ratable take", Mr. Henry, what does that mean to you?

A Ratable take means to me that it has been

taken in conformance with the proration schedules.

Q Has El Paso, in this pool, taken ratably between the Cities Service well and the Fasken well?

A I don't know what the Cities Service status was, whether they were available for sale or not.

El Paso furnished us, and I assume would furnish any other gas purchaser, a schedule in which they show the number of days that the well is open to the pipeline for production. If you would refer to that you could find out whether it was produced or not and Cities Service would have that in their records.

We have a similar form in our records, and the days that they are open to produce, we produce, and when they -- El Paso has us shut in, we shut it in.

Q What will be the effect, if any, of the elimination of prorationing in this pool on ratable take?

A At this point I see only 4.5 percent of the field, or six wells, that are being prorated at all. The undproduced nonprorated wells are producing at their capacity. The nonmarginal wells are producing at their capacity. The overproduced wells are the only ones being prorated and there's demand for that gas as evidenced by the fact that they are overproduced, and to me it seems undue restriction on those wells, that everything else in the field is allowed to produce at capacity. We're being, we're discriminating against the good wells in the field, as I see it at this point in time; not intentionally by anyone, but

it's something that has come about as an historical accident here, that this field has gradually outlived its need for prorationing.

Q How many different pipeline companies are taking the gas from the twelve nonmarginal wells?

A Well, tne -- back to the statistics I have would be for the November proration schedule in 1984, and at that time there were seven overproduced wells in the field and three were overproduced on El Paso connections, one was overproduced on a Llano connection, two were overproduced on a Natural Gas Pipeline connection, and one was overproduced on a Transwestern connection.

I did not extend this for the last proration schedule and there's been a change of one in those times as to which wells were overproduced, and I'm not sure which -- which well that was. We can figure it out, if you like.

Q Will the gas proration schedule also tell us which wells are split connections? In other words, which wells have production that is taken by more than one pipeline?

A The split connections are listed on the proration schedule.

Q All right, and we have in this pool those type of connections made.

A There are. There's even a multiple well unit up in Township 20, 27, which there are two wells on one

proration unit.

Q Do you know what portion of the allowable set for the Burton Flats Morrow Gas pool is made up of nominations by the various pipeline purchasers?

A I do not have a breakdown by -- by purchaser of that.

Q Is there a schedule or a compilation of that information at the Oil Conservation Division office?

A I do not know. I would assume so but I don't know that for sure.

Q Have you made any determination of why the underproduced nonmarginal wells are not in an overproduced status?

A No.

Q You don't know if that's a factor of capacity or whether it's simply compliance by the operator with prorationing?

A I could direct your attention to the fact that there -- with respect to the Mobil well that you mentioned earlier connected to the Gas Company of New Mexico, it has a zero allowable, or it had zero production in November. It has an allowable, top allowable assigned to it for January and it had no November production, whereas the non -- or whereas the marginal wells showed November production. So you have to conclude, if they're taking ratably from the field with respect to their connections, that natural gas -- Gas Company of New Mexico was not offered any gas.

And I don't know about the Cities Service wells there. I believe Mr. Motter could probably tell us about that.

Q You made reference to a particular finding in the Division Order R-4706 that established gas prorationing and you made reference to Finding Twenty.

Are you proposing or have you proposed in the past any other type of allocation formula for prorationing other than the straight acreage formula adopted and used for this pool?

A I've never proposed any, not even that one.

Q With regards to the possible methods of allocating production under a proration formula, do you believe the straight acreage formula used by the Commission over these years is the one that's most equitable if prorationing is to be applied?

A If you'll read all the findings, of the Commission, and I don't have the specific ones here, they adopted that as a compromise, the fact that the stringers were discontinuous, they were not uniform. The, one of the findings were, I believe, that you couldn't -- a number of things that you couldn't use for prorationing, one of which was acre feet, and if you'd like, we can review those here.

Q Well, let's start with the first one, Mr. Henry.

I think one of them was an acre foot, in

other words effective feet of pay and the pore volume was one of the possible ways to develop a formula that Mr. Nutter discussed back then. He said there wasn't enough information data to make that work.

A That's my recollection of his testimony.

Q Is that still true today?

A Yes, that is more true today than at that time because at that time there was the prospect that they would find a large, continuous sand. We all had that dream early on in the Morrow development, that we were going to somewhere find that giant field that was interconnected and to date it has eluded all operators that I know anything about.

Q One of the other possible choices Mr. Nutter discussed in that hearing was past production and pressure decline from the wells as a way to develop a formula for proration.

Has that premise changed or has additional data been developed from which you could now prorate the pool based upon such a formula?

A No, you could not, because the performance of the wells indicate individual reservoirs in more cases than multiple well reservoirs of any sort in here, and by multiple I mean as many as two wells in the same reservoir, and possibly here we'd have two or three wells in the same reservoir, but not anything on a widespread basis, and to that extent we don't know what extent perforating those

in the wellbore communicated those to those stringers.

Q I believe Mr. Nutter talked about another possible formula based upon deliverability of the wells.

A Yes.

Q Would that be possible to do now in order to improve upon the proration formula?

A I think that at this time the deliverability is a measure of the well's capacity to produce.

I'm not proposing that the very low capacity wells be shut in in proportion to the high capacity, and I believe that's what your question is directed to.

Q And I believe --

A And I think there are some thresholds production that we should not go below in here to maintain an economic rate of recovery, particularly in view of the Natural Gas Policy Act that allows special treatment for marginal wells with respect to price, and with respect to enhanced recovery operations.

We have installed a large number of field compressors here to take gas from these lower wells, and some of them have two and three stages of compression, two or three compression points prior to going into the pipeline, and in those cases now it's a very complicated system to balance and El Paso asking us to change the flow rate two or three times a week, all we're doing is venting gas because the compressors are down, and I do think those should be taken into account and I do not believe that there should

be anything here other than the capacity to produce by eliminating proration and letting this thing operate as the other fields that are nonprorated operate.

Q Let me make sure I understand what you've told us about the possibility of putting into the proration formula a factor based upon deliverability as a way to improve the formula, thereby helping Mr. Fasken and protecting the correlative rights of others.

Can we --

A I don't know --

Q Can we modify the proration formula to include a deliverability factor that will help Mr. Fasken?

A I have not made a study of that and wouldn't be in a position to respond.

Q The last choice Mr. Nutter gave us was, the one I posed to you earlier, that he came to the conclusion that straight acreage as the basis from which to make a proration formula was the only one that was reasonable at that time.

A I believe it was reasonable then. I think that certainly the spacing poses some orderly development, which I think is good.

However, I would like to say this, that everyone has had an opportunity to drill their wells. If they didn't like the well they got on their proration unit, they could plug it and drill them another one.

So that everyone's been afforded an op-

portunity to develop his gas reserves here under proration, or under the field rules that have been established, and I believe now that in that scenario that capacity to produce is a measure of what's left out here in this mostly marginal gas producing area.

Q Are you telling me that this pool is fully developed?

A No. I've never indicated that.

Q Mr. Henry, are you participating on behalf of Mr. Fasken or on behalf of any of your other clients in the Proration Gas Study Committee that the Oil Division has established with the industry to study this pool and other pools?

A No, I'm not.

Q To make sure I understand, Mr. Henry, if the Commission agrees with you and eliminates gas prorationing in this pool, will the absence of prorationing from tne pool, in the absence of that, will each of the pipelines be taking gas from the Burton Flats wells so that each well will have an equal opportunity to produce its fair share of the gas in that pool?

A I have no knowledge nor control over their gas takes.

Q All right. Is the market demand for each of the pipelines the same or similar within each month?

A I have no knowledge of that; however, I might say that in the other nonprorated fields in the state,

they're operating satisfactorily, at least the ones that we participate in that I have -- have knowledge of.

Q So I have found them all on my map, Mr. Henry, would you identify again for us the four, is it, Fasken wells in the pool?

A Yes.

Q Would you tell me, sir, which ones those are again?

A Okay. They're in -- in Township 20, 27, they are in Section 35, the Maralo Federal No. 1 and Maralo Federal No. 2.

In Section 1 of 21, 26, the north proration unit, and these are east/west proration units in this long section, the Gulf Federal No. 1 and the proration unit immediately below that would be the David Fasken Gulf Federal No. 5.

There's an abandoned Morrow producer in the east end of the north proration unit in that section, the David Fasken El Paso No. 3. It's been abandoned in the Morrow and plugged back to the Strawn.

Q Thank you, Mr. Henry, I have no further questions.

MR. STOGNER: Mr. Padilla, would you redirect?

REDIRECT EXAMINATION

BY MR. PADILLA:

Q Mr. Henry, Mr. Kellahin has asked you questions concerning improvement of the proration formula for the Burton Flats Morrow Pool, and he has suggested including the deliverability factor in this questioning.

In that regard, in general and in considering the nature and status of this field now, would a deliverability factor in effect, and as a practical matter, result in de-prorating the pool?

A Without making a study of it I would not offer an opinion on that because I do not know what the deliverability in 68 of the 72 wells are.

With respect to our four wells I don't see it would offer any big problem but I do not have a -- I think we would need to address this by running a deliverability test on all the wells in some reasonably short time frame so they could be compared.

Q What effect would prorationing -- or de-prorating the pool have on the administrative burden of the Oil Conservation Division?

A Well, I think it would reduce it in that they would not have to keep up with the gas nominations, the gas nomination hearing, and the accounting necessary to keep the proration schedule up to date, and the status of the wells up to date.

Q Now let me refer you to page 36 of that

transcript which has been taken into consideration by the hearing examiner regarding Mr. Nutter's testimony.

On that page, beginning approximately the middle of the page, is listed certain parameters for gas prorationing.

Would you discuss each of those parameters and tell us how you believe -- whether they apply or don't apply to the situation today in the Burton Flats Morrow Pool?

A Well, the first one of these is that he stated that -- the first of these is whether the producing capacity of the reservoir is in excess of apparent market demand for the gas.

Today the reverse of that is true and I think that negates the other three points.

Q In the Morrow Pool would you consider this the overwhelming factor in considering prorationing?

A Yes, I would.

Q And why is that?

A The Morrow formation is composed of lenticular sands in what geologists describe as a mud delta, which means that the predominant deposition during Morrow time were muds and shales, discontinuous lenses of sands, and certain depositional environments that were favorable to the sand accumulation.

Had this been the reserve, had this been a sand delta, we would have had another Middle East reser-

voir here, but the discontinuity of these sands, in my judgment, overrides all other consideration. We've never objected to wells being moved off pattern. Things here -- my own view is that if a guy can find -- an operator can drill, complete a Morrow completion, he should be entitled to produce the sands. They're that hard to find.

Q Isn't it typical to have numerous unorthodox locations for Morrow pools?

A It is, both for topography in the area and also for sand trends. We certainly go in here and delineate sand trends as best we can. The overriding success of Morrow development rests in statistics, in my judgment.

Q With respect to the second parameter listed by Mr. Nutter and testified to by Mr. Nutter, what nonstandard proration units are there in the Burton Gas Morrow Field?

A There are seven nonstandard proration units in the Burton Flat Morrow Field.

Q Now let me ask you a question that I've -- I think I've asked before with respect to the David Fasken well in green.

Does the size of the proration unit make any difference with respect to the five wells that David Fasken has drilled in Sections 35 and 1?

A I do not believe it has any practical effect on it. There are two nonmarginal overproduced wells that are located on these seven nonstandard units and only

one marginal well, and the other four have been abandoned, and I do not see that that acreage factor in there has ever been any significant factor here in the production from these wells.

Early on, in the very early development of the first six to ten wells that were in consideration for the original field rules there were some of those wells that were restricted because of that and at that time I believe it was a valid thing to do.

Q Mr. Henry, can you tell us whether there are more than one purchaser of gas in the pools that adjoin the Burton Flats Morrow Pool?

A Yes, there are; almost these same producers gather in one or more of these offset -- same -- same purchasers, excuse me.

Q Does that effect the method by which the producers and the pipelines produce or take for a pipeline purchaser?

A Well, the only thing I see that the prorationing does is to give the purchaser another crutch under which to manipulate take or pay provisions of the contracts that might be involved in those wells.

I don't see that it has real practical effect on it.

Q How many purchasers are -- do you know of that take gas from the Avalon Field, Morrow.

A I did not make a study of that and the

wells that I operate in Avalon all goes to El Paso, because they were farmouts from El Paso and the farmout agreement came with the gas contract affixed to it.

Q Isn't El Paso, in effect the David Fasken well in Section 1, depicted in green, the same as your wells in the Avalon Field?

A They have been, yes.

MR. PADILLA: I believe that's all I nave.

A Except the Avalon wells are still producing and this one is shut in by the Commission, or was shut in by the Commission and will be later on as it accumulates its overage and the emergency provisions of this 90-day moratorium are eliminated.

MR. PADILLA: I believe I have no further questions, Mr. Examiner.

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Henry, your Gulf Federal Well No. 1, is it shut in presently?

A No. It was shut in until we received Mr. Stamets' memorandum, except that we did ask the Commission, and they did grant us a 500 mcf per month allowable, just to let us turn the well on and unload it once a month.

Q This letter from Mr. Stamets, is that the one dated July the 3rd, 1984, to you?

A No. It's dated January the 3rd, 1985.

In fact El Paso brought this to our attention and asked us to turn the well on before we received the letter, and we held it up till we did receive the letter.

Q What is your acreage factor on your Gulf Federal Well?

A It has 281 acres in it and the factor is

Q When did this particular well become six times overproduced and flagged for shut-in by the Commission?

A We received notice of it in late summer or early fall of 1984, and I do not know the exact date.

Q Was that well shut in then?

A Yes.

Q It was --

A We did ask for the 500 mcf per month from the Commission to allow us to unload the well and they did grant it.

Q Now that was by letter dated June 29th of 1984 from Henry Engineering to the Commission, is that correct?

A That's probably correct. I do not have that letter with me and I couldn't testify about the date.

Q In the --

A We did -- we did request it and about that time.

Q Was it approved, your request of producing 500 mcf a month?

A It's my understanding that it was.

MR. STOGNER: I'll take administrative notice of the letter from Henry Engineering dated June 29th, 1984, and its subsequent approval, a letter from Mr. Harold Garcia dated July 3rd, 1984.

Q Mr. Henry, do you know how many other wells in this particular pool are six times overproduced and are flagged for shut-in at this time?

A There are some that have overproduced status and are not producing on the January schedule.

I believe there are -- just a moment and let me peruse this schedule.

The Exxon Corporation Burton Flat Federal Com No. 1-E, connected to Llano, on -- toward the bottom of page 10 on the proration schedule in the lefthand column, it is -- has no production in November and shows 234,638 mcf overproduced and it's my understanding that that well is shut-in for that reason.

Q That particular well I show has an acreage deliverability factor of .93 with 296 acres dedicated to it.

A Yes, 298 acres.

Q For the sake of time, let's move over to the Northern Natural Pipeline Company of America, which shows to have two wells --

A I don't have that on my -- I have a Natural Gas Pipeline.

Q Are you looking at the January, 1985, proration schedule?

A Right. I have a Natural Gas Pipeline Company but not a Northern Natural.

Q I'm sorry. I'm sorry, that was my mistake.

Natural Gas Pipeline Company of America, I apologize.

The Cities Service well has 320 acres dedicated to it and the Yates Petroleum Corporation has --

A Now, that well is still producing. It produced in November despite the fact that it's 356,545 mcf overproduced and it's still producing in November.

Q Do you know if they got the same kind of request to produce 500 mcf per month until overproduction is made up?

A I don't know that. Apparently not. They produced 30,343 mcf in November, according to this proration schedule.

Q Let's move on down to the Yates Petroleum. I have 324 acres dedicated to that, so we essentially have four wells six times overproduced ranging in different acreage factors, is that right?

A That's right.

Q So by this we can tell that the acreage

factors really has no effect on those wells that are six times overproduced, is that right?

A I don't see any -- anything unique about them.

Q So because your well has .88 acreage dedication to it really makes no difference since it would be six times overproduced even if it had a 100 percent acreage factor, is that right?

A That's right.

The Yates Petroleum well I see didn't have any production in -- in November and it was about the same amount of overproduction as Cities Service, almost identical, and Cities Service was still producing. Yates was shut in and I don't know what the difference there is. The status is about the same.

Q Now we alluded to the Avalon Pool to the west of your wells several times today. Does that pool abut with the --

A Yes, it does. There are about five miles contiguous boundary there.

Q Can you tell me which ones are sections that abut that one?

A All right. Starting in Township 20, 27, with Section 22. Starting in the center of the east line of 22, going south 2-1/2 miles to the township boundary, making about a third of a mile east excursion along that boundary, going a mile and a half south along the common boundary be-

tween 2 -- Section 2 and Section 1; and then going west along the south boundary of Section 2 for one mile, and I believe that's 2-1/2, 3-1/2, 4-1/2, 5 miles of contiguous boundary.

Q Do you know how many pipelines purchase out of the Avalon Morrow Pool?

A No, I do not. We sell all of our gas to El Paso and I do not know what other ones are in there.

We have a -- in the Catclaw Draw Field Gas Company of New Mexico and at one time Llano had some connections in Avalon. I don't know if those wells have been abandoned or not.

Q How many wells does David Fasken have in the Avalon Morrow Pool?

A We have six.

Q Are they on the eastern boundary of the Avalon Morrow or are they --

A Yes, they're all in Sections 2 and 3 of 21, 26, and three of them are proration units -- three of the proration units abut and are continuous through the Burton Flat Morrow Gas Pool.

Q Do you know how many plugged and abandoned wells there are in the Burton Flat Morrow Pool?

A No, I don't.

Q You said you all had -- I'm sorry -- David Fasken had one in the north part of Section 1. Did that have substantial production or was that dry and aban-

doned?

A The well had a tremendous open flow potential on it. Actually, deliverability initially on it was 11,000,000 feet of gas a day. It depleted very rapidly and it is my recollection that it was on the order of 200,000 mcf cumulative production from it. I don't have that exact figure with me, and --

Q How long -- I'm sorry.

A And that was abandoned and the well was plugged back to the upper sand and then later on the last well drilled on the whole area was the Gulf Federal No. 1 on that tract and it was drilled in about, I believe, if memory serves me correctly, in the last part of 1982, and it has produced over a billion feet of gas.

Q Do you believe that particular sand stringer in that plugged and abandoned -- plugged back well was a part of any of the other producing horizons of any of the other present producing wells?

A No, sir, I do not believe it was part of the reservoir. There may be some equivalent sands, sands occurring in equivalent interval, but it was not interconnected to that well; had a very rapid depletion in a very prolific sand, indicating a very small areal extent to that reservoir.

MR. STOGNER: I have no further questions of Mr. Henry.

Are there any other questions

of this witness?

MR. STOGNER: I have no further questions of Mr. Henry.

Are there any other questions of this witness?

MR. CHAVEZ: Yes.

MR. STOGNER: Mr. Frank Chavez of our Aztec District Office.

QUESTIONS BY MR. CHAVEZ:

Q Mr. Henry, I have experience with proration units. I have some questions to clarify some things that you have mentioned.

As far as acreage factor goes, a well which has an acreage factor of .5 would receive approximately half the allowable of a well with an acreage factor of 1, is that correct?

A It would receive exactly that under this proration formula.

Q Okay, so wells of equal capacity would not be allowed to produce the same amount of gas, is that correct, or would not receive the same allowable.

A That's correct.

Q If an operator has a smaller amount of acreage than what is standard for the pool, then he's aware of that at the outset of proration and understands that his allowable will be less than if he had the full acreage, is

that correct?

A That's correct.

Q Recognizing that, then, an operator has to follow that throughout the production of the well so that he doesn't become overproduced, is that correct?

A This is true if you're in a field in which the communication within the reservoir is without any restriction.

That's assuming a continuous homogeneous reservoir.

Q But regardless of the assumptions of the reservoir, proration rules say that you will receive less and you have to monitor that.

A Yes. We have received less allowable than the other wells by our acreage factors.

Q Reclassification once a year moves marginal wells -- or moves wells between marginal and nonmarginal classifications, is that correct?

A I'm not sure. I do not know what the Commission rule does.

Q Well, then is it possible that some of the wells which are now classified as marginal may be reclassified as nonmarginal?

A That's a possibility (not clearly understood.)

Q Would you consider marginal wells to be low capacity wells versus nonmarginal wells being high capa-

city wells?

A Yes.

Q So that the actual difference between a marginal and nonmarginal well would be 1 mcf --

A Yes.

Q (Not clearly understood.)

A Yes.

Q Therefore Exhibit One that shows -- in which you mentioned the distance between the nonmarginal wells and the marginal wells doesn't necessarily indicate that a marginal well offsetting a nonmarginal well may be very close in capacity to it, is that correct?

A Well, I made that statement with respect to the overproduced nonmarginal wells, indicating these that -- these in here that have very high capacities -- anomalous, they're an anomalous occurrence with respect to that (not clearly understood) well.

Q Well, you testified that you were not aware of producabilities of the other wells in the pool.

A I'm aware of their overproduction.

Q But as far as the capacity of the marginal wells which are offsetting the overproduced nonmarginal wells, you're not aware of whether they're high capacity also.

A Well, I've looked at them on the proration schedule and they're in general, very few of them approach the nonmarginal wells.

Q But some do and might be classified as nonmarginal?

A I'd have to look at the proration schedule and I have not made a study of that so I don't -- my question -- answer to that is I don't know.

Q Your exhibit of allowble versus production starts in September of '84.

A Yes.

Q Do you have -- did you examine the allowable versus production for the entire year, including the summer months?

A No.

Q Are -- are the summer months in this area of this pool generally lower demand months?

A They are in some fields that we operate out here, and that was negated in our particular case here when the summer Olympics brought on a demand for gas in Southern California and then El Paso took a large amount of gas during the late summer when the moratorium on burning fuel oil was in force in the Los Angeles Basin during the Olympics.

Q Would it be fair to say that a year's worth of production versus allowable ought to be considered rather than the higher demand months started in the autumn when the Commission considers whether or not they're going to discontinue proration within a pool?

A I wouldn't have any problem with that.

Q If I understood you correctly, you were saying that there being some overproduced wells within this pool indicated the pipeline needed more gas and therefore proration should be eliminated.

Was that one of the criteria, if I understood you correctly?

A That is, yes.

Q If all the wells were overproduced, would also indicate the same thing, that the pipeline needed more gas and therefore proration should be discontinued?

A No, not in and of itself, but in this particular case in the scenario we have here, the large number of marginal wells that obviously can't make that up and the very small number that are being prorated at all, then I think in this case that elimination of prorationing would take this into account. In a general case it would not necessarily do that, but in this particular case it does.

Q Well, is there some number of wells that you consider a small enough number of nonmarginal wells that could be used as criteria in determining whether a pool should be de-prorated?

A I don't think so, but I think 4-1/2 percent of the field being prorated is not -- is well within the category which should be eliminated.

Q Is the pool presently underproduced or overproduced?

A It's overproduced.

Q Is that an indication to you that the wells are capable of making more --

A Yes.

Q -- than pipeline demand?

A Yes; not more than the pipeline demand but more than the pipelines are taking.

They're nominating it but if nominations are synonymous with demand, then they're nominating enough gas, only it's not taking that much gas.

Q Is -- would you consider takes to be more -- closer to demand or nominations?

A Well, I don't know, because we as producers are at the mercy of the pipeline on nominations.

The pipelines nominate without ever consulting us for the field. We assume that they base that on demand. I believe they forecast their demand.

In this field they continue to forecast for more gas than they're actually taking, so it seems to me that if we were not shut in by the Commission for overproduction, we could meet that demand.

Q Are you --

A That's reflected in their nominations.

Q Are you aware that nominations are balanced against actual takes so that the volume of production is distributed back to the wells on the basis of the total production from the pool?

A No, I don't see that in the statistics

I've accumulated here for these three months.

When is that done?

MR. STOGNER: Can you tell us?

MR. HAROLD GARCIA: It's done on a monthly basis and one final balance at the end of a proration period.

A Well, if you'd refer to my -- my Exhibit Number -- Exhibit Number Four, for three months they have been out of kelter there and the nominations are substantially higher than the takes.

Q At the end of the year when -- well, you're not aware of the reclassification process that takes place at the end of each proration year, is that correct?

A I have studied it in the past and I can't remember all the procedure in it, but I have looked at it and know that there is such a procedure, but I don't know the details of it. Right at this moment I can't give you those details.

Q Mr. Henry, who is responsible for monitoring allowables and assuring the wells do not overproduce the allowables assigned by the Commission?

A You mean who in --

Q Between the pipeline and the operator, who is responsible for producing the wells?

A Well, the ultimate responsibility is with the producer.

Q When were you first aware that the David

Fasken well shut in overproduced was overproduced?

A When -- when the Commission called and asked us to shut it in.

Q Had it been overproduced before then?

A Yes.

Q Did David Fasken take any measures to reduce the production from the well --

A No, sir.

Q -- to produce the allowable only?

A No, sir. As long as the pipeline would take it, we -- we sold them gas, recognizing that if it were overproduced to a certain point we would be shut in, but our -- we wanted to -- I can't think of a better place to be in than an overproduced position when the Natural Gas Policy Act expired and we became nonregulated pricing.

Q Has the allowable assigned to the well by the Commission proration schedule been a just and equitable amount of the gas that should have been produced from those wells?

A Not in recent months, I do not believe so. That's the reason we called this hearing and came to seek a remedy.

MR. CHAVEZ: That's all the questions I have.

MR. STOGNER: Any other questions of Mr. Henry?

Being none, we're now ready for

closing statements.

Mr. Kendrick, we will start with you.

Mr. Kellahin, and Mr. Padilla.

Mr. Kendrick.

MR. KENDRICK: Are you sure that you would not like a coffee break first?

MR. STOGNER: Do you plan to be that long?

MR. KENDRICK: No, sir.

MR. STOGNER: Mr. Kellahin, do your comments extend over a five minute period?

MR. KELLAHIN: I don't think so, Mr. Examiner. It depends on what Mr. Kendrick says.

MR. STOGNER: Well, at that time I'll answer your question again.

MR. KENDRICK: Mr. Examiner, El Paso takes the position that proration is needed in pools that have more than one purchasing pipeline, and as has been displayed here today, this pool certainly has more than one pipeline. It has more pipelines today than at the time when proration was instigated for the pool.

When you have half as many pipelines as you have producers, certainly problems may exist between ratable take between various pipelines and various producers.

The witness has testified that

he has looked at nominations versus takes in the pool for what might be considered the winter months of 1984 and 1985. Certainly in those times that the nominations are the best estimate that the pipeline company has of what it expects to sell on the other end of its pipeline.

If we are able to sell more gas, we will take all the gas we can.

If we're not able to sell the gas, we will have to cut back somewhere.

This has been done in all areas of the State of New Mexico, Texas, Oklahoma, wherever we produce or take gas into our pipeline.

The wells are affected by proration in this pool. The takes and nominations of gas for all pools in New Mexico should be balanced at the end of the proration period, which establishes a net pool status of overproduced or underproduced, not just what has happened in a three-month period. So certainly a twelve-month period would be more adequate in determining what the pool status is as being overproduced or underproduced.

Acreage factors for allowables for wells on 100 percent acreage allocation certainly is a factor in the well and in the case of one well in question today, that has been questioned, the one well operated by Mr. Fasken, the Gulf well in the January schedule of 1985, had the allowable been calculated at a full acreage allowable with an acreage factor of 1, the well would presently

be 8.74 times overproduced.

Had it been given a full acreage allowable for January, using that month alone, not counting what the allowable would have been increased in previous months, the well would be only 7.69 months overproduced.

So the allowble that it has received may be an adequate allowable, but it has exceeded its six times monthly allocation.

El Paso would believe that proration should be continued in this pool and other pools in the State of New Mexico.

One further statement: Evidence has been heard in this case as what would de-prorationing have on the work to be done by the Oil Conservation Division.

What work is done by the Oil Conservation Division, it is my understanding, should be to protect correlative rights and prevent waste in the State of New Mexico. Whether this lessens their work or increases their work, I do not believe is the question today.

MR. PADILLA: May I make a motion, Mr. Examiner?

I move that Mr. Kendrick's statement, with all due respect to Mr. Kendrick, be stricken from the record of this hearing.

If the Commission or the Exa-

miner wants to consider his statement as Mr. Kendrick as an interested citizen, so be it, but El Paso obviously has notice of this hearing. If they want to object to the hearing and the application, they should put on a case as Cities Service, or appear through counsel as Cities Service has done.

MR. KELLAHIN: Mr. Examiner, we would resist striking Mr. Kendrick's statement. To strike it would be inconsistent with the custom and practice of this Division and Commission for the last forty years, to allow operators, interested parties, to participate in an open and public hearing.

You have encouraged and you continue to solicit an accept at all hearings statements by anyone wishing to make such a statement. You judge those statements for what they're worth and Mr. Kendrick's statement is entitled to be made a part of this record.

MR. STOGNER: Mr. Padilla, I'm going to overrule your motion and keep Mr. Kendrick's statement on the record.

Mr. Kellahin.

MR. KELLAHIN: Mr. Examiner, I think one of the single most important conservation practice of this Division, or any Division, is the prorationing of gas and oil pools.

We hear cases about unorthodox locations that are major, important issues between those two

operators and you decide those kinds, but I can't think of any other kind of case that is as complex and as important not only to the operators within a pool but to the citizens of this state, to the pipelines, to the income resulting from production from our gas pools. It is very complex.

We have seen that system operate for some ten years in the Burton Flat Morrow Pool and because in the last three months it happens to impact Mr. Fasken, a system of proven conservation practice, he now, having ignored those rules for all this time, having disregarded the impact it will have upon him and his production, having sold what he can to El Paso simply because they'll take the gas, he's now faced with the possibility tc shutting in till he's balanced his well, he now wants to scrap the whole system. That is not what the substantial evidence has shown. What this evidence shows you is that you cannot grant this application.

Mr. Henry has told us a number of things today but what is important is what he has not told us, what the evidence has not shown us.

We have found out that Mr. Nutter and the Commission established prorationing in this pool some ten years ago and one of the fundamental exhibits in that hearing was his Exhibit Number B, which I showed to you, and it shows of those wells for which Mr. Nutter calculated the deliverary capacity, there is a great range of capacity of those wells to deliver into the pipeline.

That was one of the fundamental elements that set forth the gas prorationing in this pool, to create a situation in which the pipelines will take ratably from wells so that operators' correlative rights are protected and so that one very prolific well at whatever location it may be will not capture more than its fair share of the market.

Mr. Henry tells us that the demand for production from this pool is now greater than the supply from the wells in that pool. He demonstrates that by an exhibit that represents only three months out of ten years to show that at least temporarily and for now the nominations exceed the production.

My response is, so what? That is not enough. You need to have not only one year of production, you need to examine ten years of production to see whether or not this is a temporary situation that is going to change.

We contend that this information is inadequate to justify the scrapping of prorationing.

The consequence of scrapping prorationing may be that those 54 proration units that Mr. Henry says are not producing wells, the fact that those proration units will be allowed an opportunity to drill wells in order to increase the supply from the pool in order to cover the nominations is certainly an incentive to further explore and develop the pool.

There is no testimony here that the pool is fully developed; that it is now in its final stages of depletion, and that we can scrap the system. That is not what you've heard. Until you see a prorated pool that is consistently as a pool underproduced, then you have to continue prorationing, so long as you see multiple pipelines. And we're not talking about two or three. We have a big bunch; there's ten of them in there. We do not know that those pipelines are taking ratably or would take ratably in the absence of prorationing. You cannot take that risk.

The testimony is that this pool is overproduced now. That in and of itself ought to require you to continue prorationing until it's proven otherwise.

What else do we not know? We do not know the capacity of the twelve nonmarginal wells and what percentage of the allowable they will take from the pool. We do not know what effect that share of the allowable will have on the non -- on the marginal wells, whether those marginal wells will be prematurely abandoned or not.

I've already told you we don't know if it's a temporary condition or not. We don't know whether or not the 54 proration units are going to be drilled.

I think by the elimination of the proration we will find something that we do know, that it will encourage pipelines to take nonratably, that they

will be, human as they are, some people say they're inhuman, but the fact of the matter is they will go to the high capacity wells and they'll take that demand first. It's a natural consequence of nonprorated pools to allow that production to be taken under a system that is similar to a rule of capture. And that's exactly what we don't want in this pool.

Because there is a multitude of things that we do not know about the basis for which to scrap prorationing, this is a perfect topic for the Oil Conservation Division's Prorationing Gas Study Committee. It is one in which I encourage Mr. Henry and his client to participate, to bring their concerns and problems about this well and this pool for that study. This is not a problem that's isolated unto itself. It is one the Commission is well aware of and had been involved in for more than a year, and we would say that you either continue this case or dismiss it; continue it and direct it under some type of letter to that study committee and ask them to address this problem.

We urge you, Mr. Examiner, not to fix sometning that's not proven to be broken. You set a terrible precedent by trying to orchestrate a solution for Mr. Fasken's one well that will be used as a stumbling block for all the prorated gas pools. You set in motion a precedent that will be used by every other operator in all the rest of the prorated gas pools to scrap prorationing because

he's got a well that's overproduced.

We suggest that you do not have sufficient evidence to grant this application and it ought to be denied.

MR. STOGNER: Thank you, Mr. Kellahin.

Mr. Padilla.

MR. PADILLA: Mr. Examiner, you have evidence here today that El Paso, at least El Paso Natural Gas, makes no distinction between the wells of David Fasken in the Burton Flats Morrow Pool and the Avalon Morrow Pool.

I think it's very easy for the opponents in this case to take potshots without putting on any testimony regarding deliverability of the wells. We have shown that the great majority of the wells are nonmarginal -- are marginal and that they are not calculated for allowable purposes or proration purposes.

We have isolated six wells that are overproduced and we have also shown that those wells, at least with respect to the Fasken Well in Sections 35 and Section 1 are not continuous and in communication with each other.

That is the nature of the Morrow formation and it's no different between the Avalon and the other four surrounding fields that -- Morrow fields that are not prorated that Mr. Henry has testified to. There is

actually no difference between prorated and nonprorated fields here other than the fact that six wells are being discriminated against and the fact the correlative rights are being impaired.

In reverse, we generally have the situation where marginal wells are allowed to produce because of the marginal nature. In this case we're penalizing high capacity wells where there's no -- has been no showing by the opponents that those wells are connected to the rest of the field.

The Finding Number Twenty of the original order issued by the Commission in this case indicates it is as true then as it is now that the stringers are not continuous and you have different sand lenses.

Certainly the opponents have not put on testimony that the -- by virtue of further development of that field that you now have a homogeneous, continuous reservoir under which ideal proration would exist. We would concede that if it were homogeneous reservoir, continuous reservoir, that prorationing would be appropriate, but there is no distinction on the west line of that section, on the west boundary of the Burton Morrow Pool and the Avalon, to make any distinction as to why the Morrow on the west and the Morrow on the east should be separated at all.

The fact is, and it remains, that the difference between the field in 1974 when prorationing was established, is that we have had a complete 180

take place there.

The point now is that we have a high demand, lower takes whether El Paso wants to admit it or not. In addition to that we have -- in 1974 we had six high capacity wells. At that time prorationing seemed to be the appropriate thing, because we did have a developing field.

There's been no showing by the opponents here that that field is continuous and should be continued to be prorated.

Mr. Kellahin says that the OCD takes a risk of throwing this thing into the rule of capture situation. In fact you have 320-acre spacing and or a non-prorated basis each well is going to produce as much as it can based upon market demand and there's no difference between what El Paso's doing now and what would take effect if proration would be eliminated.

That's all.

MR. STOGNER: Thank you, Mr. Padilla.

Mr. Kellahin, Mr. Padilla, would you please submit to me in twelve days a rough draft of a proposed order? I suspect they'll probably be very different.

Is there anything further in Case Number 8463?

Being none, this case will be

taken under advisement.

(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 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. 8463, heard by me on 30 January 1985.

Michael E. Stogner, Examiner
Oil Conservation Division