

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

20 November 1986

COMMISSION HEARING

IN THE MATTER OF:

The hearing called by the Oil Con-                   CASE  
servation Division on its own motion                   9016  
for the adoption of a new Rule 414  
to regulate sales of gas by separate  
owners in a well.

BEFORE: Richard L. Stamets, Chairman  
Ed Kelley, Commissioner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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I N D E X

ROBERT STOVALL

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MR. STAMETS: Let's go to 9016.

What we'd like to do at this time is to try and accommodate Mr. Stovall, who wants to go home and leave the garden spot of New Mexico, is recall Case 9016 and allow Mr. Stovall, who is the chairman of that committee to present the latest version of the solution in that case.

So to hurry the thing up the record will show that this is Mr. Stovall and he's sworn and qualified and is the committee chairman.

MR. STOVALL: And hopefully we can benefit everybody by concluding this matter this afternoon.

MR. STAMETS: I wouldn't count on it.

ROBERT STOVALL,  
being previously called and sworn and remaining under oath,  
testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. TAYLOR:

Q Mr. Stovall, you were the chairman of the committee that studied what we've referred to as split

1 sales, which is here proposed Rule 414, and briefly in the  
2 hearing on Octobert 23rd we had three alternatives and we  
3 had testimony on that from various persons and the committee  
4 has met since that time and reconsidered this, has it not?

5 A Well, that's not exactly correct. We  
6 have come up with a new proposal which was presented to the  
7 committee members and they were asked if they felt that we  
8 needed to meet and discuss this, and we've had -- I've had  
9 telephonic conversations with the majority of the committee  
10 members and some correspondence from several of the commit-  
11 tee members, and I believe I can speak to the committee's  
12 feeling in general with respect to the new proposal, Pro-  
13 posed Alternate Number Four to Rule 414.

14 Q And what is the committee recommendation?

15 A If you don't mind, I'd like to preface  
16 that by stating that at the last hearing we did not feel the  
17 need to take action at this time and particularly we are  
18 concerned about the proposals that were presented because of  
19 the nature in which they directed the operations of a well.

20 In visiting with Mr. Stamets and Frank  
21 Chavez, I determined that there may, in fact, be some prob-  
22 lem and a need for a mechanism to address the problem. In  
23 support of that I've been presented with a letter which was  
24 addressed to Mr. Stamets, and if you would like, I will be  
25 glad to read it into the record or if you'd like to accept a

1 written copy as an unsworn statement --

2 Q Since it's very short why don't you read  
3 it into the record?

4 A All right.

5 This letter is addressed to Richard L.  
6 Stamets, Chairman, New Mexico Oil Conservation Commission,  
7 Reference Proposed Rule 414.

8 Dear Mr. Stamets: Our property was force  
9 pooled in 1962 by Pioneer Production Corp. We didn't re-  
10 ceive any money for several yers until we got our own con-  
11 tract with the pipeline. Pioneer said that they weren't al-  
12 lowed to sell the gas becuase of Federal law so the gas they  
13 were producing was only their gas for exchange purposes, and  
14 therefore, they didn't owe us any money. No money was ever  
15 escrowed for us -- it says was required by your order N-  
16 2334, I assume that means as required by your order 33 --  
17 2334. We have never received any reports to balance out the  
18 amount of gas that was sold before we got a contract our-  
19 selves.

20 We support your writing a rule that would  
21 prevent this type of situation from occurring again.

22 If we cannot attend the hearing, please  
23 have this letter read into the record as an unsworn state-  
24 ment.

25 Sincerely, it looks like Lavean or

1 Laverne Clayton, I can't read the first name clearly. It's  
2 a handwritten signature.

3 Q And in fact here's the original of that  
4 letter and copies.

5 A As a result of some of the discussions  
6 that I had with Mr. Stamets and then with some of the com-  
7 mittee members, we did not feel that any one specific solu-  
8 tion could be appropriate to all situations.

9 So what is proposed as Alternate Four is  
10 a rule which simply says where there are separate owners in  
11 a well and where any owner's gas is not being sold with the  
12 current production from such well, such owner may, if neces-  
13 sary to protect his correlative rights, petition the Divi-  
14 sion for a hearing seeking appropriate relief.

15 Q And I assume that the appropriate relief  
16 would be upon some proof they might have the well shut-in  
17 until there was some agreement signed or something like  
18 that?

19 A I think it is the intent, and I believe  
20 the committee understands the intent of this rule is that  
21 petition to the Division for relief would not be appropriate  
22 in a situation in which there was an agreement of some sort  
23 which would allow protection of a working -- of an interest  
24 owner's correlative rights, be it either an operating  
25 agreement, a gas balancing agreement, or some other

1 agreement which would protect those rights.

2 In this case, or in a case which might  
3 appear if an owner felt that his correalitive rights were  
4 threatened or violated, he would appear before the -- or pe-  
5 tition the Division, would then hold a hearing, and they  
6 could fashion relief appropriate to the circumstances, and  
7 we haven't defined or set any guidelines for that. So what  
8 that relief might be is -- is not clear at the moment.

9 Q Okay. Do you have anything further to  
10 add to that?

11 A I would only say, and I think I speak for  
12 the committee, that I have letters of support for the rule.  
13 I have some concerns that have been raised by the rule.

14 I think as a whole, the committee feels  
15 that if something is to be done to address the problem which  
16 we're concerned with, that probably a broad rule with flex-  
17 ibility such as this is the best solution.

18 Q That's all you have.

19 A That's it.

20 MR. TAYLOR: That's all we have,  
21 Mr. Chairman.

22

23

CROSS EXAMINATION

24 BY MR. STAMETS:

25 Q Mr. Stovall, to your knowledge when a --

1 when a small interest owner sells the gas from a well, will  
2 the operator be aware of that?

3 A Based on my experience, I would say so,  
4 but we don't operate a tremendous number of wells with a lot  
5 of small interest owners.

6 Q Well, it's been suggested to me that when  
7 less than 100 percent is sold that there should be a respon-  
8 sibility on the part of some person, the operator or the  
9 purchaser, to notify the other owners that sales are being  
10 made so that in the case with a one percent or two percent  
11 owner, he couldn't sell all the gas for six months or a year  
12 without the rest of the owners being aware of that.

13 A Well, I think if that were the case, and  
14 if it were just the case of one small interest owner sell-  
15 ing, the operator certainly would have to be notified be-  
16 cause he'd have to turn the well on.

17 Q Do you think under those circumstances  
18 the operator then would be the appropriate one to put the  
19 burden on as opposed to the purchaser?

20 A I'm not sure that I understand exactly  
21 what you mean.

22 Q Okay, if I was going to send out a memo-  
23 randum saying when this happens you're responsible for tell-  
24 ing everybody else, who do I tell?

25

1           A           Oh, okay. Well, the operator is the one  
2 who has -- who knows who's in the well. He has the list of  
3 interest owners. It might possible to direct him to provide  
4 that information to the selling interest owner and require  
5 him to then have the interest owner notify him, but I don't  
6 -- I don't know how much of a burden it would be on the  
7 operators to have the operator have to make that notice.

8           Q           We may circulate that as a proposal and  
9 see what happens.

10                   As I recall in your memorandum to the  
11 committee, you had a proposal related to compulsory pooling  
12 and I've had an opportunity to refine that a little bit  
13 since that went out.

14                   Let me -- let me read this to you and see  
15 if this would be an appropriate standard paragraph for all  
16 forced pooling orders, in your view.

17                   Located somewhere in the order would be a  
18 provision that the operator shall be obligated to sell and  
19 account for the production attributable to the interest of  
20 any party pooled under the terms of this order beginning  
21 with the first sale until payout and thereafter until such  
22 pooled party shall elect in writing to separately contract  
23 for such sale.

24           A           I think that's consistent with our  
25 original proposal that was included in my memorandum and

1 perhaps somewhat refined, and at first glance, hearing it, I  
2 -- I don't see any objection, really.

3 Q Would you reiterate what your objections  
4 were to the proposal that when there's a split sale without  
5 a balancing agreement that person can't sell more than their  
6 percentage from the well on an allowable basis or on a days  
7 on basis?

8 A One of the objections is an administra-  
9 tive objection, keeping track of that on a well by well bas-  
10 is and making sure the wells were turned on and off at the  
11 appropriate time and controlling that production.

12 There are also some engineering problems  
13 in some reservoirs based on pressure build-up, which -- in  
14 which the time might not be reflective and it might not be  
15 prorated with an allowable or deliverability measure.

16 The other thing is that doesn't eliminate  
17 gas balancing, that simply reduces the amount of balancing  
18 that must be recorded, kept track of and accounted for.

19 Q Would that sort of a provision encourage  
20 the owners to enter into gas balancing agreements?

21 A I'm not sure that it necessarily would.  
22 I think the owners -- I think what's happened with respect  
23 to the gas balancing agreement is that this is a fairly new  
24 situation. A lot of wells are operated under operating  
25 agreements in which the gas balancing agreement is not in-

1 cluded. Many operators are now initiating steps to include  
2 a gas balancing agreement in their operating agreements or  
3 in whatever governing agreement governs the operation of the  
4 well.

5 One of the problems is the -- the nature  
6 of the gas balancing agreement. I don't think traditional  
7 gas balancing agreements meet the problems of today's  
8 marketing situation and I think that's one of the reasons  
9 that just manding a gas balancing agreement in and of itself  
10 doesn't necessarily address the problem. That may just  
11 substitute one problem for another one.

12 MR. STAMETS: Are there other  
13 questions of the witness?

14 Mr. Hall.

15

16 CROSS EXAMINATION

17 BY MR. HALL:

18 Q Mr. Stovall, I don't know if you can --  
19 you can answer this question, whether you know about it, but  
20 I believe it might have been the practice of some pur-  
21 chasers, at least in the northwest, to bypass and communi-  
22 cate directly with each individual contract owner in a well  
23 as to what wished to do and that posed risks that the opera-  
24 tor had no idea as to what his royalty obligations might be.

25 Don't you think we need to incorporate

1 some sort of reciprocal notification requirements so that  
2 all parties area aware of what actions are being taken?

3 A I'm aware of purchasers doing that in the  
4 San Juan Basin.

5 We did receive notices, to the best of my  
6 knowledge, they contacted at least all parties in that well  
7 who had a contract with that purchaser.

8 Now whether there were other parties in a  
9 well who didn't have a contract with that purchaser and  
10 therefore didn't receive notification might indeed be a  
11 problem.

12 Yeah, I'm not -- that gets into a whole  
13 other problem where the operator -- where the purchaser is  
14 in effect doing what we've suggested that the Commission not  
15 require the operator to do.

16 MR. STAMETS: Mr. Chavez.

17  
18 QUESTIONS BY MR. CHAVEZ:

19 Q Mr. Stovall, in your first testimony last  
20 month you brought up the situation where a one percent in-  
21 terest owner had contracted their gas and the other 99 per-  
22 cent of the interest owners in the well had not, and you ex-  
23 perienceed or expressed a distress at that.

24 Do you feel if that situation had gone on  
25 that the correlative rights of the 00 percent that hadn't

1 contracted would have been violated had the pipeline pur-  
2 chases that one percent of gas?

3 A Oh, absolutely. It could have been a  
4 disastrous situation.

5 Q Okay, if that violates his correlative  
6 rights, does it violate the correlative rights of the one  
7 percent interest owner if the other 99 percent do contract  
8 and he doesn't?

9 A I -- the potential is there. The degree  
10 of harm is certainly considerably less.

11 Q You say it's only a potential to violate  
12 the correlative rights of the one percent interest owner; it  
13 was an absolute violation to the 99 percent.

14 A Caught me, didn't you?

15 Yeah, I -- whenever less than all of the  
16 gas is being sold from the stream from a well there is, I  
17 should say potential in all cases of a correlative rights  
18 violation. That violation may be prevented by agreement or  
19 by some other mechanism. The potential is there in either  
20 extreme. The degree of the risk is greater where the  
21 smaller interest is being sold against the greater interest  
22 not being sold.

23 Q Isn't the violation of correlative rights  
24 mostly based on quantity of gas and money involved?

25 A Not in the absolute context of whether or

1 not rights are being violated but what's the potential harm  
2 in recovery probability.

3 MR. STAMETS: Yes, sir, would  
4 you identify yourself for the record, please?

5 MR. COLVIN: Mr. Chairman, I'm  
6 Aaron Colvin from Dallas, Texas. I'm a royalty, overriding  
7 royalty owner in the State of New Mexico, wells operated by  
8 Tenneco, Amoco, and El Paso.

9 I am also a member of the com-  
10 mittee and I'd like to kind of present a minority report, if  
11 I may, inasmuch as I was not present at that meeting having  
12 signed up for five people for a cruise which started Novem-  
13 ber the 20th, the day this meeting was hastily called.

14 And I sent an emissary with my  
15 objection to the procedure and I'd just like to say that  
16 I've been a voice alone, crying in the wilderness, until I  
17 got a copy of Mr. Stovall's letter of July 16th in which he  
18 said that Dick Stamets called me and requested that we had  
19 one other alternative possibility to the matter of dealing  
20 with split sales in a single wellbore; namely, that there be  
21 a requirement that a single operator be designated and given  
22 the authority to sell 100 percent of the gas stream on be-  
23 half of all of the interest owners.

24 I have contended, and I can  
25 read you an excerpt from operating agreements, every oper-

1 ating agreement I have seen in the San Juan Basin and any  
2 other area in the last twenty or thirty years, that that  
3 provision there, that each party has a right to take in kind  
4 and separately dispose of his production -- his share of the  
5 production, and it's the production we're talking about, and  
6 it said, where that party doesn't then the operator has the  
7 right, but not the obligation, to sell that party's interest  
8 and remit to him for the price he received.

9 Now that was incorporated in  
10 the operating agreement and it was signed by all the par-  
11 ties, and it was put in that operating agreement for a situ-  
12 ation just as we have at this time. I cannot find anyone to  
13 tell me why that was in there other than for a situation  
14 that we have in the industry today, and then we said we have  
15 to have gas balance agreements. I have checked gas balanc-  
16 ing agreement, gas balancing agreement, and all over the  
17 country, and in each one of them it has an obligation upon  
18 the operator to keep the record, to notify the people of the  
19 sale and to account -- tell the of the overage and the un-  
20 derage, and it has a provision in there for a settlement of  
21 underage and overage and it says that it will be a financial  
22 settlement upon the depletion of the well if there is no  
23 other means.

24 In other words, it goes back to  
25 that provision that the operator has the right to sell and

1 remit to that non-selling party for his interest at the  
2 price that was received and it goes right back to the opera-  
3 tor.

4                   So why should you make that man  
5 wait twenty years to get what he would have got when the  
6 operator sold the gas by waiting till the well's depleted  
7 and he still hasn't sold the gas, he gets the money then,  
8 and it's just not the way it has been, and it's incorporated  
9 in the operating agreement and in the gas balancing agree-  
10 ment.

11                   I believe it is the operator's  
12 obligation or he had that right, but I think it falls upon  
13 him because I can't go out and say I'm selling the gas, just  
14 turn the valve. It's the operator, we hire him to do that.  
15 I don't like the idea but I think it's in the contract and  
16 we told El Paso we'd be willing to join us if they would not  
17 alter the contracts that we have with them wherein that we  
18 had to pay for the royalty, the taxes, and everything that  
19 had been assumed by the operator and all of these obliga-  
20 tions, and it's in the operating agreements and in the gas  
21 balancing agreement that they have to do that.

22                   So I submit that as a minority  
23 report and ask how that the proposed rule is going to help  
24 the fellow that has been -- his gas is being shut-in that he  
25 can't sell it.

1 MR. STAMETS: Mr. Stovall, do  
2 you have a response?

3 MR. STOVALL: Yes. Mr. Colvin  
4 and I have had this discussion before, of course, and he has  
5 written some correspondence which I believe has also come to  
6 the Commission, and if there's a gas balancing agreement I  
7 don't think that this rule is going to be applicable. The  
8 parties have entered into their own agreement which would  
9 cover it, whether that be good or bad, they have entered in-  
10 to an agreement regarding the disposal -- regarding the al-  
11 location, payment, disposal, balancing of that production.

12 Many operating agreements con-  
13 tain the language which Mr. Colin's referred to, the opera-  
14 tor has the option but not the obligation to dispose of hte  
15 production. There are operators who decline to exercise  
16 that option and there may not be a gas balancing agreement  
17 attached to the particular operating agreement.

18 Those are areas where I think  
19 there might be some concern. There is -- there is the  
20 potential for harm to correlative rights and in that situa-  
21 tion this rule could be used to seek some relief. And I  
22 would stress that if the parties have made some other agree-  
23 ment which would result in the protection of correlative  
24 rights, that action by the Division under a petition under  
25 this rule would not be appropriate if there is in place an-

1 other agreement which would serve the function of protecting  
2 correlative rights.

3 MR. STAMETS: Mr. Stovall, if  
4 we combined the proposed rule with some sort of requirement  
5 that there be notice to the non-selling owners of the well,  
6 make them aware of this rule, might that help to serve to  
7 protect correlative rights? Even further?

8 MR. STOVALL: Are you talking  
9 -- are you referring to non-selling non-contracted owners or  
10 non-selling contracted owners?

11 MR. STAMETS: Just those folks  
12 who aren't selling. They're aware of this, if we adopted  
13 the rules, they weren't selling, they were made aware of the  
14 rule, then those who had legitimate cases of correlative  
15 rights violations would have a better opportunity, would  
16 they not, to get those protected?

17 MR. STOVALL: In principal I  
18 would agree that's correct. One of the things I would want  
19 to be very careful of in that language is in defining what  
20 constitutes a sale, what triggers the requirement of notice.

21 For example, we have a number  
22 of wells which go on and off more than once a month in some  
23 cases. Would each time the well went on trigger the notice  
24 requirement or would the entering into a contract trigger  
25 the notice requirement? What event would trigger that  
notice requirement?

1                   That would be my greatest  
2 reservation with it, is that you -- I wouldn't want to have  
3 to send out a notice every time my switcher turned on the  
4 valve.

5                   MR. STAMETS: Perhaps something  
6 on the order of the first time this should happen.

7                   MR. STOVALL: Question where if  
8 I've got a contract with a pipeline and I now get a short  
9 term release to sell into the spot market, does that trigger  
10 a notice?

11                   Is that a different -- differ-  
12 ent transaction therefore requiring a -- I think it's some-  
13 thing -- I understand what you're saying and I think that  
14 the keeping everybody informed is probably a good idea. I'd  
15 certainly want to look at the mechanics of it in light of  
16 what's happening today out in the field.

17                   MR. STAMETS: Perhaps could be  
18 both, say for the initial sale from a well under a standard  
19 contract or for the initial sale on the spot market.

20                   Any other questions? I don't  
21 know who you are at this hour of the afternoon.

22                   MR. BRUCE: I'm Jim Bruce.  
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## CROSS EXAMINATION

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BY MR. BRUCE:

Q Mr. Stovall, is this proposal a change from the current relief now available?

What I'm asking, basically, is this relief currently available from the Commission or Division?

A I testified at the October hearing that I did not believe that a working interest owner had -- or that the Division had the jurisdiction to hear a case brought before -- before it by a working interest owner, that the working interest owner would best go to court.

There are attorneys who disagree with me, who think that you can go before the Division now.

That's an issue which hasn't been authoritatively resolved and I would rather not issue an authoritative opinion on that.

Q Regarding compulsory pooling language, is that supported by the committee?

A I received no objections to it, I'll put it that way. We did not meet formally but I don't think anybody on the committee, that I know of, objected to that language.

Q Well, my client's tax department is is concerned that the proposed language could cause each well after payout to be considered an association taxable as

1 a corporation. Was that ever brought up before the commit-  
2 tee?

3 A No, but I'm aware of what you're concer-  
4 ned with and I think that is a concern that -- and I think  
5 that's why -- I believe in further refinement of the stand-  
6 ard operating agreement, the AAPL, what is it, whatever the  
7 number is, 610, had some provision in there relating to the  
8 sale for a period of year or less, if I'm not mistaken.

9 Q Yes.

10 A And I believe that is because of the tax  
11 treatment that such -- such action has been given by the In-  
12 ternal Revenue Service.

13 And I certainly have no idea what the new  
14 code will do.

15 MR. STAMETS: Would you say  
16 then until payout and thereafter year to year until such  
17 pooled party --

18 A I think -- I guess the question would be  
19 if that's mandated by an order as opposed to agreement by  
20 the parties, does it create that same sort of tax associa-  
21 tion or should that language be -- and since that's not ac-  
22 tually a rule but simply language to be incorporated in an  
23 order, I would certainly encourage somebody to talk to their  
24 tax people and have them submit comments to you regarding  
25 how that should be done to avoid creating a taxable conse-

1 quence which we had not anticipated or intended.

2 MR. STAMETS: Other questions?

3 MR. COLVIN: I'd like to ask  
4 Bob one more question.

5  
6 QUESTION BY MR. COLVIN:

7 Q Can you think of an incident or a case,  
8 Bob, where this provision in the operating agreement would  
9 be used other than what we're talking about now?

10 A The provision --

11 Q Where the operator -- where one does not  
12 make arrangements for a market to dispose of his production?

13 Dispose of, he can have a contract,  
14 that's not disposing of it, then the operator has the right  
15 to do so.

16 A If you're asking are there situations in  
17 which the operator is selling under the terms of another  
18 party's interest under the terms of the operating agreement,  
19 yes, there are several that I know of.

20 Q Can you think of any provisions for this  
21 particular paragraph other than the situation where it  
22 states now where some in the same well are selling and some  
23 are not?

24 A Well, if each party is taking and dispos-  
25 ing of his own production then that -- then that provision

1 would not be applicable.

2                   It would only be applicable by definition  
3 when a party's interest is not being disposed of by that  
4 party.

5           Q           Well, if he refuses to sell or he cannot  
6 get a sale for it, he is not selling; he is not disposing of  
7 it.

8           A           That's correct.

9           Q           And it's being produced, because it's  
10 significance is in the production.

11          A           And I -- I believe what you're asking me  
12 is the fundamental question of whether he's selling my gas  
13 or is my gas staying in the ground.

14          Q           That would be -- I didn't think of that  
15 but that would be a good question.

16          A           Again, I don't know. I don't know the  
17 specific authorities on that. That's -- that is a question.

18          Q           My point is that the Commission was right  
19 in thinking of that. It's the operator, I think, is respon-  
20 sible to handle that and the order should be directed in  
21 that manner.

22          A           I agree with you and I think that any  
23 agreement between the parties should be governing, whether  
24 it's an all hydrocarbons produced or whether it's an  
25 operating agreement, gas balancing agreement, or whatever it

1 might be.

2                   There are circumstances, however, where  
3 there is no agreement addressing the production, disposi-  
4 tion, sale of the hydrocarbons and I believe that's the sit-  
5 uation that this rule is intended to address.

6                   MR. STAMETS: Any other ques-  
7 tions?

8                   MR. TURNER: My name is Glenn  
9 Turner, for the record.

10

11 QUESTIONS BY MR. TURNER:

12                   Q           Bob, you know, one of the things that  
13 you've heard me express concern about in the past is the  
14 fact that there are apparently numerous examples of wells in  
15 which a producer or producers are selling the entire stream  
16 and no record is being kept; no concern is being shown for  
17 whether they're being over-depleted or not. They're just  
18 putting off the whole issue of when and if they're going to  
19 balance them out, and it seems to me that if we -- if we  
20 essentially get the Commission to adopt a rule which says  
21 that if there's a problem, come to the Commission, I'm not  
22 sure -- I'd have to be sitting on the Commission and have  
23 one of these situations happen where the roof comes in; it's  
24 just been chaotic for a couple of years and they say what  
25 do we do. I wouldn't know what to tell them.

1                   And I would like to see us make some  
2 headway toward some kind of solution for this problem and I  
3 know that one of the possibilities that we discussed was to  
4 require the producers who want to sell the entire stream to  
5 escrow that part of the production that would have been  
6 owned by the nonparticipating parties.

7                   A                   That was -- that was an alternative that  
8 was discussed at the first committee meeting and you were  
9 there, as you remember, of course, that's where it came out.

10                   I have some strong, positive feelings  
11 about that concept. The question I would raise is whether  
12 that should be a rule or whether that should be an agreement  
13 and in between ground is could that possibly be a solution  
14 under the -- that the Division could order under the terms  
15 of this rule in a case brought before it on this case.

16                   I think the alternates that were pro-  
17 posed, both Alternates 1, 2, and 3, in the original hearing,  
18 the escrowing alternate which we discussed at the committee  
19 meeting, are possible remedies that could be applied by the  
20 Division in a given case.

21                   I'm not expressing an opinion as to the  
22 legality of those remedies. I'm discussing them as a prac-  
23 ticality.

24                   They're also remedies which could be  
25 agreed to by the parties.

1           Q           Well, should the rule express a number of  
2 alternatives that could be imposed?

3           A           Scares the heck out of me because I'm  
4 afraid we might leave one out or make it ambiguous and make  
5 it even more difficult.

6                   I think it's something that we ought to  
7 keep an eye -- I don't think we're going to, you know, do  
8 this and go awa and say, well, that takes care of that for-  
9 ever. Things are going to happen and we may -- we may find  
10 that as market conditions continue to change, that more  
11 stringent and definitive rules need to be developed.

12                   Under present circumstances, I don't -- I  
13 don't particularly favor more stringent -- I don't favor the  
14 Commission writing the agreement for the parties.

15           Q           Oh, I agree with that. I'm just con-  
16 cerned where there is no agreement and there's no records  
17 being kept. There just isn't any concern at this point in  
18 time about balancing or over-depletion of ones reserves or  
19 anything.

20                   And I know that that's happening in a  
21 number of cases.

22           A           Oh, I'm sure that it possibly is, but I  
23 -- I think that there -- you know, you could get a remedy  
24 now. You could go to court and ask for a remedy and I don't  
25 think this rule would preclude that.

1                   In the case you're talking about, you may  
2 want to go straight to court and ask for an accounting  
3 rather than seek relief through the Division, feeling, per-  
4 haps, that the Division didn't have the authority to do what  
5 needed to be done.

6                   On the other hand, you might wish to go  
7 to the Division. I think it gives you an alternate remedy  
8 as an interest owner.

9                   MR. STAMETS: Are there other  
10 questions?

11                   Mr. Stovall, thank you very  
12 much and members of your committee.

13                   What I would like to do, then  
14 is at this point allow two weeks for comments in this case,  
15 assuming that there's some going to be some comments, allow  
16 on two weeks for comments in this case and plan on issuing  
17 an order on the 18th.

18                   I would judge that the order  
19 probably would be favorable to the fourth alternative,  
20 although if there are compelling written statements on the  
21 others, certainly we would give consideration to those.

22                   We'll take the case under  
23 advisement.

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(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY 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 this portion of the hearing, prepared by me to the best of my ability.

Sally W. Boyd