

## NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARINGSANTA FE, NEW MEXICOHearing Date SEPTEMBER 24, 1990 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
W. H. Bobe Kenderer	El Paso Natural Gas Co	El Paso TX
Benny McHugh	El Paso Natural Gas Co.	El Paso, TX
Norma A. Hami	Mountain Oil Co.	Houston, Tex.
Rick Foppiano	OXY USA	Midland
ALLAN W. DEES	TEXACO INC	MIDLAND, TX
William F. Egan	Campbell and Eckel, P.A.	Santa Fe
W. Kellerman	Kellerman Kellerman and Associates	Santa Fe
Jerry Hoover	CONOCO	Midland
Mike Zimmerman	Conoco	Midland
Victor T. Lyon	OCD	Santa Fe
Mary Corley	AMOCO	HOUSTON
Michael Leebhart	Independent	Agua Fria
Alan Wood	Amoco	Denver
Eric L. Nitcher	Amoco	Denver
Larry Emmons	Amoco	Denver
LARRY SANDERS	Phillips Petroleum	Odessa, TEXAS
Ferry Pearce	Montgomery & Andrews PA	Santa Fe

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NAME	REPRESENTING	LOCATION
Dance Tammer	Byrum	SF
Randy Lucken	Northern Natural Gas	Omaha, Ne.
J. M. Kusek	Northern Natural Gas	Hoe Omaha, Ne
Dan Dutter	Caus. Engr	S. F.
Joanne Reuter	Doyle Hartman	S. F
Randy G. Patterson	Yates Petroleum Corp	Artesia
Alan W. Bohling	Chevron USA.	Midland
Charles A. Gray	Oryx Energy	Dallas
Dannell G. Iler	Northwest Petroleum	Salt Lake

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STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION COMMISSION

COMMISSION HEARING

IN THE MATTER OF:

The hearing called by the Oil Conservation Division on its own motion to consider revisions to Division Order No. R-8170, as amended. Case 10009

TRANSCRIPT OF PROCEEDINGS

BEFORE: WILLIAM J. LeMAY, Director  
BILL HUMPHRIES, Commissioner

STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO  
September 24, 1990

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A P P E A R A N C E S

FOR THE DIVISION: ROBERT G. STOVALL, ESQ.  
FOR AMOCO PRODUCTION COMPANY: ERIC NITCHER  
FOR DOYLE HARTMAN: JOANNE REUTER, ESQ.  
FOR CONOCO, INC: MIKE ZIMMERMANN  
FOR OXY USA: RICK FOPPIANO  
FOR EL PASO NATURAL GAS  
COMPANY: W. PERRY PEARCE, ESQ.  
FOR NM OIL & GAS ASSOCIATION,  
MARATHON OIL COMPANY: W. THOMAS KELLAHIN,  
ESQ.  
FOR TEXACO USA: ALLAN W. DEES

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Exhibit No. 3

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1                   COMMISSION DIRECTOR: The meeting will now  
2 come to order. We're meeting on Monday, as you all  
3 know, rather than Thursday. Hopefully, the word got  
4 out. This is the Oil Conservation Commission  
5 hearing. So those of you who are looking for  
6 workman's comp or some other issue, you're in the  
7 wrong place. We will start the hearing. We have two  
8 commissioners today. Commissioner Bill Humphries,  
9 State Land Office Commissioner, and myself, Bill  
10 LeMay.

11                   We will start with Case No. 10009, in the  
12 matter of the hearing called by the Oil Conservation  
13 Division on its own motion to consider revisions to  
14 the Division Order No. R-8170, as amended.

15                   Appearances in case 10009?

16                   MR. STOVALL: Mr. Chairman, Robert Stovall  
17 of Santa Fe on behalf of the Division. And I have a  
18 couple of people that want to make some comments and  
19 testimony in this and may have a couple others at the  
20 end.

21                   COMMISSION DIRECTOR: Thank you, Mr.  
22 Stovall. Additional appearances in Case 10009?

23                   MR. NITCHER: Mr. Chairman, Eric Nitcher  
24 from Amoco Production Company in association with  
25 Campbell & Black.

1                   COMMISSION DIRECTOR: Thank you. Mr.  
2 Mitchum, was it?

3                   MR. NITCHER: Nitcher, N-i-t-c-h-e-r.

4                   COMMISSION DIRECTOR: Thank you.  
5 Additional appearances?

6                   MS. REUTER: I'm Joanne Reuter for Doyle  
7 Hartman of the Santa Fe law firm of Gallegos Law Firm.

8                   COMMISSION DIRECTOR: Additional  
9 appearances?

10                  MR. DEES: Mr. Chairman, Allan Dees for  
11 Texaco.

12                  COMMISSION DIRECTOR: Thank you, Mr. Dees.

13                  MR. ZIMMERMANN: Mike Zimmermann with  
14 Conoco.

15                  COMMISSION DIRECTOR: Thank you, Mr.  
16 Zimmermann.

17                  COMMISSION DIRECTOR: Additional  
18 appearances?

19                  MR. FOPPIANO: Rick Foppiano with OXY, USA.

20                  COMMISSION DIRECTOR: Thank you, Mr.  
21 Foppiano. Additional appearances?

22                  MR. PEARCE: Perry Pearce, Santa Fe law  
23 firm of Montgomery & Andrews, appearing on behalf of  
24 El Paso Natural Gas Company.

25                  COMMISSION DIRECTOR: Thank you, Mr.

1 Pearce. Additional appearances?

2 MR. KELLAHIN: Mr. Examiner, I'm Tom  
3 Kellahin of the Santa Fe law firm of Kellahin,  
4 Kellahin & Aubrey, appearing on behalf of the New  
5 Mexico Oil & Gas Association, Marathon Oil Company in  
6 association with Mr. Larry Garcia.

7 COMMISSION DIRECTOR: Thank you, Mr.  
8 Kellahin.

9 Additional appearances? If not, we will  
10 begin. Mr. Stovall.

11 MR. STOVALL: Mr. Chairman, I'd first ask,  
12 this is a rule-making hearing, and it's not subject to  
13 the same procedural and evidentiary rules as an  
14 adversarial proceeding, but I would ask whether you  
15 wish to have any of the testimony sworn and under  
16 oath, or do you want to have it just all in the form  
17 of unsworn comment and testimony?

18 COMMISSION DIRECTOR: Oh, let's raise the  
19 hands and swear in. All those that are about to give  
20 testimony, may they please raise their right hands and  
21 stand?

22 (Witnesses sworn.)

23 MR. STOVALL: I'd ask Mr. Vic Lyon to  
24 testify first on behalf of the Division.

25 VICTOR T. LYON,

1 the witness herein, after having been first duly sworn  
2 upon his oath, was examined and testified as follows:

3 DIRECT EXAMINATION

4 BY MR. STOVALL:

5 Q. Would you please first state your name and  
6 place of residence.

7 A. I'm Victor T. Lyon. I live in Santa Fe,  
8 New Mexico.

9 Q. How are you currently employed, Mr. Lyon?

10 A. I'm employed under contract with the Oil  
11 Conservation Division as consulting petroleum  
12 engineer.

13 Q. And you have testified before the Division  
14 or the Commission and had your credentials as a  
15 petroleum engineer accepted as matter of record; is  
16 that true?

17 A. Yes, I have.

18 Q. Would you please tell the commissioners  
19 what your role has been in the development of  
20 recommendations for modifications to rule Order 8170?

21 A. Until the end of last year, I was chief  
22 petroleum engineer for the Oil Conservation Division  
23 and was also, in effect, manager of the gas proration  
24 program.

25 In mid-to-late 1988, it became quite

1 obvious that our system had some flaws, and that we  
2 should do something to correct those flaws.  
3 Therefore, we decided to have an industry committee to  
4 look at our rules and procedures and so forth to see  
5 if we could not eliminate some of the flaws and look  
6 at other ways of prorating gas.

7 Q. You were an employee of the Division at  
8 that time; is that correct?

9 A. Yes, I was.

10 Q. Were you asked to chair that committee at  
11 that time?

12 A. Yes, I was.

13 Q. Could you take a minute and look at Exhibit  
14 No. 1, and for those of you who do not have copies,  
15 they are on the back table. There are three Division  
16 exhibits. Could you just kind of go through Exhibit 1  
17 and using that as guidelines just explain what  
18 happened in terms of creation and efforts of the  
19 committee.

20 I'll point out at this time also that as of  
21 this moment, you are testifying as chairman of the Gas  
22 Proration Committee; is that correct?

23 A. That is correct.

24 Q. We may switch hats on you here in a few  
25 minutes, but as committee chairman, would you describe

1 the history for the Commission.

2 A. Exhibit 1, after the title page, begins  
3 with the memorandum which the Director sent to a  
4 general mailing list, asking for volunteers for people  
5 to serve on this committee. It also enumerated the  
6 rules that we felt need to be considered for changes.

7 The second page is the cull of the first  
8 meeting of the committee, which was signed by me, and  
9 it has attached to it the members of the overall  
10 committee. I would like to point out that everybody  
11 who volunteered to serve on that committee was placed  
12 on the committee.

13 In order to try to expedite the work of the  
14 committee, we designated a work committee, which was a  
15 balanced group of people to work together to try to  
16 get into the nitty-gritty of the rules. Those members  
17 are shown by the asterisk after their name. We chose  
18 representatives from three major producers, three  
19 independent producers, three pipelines, and one  
20 consultant.

21 At all of the succeeding meetings of the  
22 committee, all these people were invited to attend.

23 Q. By all these people, you mean the committee  
24 of the whole, everybody that signed up; right?

25 A. Yes. But with the understanding that the

1 work committee would be the ones who would be doing  
2 most of the discussion and deliberating, etc. But  
3 other people did attend, and a number of them did have  
4 input, particularly, that they were a source of  
5 information to those on the work committee if there  
6 was some question came up that they had particular  
7 knowledge about.

8           So it's helpful to have them there, but it  
9 was also helpful to have a small group to do our  
10 deliberations with.

11           Each of the meetings are shown here by the  
12 minutes which are attached. As we progressed through  
13 the review and discussion of problems and possible  
14 solutions, etc., fairly early on, there had been  
15 proposed some changes, things which we felt were vital  
16 to change to correct the problems which we had  
17 perceived even before the committee was formed.

18           At the June 29, 1989, meeting --

19           Q.     Mr. Lyon, let me interrupt you just for a  
20 second for clarification on the minutes. These are  
21 the actual minutes that you took and circulated with  
22 respect to the various meetings that were had; is that  
23 correct?

24           A.     Yes. I prepared these minutes and mailed  
25 them out to the entire committee.

1 Q. And when you sent out these minutes, there  
2 were various drafts of recommendations that went  
3 through that have not been attached here but would be  
4 available if anybody wanted to look at them; is that  
5 correct?

6 A. That's correct.

7 Q. This is just to give the commissioners some  
8 idea of the history of the committee's effort in a  
9 summary form?

10 A. Right.

11 Q. Now if you would go on to the June 29th  
12 meeting that you were starting to --

13 A. At the June 29th meeting, I had expected at  
14 the meeting that we would be able to bless the things  
15 that we had agreed to at that time and proceed with  
16 getting the changes made.

17 There were two suggestions which were  
18 presented at that meeting which the group felt had  
19 considerable merit. I was reluctant to delay because  
20 I wanted to get at the work of fixing the problems.  
21 But the group felt that it was entirely in order, and  
22 within the Director's authority to adopt those changes  
23 so that we could go ahead and make the changes which  
24 needed to be made to make our system more efficient.

25 And also at that time I formed two

1 subcommittees to study these two suggestions which had  
2 come up. The subcommittee chairmen chose their own  
3 committee members, conducted their own meetings. I  
4 absented myself from those meetings so as not to have  
5 the appearance of trying to guide them in any way. I  
6 wanted those ideas to be developed among the members  
7 themselves.

8 Q. Let me again interrupt you here. Is a fair  
9 characterization of that June 29th meeting to say that  
10 at that time some immediate problems were identified  
11 which needed a relatively quick fix, but that the  
12 committee felt that these could be done  
13 administratively, and that by doing so, that would  
14 enable the committee to approach some more long-term,  
15 broader-scope discussions via these subcommittees that  
16 you've discussed?

17 A. That's a very accurate description, yes.

18 Q. Let's talk about the quick fix first. Why  
19 don't you explain what the immediate problems were  
20 that were rectified administratively.

21 A. Well, they were included in some of the  
22 changes that we mentioned in the first memorandum  
23 calling for volunteers. When the rules were changed,  
24 when Order R-8170 was changed or was introduced  
25 changing the rules that had been in effect before, one

1 of the mistakes that they made, and you must  
2 understand that at that time the industry was in a  
3 terrible state of turmoil. The minimum stalling had  
4 been thrown out by the FERC, and the market was just  
5 in a terrible state of upset. This was all going on  
6 at the time that they wrote the rules that came out in  
7 R-8170. And there was an effort at that time to try  
8 to maximize the number of nonmarginal wells. This to  
9 me was the biggest problem with our system.

10           The rules provided that anytime a well  
11 overproduced its nonmarginal allowable -- anytime a  
12 marginal well overproduced the nonmarginal allowable  
13 of a nonmarginal well, that it would immediately be  
14 reclassified to nonmarginal. And in months when the  
15 allowables were low, there were a great many wells  
16 which would be reclassified to nonmarginal who were  
17 not able to produce the average nonmarginal  
18 allowables. Consequently, the number of nonmarginal  
19 wells fluctuated from month to month. It kept the  
20 system very unstable because the wells who became  
21 nonmarginal but did not have really nonmarginal  
22 producing ability siphoned away allowable. It should  
23 have gone to wells that could have produced the  
24 allowable.

25           Q.       In other words, the allowable pie was being

1 shared amongst too many nonmarginal wells?

2 A. Exactly. As long as that condition  
3 prevailed, our system was going to be floundering and  
4 not nearly as efficient as it could be.

5 There were a few other things in there that  
6 I felt needed to be changed, but that was the  
7 principal problem.

8 Q. How was that fixed?

9 A. Let me finish with Exhibit 1. The last  
10 sheet is the final minutes -- the minutes of the final  
11 meeting on May 23, 1990, at which time we reviewed the  
12 proposed rules from the two subcommittees and worked  
13 those things over until we had a reasonable consensus  
14 on those things where a consensus was possible and a  
15 majority where they were not.

16 From that committee meeting, the final  
17 rules which we are considering today were developed,  
18 and that brings us up-to-date as to those rules.

19 As to your question about quick fix, this  
20 is embodied in Exhibit 2. Following the cover page,  
21 we have the memorandum which the Director entered  
22 which describes the changes that we were going to make  
23 administratively.

24 Rule 13-A, in regard to reclassification to  
25 marginal, was changed. One of the changes was that we

1 elected to classify as marginal any well which became  
2 underproduced the equivalent amount of the  
3 overproduction limit for the pools. So that in the  
4 southeast, if a well became six times underproduced,  
5 we would reclassify it marginal, and in the northwest,  
6 12 times underproduced, it became marginal.

7           We also introduced the concept of a shadow  
8 allowable, which is the allowable of a nonmarginal  
9 well, but we refer to the shadow allowable as being --  
10 applying to a marginal well. It is equivalent to the  
11 allowable that an equivalent nonmarginal well would  
12 receive so that we could measure the performance of  
13 marginal wells for classification purposes.

14           Q.       When you're referring to a well, is it  
15 correct that you're actually referring to a gas  
16 proration unit which may in fact have more than one  
17 well on it?

18           A.       Yes. I have a habit of using "well" rather  
19 than "GPU."

20           Q.       What was the effect? Can you describe  
21 briefly what the effect of this administrative change  
22 was, and did it work?

23           A.       I think it worked very, very well. The  
24 following pages on Exhibit 2 are graphs which I've  
25 prepared showing the 12-month average Fl. A plot of

1 F1 is one of those things that it just goes up and  
2 down and up and down. But 12-month average shows the  
3 trends. And 12-month average is also the datum which  
4 is used to calculate a well's overproduction limit.  
5 In the southeast, it's six times, and in the  
6 northwest, it's 12 times. But using the F1 average  
7 permits you to show very clearly the trends in  
8 allowables.

9           And the little circles that are connected  
10 by only some of the lines is the number of wells, and  
11 the scale reads to the right. The line connecting the  
12 little X's is the average F1, and that scale reads to  
13 the left.

14           The first sheet is the Eumont Pool. And  
15 you can see that the allowables have increased  
16 dramatically from the beginning of the proration  
17 period, 1988 and 89.

18           Q.       When you say the allowables have increased,  
19 you're talking about on a per unit basis, not on an  
20 overall pool basis, necessarily; is that correct?

21           A.       Yes.

22           Q.       Or this is a pool, this is a unit --

23           A.       This is strictly the basic allowable for a  
24 well on a standard GPU or for a standard GPU.

25           You'll also notice that the number of

1 nonmarginal wells has decreased from about 270, 269,  
2 thereabouts, in April of 88 to only about 50 in  
3 September of 90. As we have been able to weed out  
4 those wells that have not been producing their  
5 allowables through the classification and  
6 reclassification procedure, we have moved the number  
7 of nonmarginal GPU's to this smaller number. These  
8 are the wells that have shown that they can produce  
9 those allowables. As the allowables continue to rise,  
10 the number of GPU's will come down further.

11 Q. If I read these exhibits right, if you look  
12 at the last two sheets, the Basin Dakota and the  
13 Blanco-Mesaverde, for example, you just picked four  
14 representative pools, two northwest, two southeast for  
15 these --

16 A. Yes. These are the two largest pools in  
17 the southeast and the two largest pools in the  
18 northwest.

19 Q. It appears to me in looking particularly at  
20 the Basin Dakota and Blanco-Mesaverde and also true in  
21 the Jalmat and Eumont that the number of nonmarginal  
22 GPU's has actually stabilized; it's not fluctuating as  
23 greatly as it previously was; is that correct?

24 A. Well, that's true. If you look at the  
25 Basin Dakota, which is the next to the last sheet, the

1 plot of the nonmarginal GPU's, every time that there  
2 is a decline, you'll see that it begins to build up.  
3 It's like a sawtooth. And that was because of the  
4 fact that the GPU's would be reclassified to  
5 nonmarginal because they had overproduced one of the  
6 month's allowables in there.

7                   We have not entirely but pretty well  
8 eliminated that problem. We're dealing with a much  
9 more stable database now.

10           Q.       In conclusion, with respect to this  
11 administrative change, is it fair to say that this has  
12 worked to more realistically reflect the number of  
13 wells or GPU's that you share in the allowable pie in  
14 any given pool by not allowing marginal wells to  
15 reclassify to nonmarginal as quickly?

16           A.       Yes. I think the increase, the incline of  
17 F1 factors in these pools is both a function of the  
18 fact that we're working more and more with those wells  
19 which are capable of producing their allowable, plus I  
20 think there is an improving market demand.

21           Q.       Before we get into the actual  
22 recommendations of your committee work, you referred  
23 to two subcommittees that were established. Could you  
24 just briefly talk about what the responsibilities of  
25 these subcommittees were?

1           A.       Yes.  The first of the subcommittees dealt  
2 with a minimum allowable.  There was considerable  
3 sentiment in the committee that a minimum allowable  
4 would be helpful.  I had pointed out that we do have  
5 provisions for a minimum allowable, but this is used  
6 only in order to prevent premature abandonment of  
7 wells.

8                   The committee wished to broaden this  
9 definition so that we could look at other factors in  
10 setting a minimum allowable.  Rick Foppiano with OXY  
11 chaired that subcommittee, and they developed what is  
12 now the proposed Rule 8.

13                   The second subcommittee had proposed a  
14 considerable departure from what we have been doing in  
15 the past in that we would establish a six-month  
16 allocation period, two allocation periods for each  
17 proration period, which is a year, and that during  
18 each of the allocation periods, the allowable would  
19 remain constant each month.  Al Wood with Amoco  
20 chaired that subcommittee, and they have developed  
21 rules which would incorporate that change.

22                   It did require the change in some  
23 nomenclature of some of our defined terms, and we've  
24 tried to make sure that we used the word "allocation  
25 period" where it is appropriate and substituting it

1 for whatever word may appear in the rules now.

2 Q. At this time I think it would be  
3 appropriate for you just to go through the committee  
4 recommendations, and that's contained in Exhibit No.  
5 3. First, to make sure that everybody understands how  
6 it's going to be arranged, could you just explain the  
7 format, how the markings in the text are used?

8 A. This was prepared more or less in the way  
9 that bills in the legislature are presented in that  
10 new language is underlined and language proposed to be  
11 stricken are lined through. We have also put in here  
12 the existing rule, and then if there is a proposed  
13 change, we designate it by "Proposed Change," and then  
14 we do this legislative process of adding words and  
15 eliminating words and so forth.

16 It makes it a little bit hard to read, but  
17 it shows clearly what changes are being made.

18 Q. Let's just look at it quickly just to make  
19 sure, and I'll kind of summarize. If we look at Rule  
20 1, the first two pages of definitions --

21 A. Yes.

22 Q. -- it appears to me that what's happened  
23 is, say on the third definition here, you've got  
24 "Suggested Add," and it says "allocation" here, and  
25 that would be a new definition, would it not, one that

1 is not in the rule?

2 A. That is a new definition which comes out of  
3 the work of the second subcommittee.

4 Q. Then if you go over to the next page,  
5 second definition down, you see "Gas Transporter,"  
6 that's the existing definition of gas transporter; is  
7 that correct, the first reference to that I'm  
8 referring to?

9 A. They've added definition of a broker in  
10 there too.

11 Q. Well, there are a number of additions. I  
12 was just using that as an illustrative example.

13 A. Yes.

14 Q. We look at "Gas Transporter," there's the  
15 existing definition in full without any marking; is  
16 that correct?

17 A. Right.

18 Q. Then below that, it says, "Suggested  
19 Change," which takes that same definition, strikes out  
20 the words "which should be removed" and underlines the  
21 words "which should be added" according to committee  
22 recommendations?

23 A. Yes.

24 Q. That's the way this appears throughout; is  
25 that correct?

1           A.       That is right.

2           Q.       Would you just summarize the highlights of  
3 the recommendations, as far as what the committee has  
4 recommended for adoption?

5           A.       Would you like me to go over each change or  
6 --

7           Q.       I think, for the most part, they speak for  
8 themselves, and if there are any questions, I'm sure  
9 the commissioners can address them. Unless they'd  
10 like to hear every one, I would suggest you discuss  
11 the most significant substantive changes in terms of  
12 how the system will operate with those changes.

13          A.       Yes. I might point out, in the statute  
14 there is considerable use of the words "purchaser" and  
15 "transporter." And for 40 years, those were generally  
16 the same party. The gatherer, the transporter, the  
17 purchaser were all the same company. And since about  
18 1986, that is no longer true. And sometimes the  
19 purchaser is a purchaser for a month, maybe less than  
20 a month. It changes from month to month. So we felt  
21 that these changes in the industry needed to be  
22 addressed in our rules, and we have attempted to do  
23 that.

24          Q.       What you're saying is that a lot of these  
25 rule changes are necessitated not because the rules

1 were inadequate historically but rather because the  
2 conditions have changed, and therefore we need to  
3 respond to those marketing changes; is that correct?

4 A. That is true. And so predominantly that's  
5 what the changes in definitions accomplish. There are  
6 no changes -- after the definitions, there's no  
7 changes for the first three pages.

8 The nominations have been a problem. I  
9 guess nominations have always been a problem to a  
10 certain extent, but they have become very much of a  
11 problem in that we do not feel that we're actually  
12 getting nominations and meaningful nominations from  
13 all of the purchasers involved. So we changed the  
14 Rule 3-A about the gas purchasers or gas  
15 transporters.

16 We also added a provision, since we really  
17 don't use nominations to that extent in setting  
18 allowables, we added a provision that the Division  
19 Director may suspend the rule at any time that he  
20 feels that the nominations are of little or no value.

21 Q. Nominations aren't really used currently to  
22 set allowables, are they?

23 A. No, they are not.

24 Q. Any additional changes to Section B that  
25 are significant?

1           A.       No, I don't think so.

2           Q.       Let's move on to Section C then.

3           A.       In Section C, we changed the Rule 5 to give  
4 more latitude as to how we set allowables. The old  
5 Rule 5 said that we will take the nominations, we will  
6 make certain adjustments, and then that will be the  
7 pool allocation. And we have rewritten Rule 5 to give  
8 us authority to use the basis that we are using right  
9 now or any other basis.

10                    It gives the Director very broad powers to  
11 determine market demand, which the allowables are  
12 supposed to represent.

13           Q.       Which, in a sense, reflects what's actually  
14 being done under the current system, to a large  
15 extent; is that not true?

16           A.       Yes. And it would also be adequate for the  
17 rules which are being proposed as well.

18           Q.       The current system would be adequate under  
19 the new rules; is that what you're saying?

20           A.       Yes. We would be in compliance with these  
21 rules, whether we continue with what we're doing or  
22 whether we go to the proposed change.

23           Q.       Is there anything else under Section C  
24 that's substantial or significant changes that you'd  
25 like to discuss?

1           A.       I don't believe that those changes are of  
2 great significance.

3           Q.       They're significant enough to warrant to be  
4 changed but not warrant your detailed discussion here;  
5 is that what you're saying?

6           A.       Right. I don't think they're that  
7 substantial a change.

8           Q.       I apologize; we do not have numbered pages,  
9 but I notice you have a new 5-B-1 paragraph C. Could  
10 you discuss that briefly?

11          A.       I think this just states what we have  
12 always done in that on new wells, on newly connected  
13 wells, receive the same allowable that a well,  
14 nonmarginal well in the same pool and the same acreage  
15 deliverability receives, and its status is adjusted  
16 back to the date that the allowable is assigned.

17          Q.       Perhaps for this hearing the significance  
18 of that is there is a new form to report that, and  
19 that will be the subject of the next case; is that  
20 correct, to report connection?

21          A.       Yes. That comes up in Rule 5-B-1 up above  
22 where that form is filed, but it also triggers the  
23 allowable in 5-B. This is all 5-B wells. It just  
24 makes the situation a little more clear. 5-B-1-A  
25 requires the new form.

1 Q. You had mentioned Rule 8 before, minimum  
2 allowables. Would you just expand a little bit more  
3 on what the proposed changes tend to accomplish?

4 A. Well, as I previously stated, existing Rule  
5 8 provides that the Division may assign minimum  
6 allowables in order to prevent premature abandonment  
7 of wells. The committee has suggested that we change  
8 that, that we can have a minimum allowable to avoid  
9 waste and encourage efficient operations, and then it  
10 provides a number of things we can take into account.

11 Well, let me just read it. "In determining  
12 the volume of minimum allowable for a well with a  
13 standard proration unit, the Division shall take into  
14 account economic and engineering factors, such as  
15 drilling and operating costs, anticipated revenues,  
16 taxes, and any other such data that will establish  
17 that the ultimate recovery of hydrocarbons will be  
18 increased from the pool as a result of the adoption of  
19 a minimum allowable for the pool. And once adopted,  
20 the minimum allowable for wells with nonstandard  
21 proration unit shall be proportionately adjusted."

22 Q. The Division has had the hearings in the  
23 past with respect to setting some sort of higher than  
24 calculated allowable in specific pools; is that  
25 correct? For example, if I'm not mistaken, Texaco in

1 the allowable nomination hearing in the prior year  
2 presented testimony which resulted in administratively  
3 increased allowables in the Eumont Pool?

4 A. Yes, that has been done.

5 Q. That's been done in some other pools; is  
6 that correct, or do you have recollection of that?

7 A. In the Eumont Pool to date, we have not set  
8 a minimum allowable. We did introduce an  
9 administrative adjustment to bring the allowable to  
10 the level that the applicant requested. In the Eumont  
11 Pool, they requested 18,000 as the Fl.

12 Q. Some of these factors were the basis for  
13 that request and adjustment; is that correct?

14 A. Yes.

15 Q. I would note, if the Commission so wishes,  
16 that there has been a case heard at the last Division  
17 hearing formally requesting that a minimum allowable  
18 be set in the Eumont Pool, again, based upon a number  
19 of these factors; is that correct?

20 A. Yes. This Rule 8 is not in effect until  
21 R-8170 is amended. But the case that we heard last  
22 week, that the Division heard, was predicated on the  
23 things which are described in the proposed Rule 8.

24 Q. I would offer, if the Commission so  
25 desires, that the record of that case could be

1 incorporated as a demonstration of the types of  
2 factors that could be considered under this rule.  
3 It's certainly within the Commission's discretion if  
4 you think that would be useful to you.

5           There has been no order entered in that. I  
6 will say that for the record; that it would be offered  
7 only to show the types of evidence that was presented.

8           Let's move on to -- is that all in Section  
9 C that is significant that you would like to address?

10          A.     Yes, I believe so.

11          Q.     How about Section D, is there anything in  
12 there that you'd like to review, specific changes?  
13 Rule 11-B-2, I guess, would be the rule that's  
14 changed. Could you explain that change briefly?

15          A.     Yes. The existing rules dealing with  
16 overproduction, the existing rules state that a well  
17 may be six times in the southeast, 12 times in the  
18 northwest, overproduced its average monthly allowable  
19 during the past 12 months. This rule provides that we  
20 would make that six or 12 times the allowable for the  
21 month of January.

22          Q.     So you'd look at January rather than an  
23 average month to determine overproduction limits?

24          A.     Yes. It gives the operator a great deal  
25 more flexibility because January is always a high

1 allowable month, and therefore it gives them that much  
2 more latitude in producing the wells.

3 Q. Anything else under that section that you  
4 want to bring to the Commission's attention?

5 A. I don't believe so.

6 Q. How about Section E, any of the specific  
7 recommendations there that you wish to discuss at this  
8 time?

9 A. Well, we would be changing from three  
10 classification periods of four months each to four  
11 classification periods of three months each.

12 Q. Is that to make that classify with the  
13 allocation period so that there was matchup of  
14 allocation periods?

15 A. Yes. Then each allocation period will have  
16 two classification periods. In Rule 13-A, we  
17 formalized in the rules the changes which were made in  
18 the memorandum that was the first part of Exhibit 2.

19 Q. All right. Any other parts of Section E  
20 that you want to go over?

21 A. No, I think that's all.

22 Q. And Section F, Reporting of Production, do  
23 you wish to review that?

24 A. Well, I might point out that since the  
25 change in the industry from the gatherer-transporter-

1 purchaser concept being all one entity, the  
2 fragmentation of those services has caused some  
3 confusion about who is supposed to report the gas.  
4 And it is required that gas moved into the system be  
5 reported on Form C-111. This is the form that we use  
6 to build the gas proration schedule. So we have tried  
7 to write the rule to make it clear who should file  
8 that report.

9 Q. Do you have any further comments that you'd  
10 like to make with respect to proposed rule changes as  
11 committee chairman?

12 A. I would like to point out that when we  
13 began to consider the magnitude of change which we see  
14 here, that I felt that my role, other than just  
15 coordinating the operations of the subcommittees and  
16 the committee as a whole, was to make sure that we had  
17 a proposal which was viable, which was fair and  
18 equitable that we could use with our system, our  
19 existing hardware and software available to us in the  
20 OCD.

21 And having worked the thing to the point  
22 that we are, I believe that I can state that this is a  
23 system which we can use. I think it will be  
24 effective. I think that it is something that we can  
25 enact without a great deal of difficulty.

1           MR. STOVALL: And I will point out for the  
2 Commission that the data processing chairman for the  
3 OCD will be making some brief comments with respect to  
4 implementation, particularly as it affects the timing  
5 of the ability to implement significant changes, if  
6 they are adopted by the Commission.

7           Q.     Mr. Lyon, let me ask you now to switch hats  
8 here and move away from your role as committee  
9 chairman and move into your role as a consultant with  
10 the Oil Conservation Division. And in that capacity,  
11 your primary responsibilities have been to continue to  
12 monitor and advise with respect to the gas proration  
13 system, have they not?

14          A.     Yes, they have.

15          Q.     In that capacity, speaking individually as  
16 a consultant, do you have any specific recommendations  
17 that might differ from the committee's  
18 recommendations?

19          A.     I have presented the results of the  
20 committee's work. I'd like to commend the committee  
21 for what they have done. They have developed some  
22 rules which I think are viable. I do not think that  
23 they are an improvement over what we have. I'm sure  
24 that I have a lot of bias in saying that because I've  
25 worked with this system so intimately since I came

1 with the OCD. And I do think that our present system  
2 now that we've got most of the bugs out of it is much  
3 more market-responsive.

4 But I look at this from a regulator's  
5 viewpoint rather than from a producer's viewpoint. I  
6 can see some advantages to having a fixed allowable  
7 for contracting purposes and so forth, but I still do  
8 not feel that it is as market-responsive as what we  
9 have now.

10 Q. Do I take that as a recommendation saying  
11 that some of the major changes are not necessary? Is  
12 that what your recommendation is?

13 A. That's my feeling.

14 Q. Your personal recommendation, I'll say  
15 that. I understand your --

16 A. If we adopt the six-month allocation  
17 period, then I think this package should be adopted  
18 entirely.

19 Q. Okay. I think I understand.

20 One last question, did the committee make  
21 any recommendation as to the timing for implementation  
22 of this change, assuming they go to the packaged  
23 change as recommended by the committee?

24 A. I think that we probably all contemplated  
25 that we would work to try to get the system -- the

1 rules effective, the new system effective, the 1st of  
2 April, 1991.

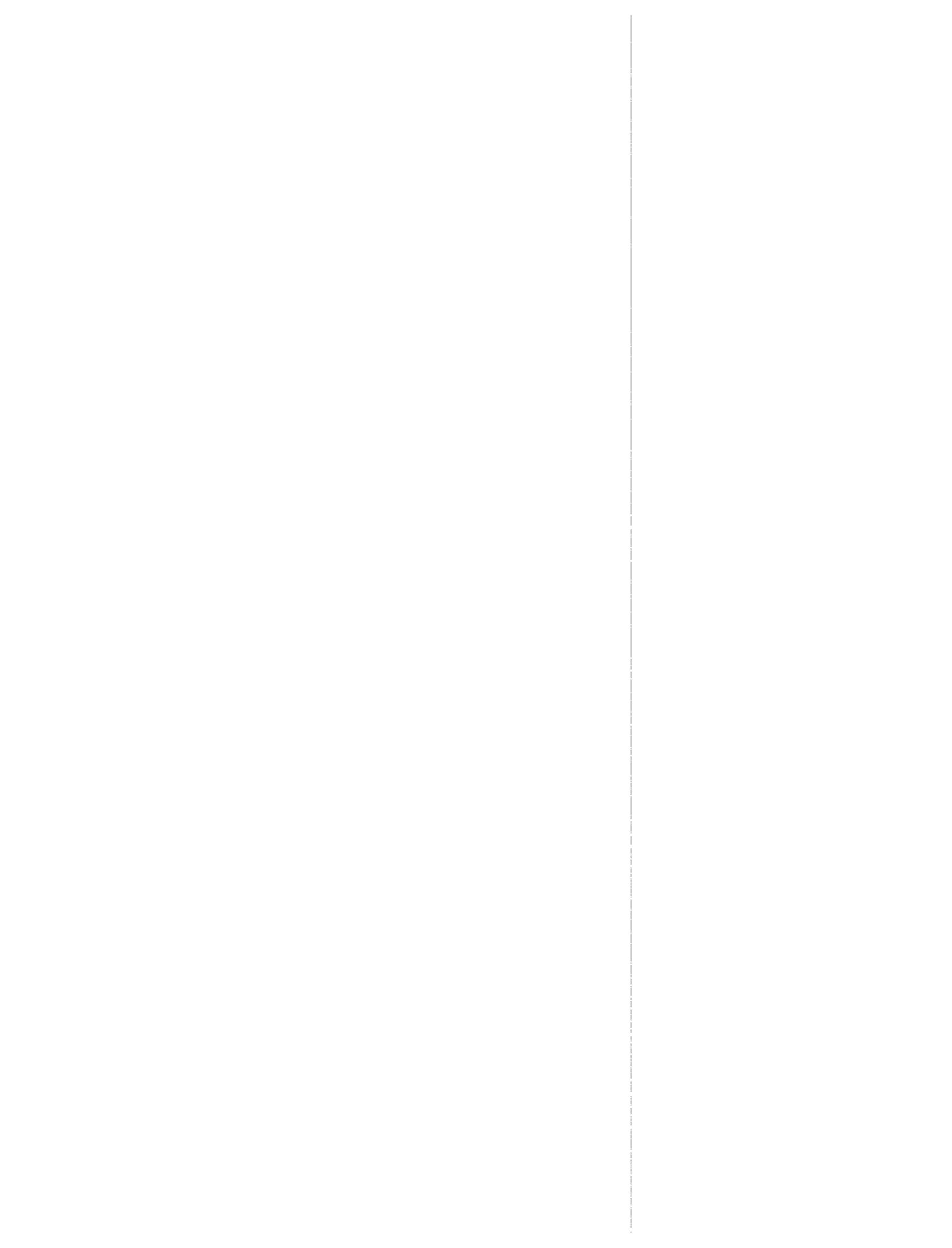
3 Q. That's based upon that being the start of  
4 what would be an allocation period under the rule?

5 A. An allocation period, yes. We would start  
6 it with the beginning of the next proration period.

7 There's one thing, one further thing I  
8 would like to offer for the Commission's edification  
9 is that there was not full agreement in the committee  
10 as to when the OCD would put out the proration  
11 schedule.

12 When this idea was first mentioned, it  
13 appeared that we could put out two proration schedules  
14 a year. And having worked with that group frantically  
15 trying to get proration schedules out every month, it  
16 looked like maybe we could have some relief from this  
17 monthly scramble. It turns out that most people  
18 expect proration periods more often than that, at  
19 least quarterly. Certainly internally, we are going  
20 to have to go through all the gyrations of collecting  
21 the data and putting out a status report so that we  
22 can notify people when their wells are excessively  
23 overproduced, and that type of police work that we  
24 do.

25 There are some people who have expressed a



1 desire to have the proration schedule monthly even  
2 though the allowable does not change. Some of the  
3 people who were most interested in having that data  
4 monthly now get the proration schedule by tape through  
5 the Petroleum Recovery Research Center in Socorro.

6 We could still make the tapes available to  
7 them on that basis, but I do not know what the overall  
8 feeling of the industry is as to how often we need to  
9 put out the gas proration schedule.

10 Q. Let me ask you a few questions in that  
11 regard. One, if we maintained a monthly sort of  
12 status report, as you described it, could that be an  
13 abbreviated status report say for nonmarginal GPU's,  
14 showing their over/underproduction status at the end  
15 of a given month?

16 A. I'm sure that could be worked out. That's  
17 a programmer's job.

18 Q. I'm talking about from the implementation  
19 of the rules standpoint, not from a data processing or  
20 mechanical reproduction.

21 A. I think that's feasible, yes.

22 Q. The second question I have is, under the  
23 rules as you know them, the proposals, is there a  
24 requirement for a monthly schedule, or is there the  
25 flexibility built into these rule proposals that the

1 Division could work with that, and as it determines  
2 the need, publish a schedule within a six-month  
3 proration or allocation period in accordance with  
4 need, subject to change from time to time, if  
5 necessary?

6 A. The current rule does require a monthly  
7 proration schedule. The rules that are being proposed  
8 do not specifically require it, as I read them.

9 Q. So there is some flexibility in there to  
10 adjust according to need is what you're saying?

11 A. Yes.

12 Q. Do you have anything further you'd like to  
13 add to your statement or testimony at this time?

14 A. I don't believe so. I would like to thank  
15 all the people who worked with me on that committee in  
16 getting this material ready.

17 I'd like to particularly commend Bob Glenn  
18 with Northwest Pipeline, who, although he was not a  
19 member of the work committee, attended every one of  
20 our committees and is the one who finally codified the  
21 rules that we have here today and furnished the rules  
22 for us.

23 MR. STOVALL: Thank you. Mr. Chairman, I  
24 offer Mr. Lyon for any questions you might have, and I  
25 would suggest if anybody attending here has any

1 questions, that they be directed towards clarification  
2 rather than specifically challenging the specific  
3 exhibits, if that's appropriate.

4 COMMISSION DIRECTOR: Are you going to  
5 offer the exhibits into the record?

6 MR. STOVALL: I will offer the exhibits  
7 into the record, yes, sir. I offer Exhibits 1 through  
8 3.

9 COMMISSION DIRECTOR: Without objection,  
10 Exhibits 1, 2, 3 will be admitted into the record.

11 Questions of Mr. Lyon? Yes, sir, Mr.  
12 Pearce.

13 CROSS-EXAMINATION

14 BY MR. PEARCE:

15 Q. Excuse me, Mr. Lyon, I've got three areas  
16 that I need a little help clarifying.

17 If you'll look at your Exhibit No. 2, this  
18 is really a data clarification question. The first  
19 graph, and it follows for all four of the directives,  
20 what is the left-hand scale?

21 A. The left-hand scale is the 12-month average  
22 of F1.

23 Q. Let's pick a month, the last data point, it  
24 looks like it's 13.7 or 8 out there on the right-hand  
25 end of that line?

1 A. Yes.

2 Q. That number, the 13. whatever it is number  
3 is what? That's a running average of 12 months' F1?

4 A. That's the 12-month average of F1 ending  
5 with September 1990.

6 Q. And so the actual F1 for September of 1990  
7 would have to be considerably higher than that?

8 A. No. All it has to do is be higher than the  
9 previous September because with this 12-month running  
10 average, if you've got August 12-month average, you  
11 move to September, you drop September 1989 and pick up  
12 September 1990.

13 Q. Do you happen to remember what that  
14 September was?

15 A. No. I do have that down there in my  
16 briefcase, I think. This is for which pool?

17 Q. Eumont.

18 A. Eumont?

19 Q. Yes, sir.

20 A. September 1990 Eumont F1 was 13,627.  
21 September of 1989 was 8,516.

22 Q. Thank you, sir. Looking at your Exhibit  
23 No. 3, the proposed changes to Rule 3-A dealing with  
24 nominations --

25 A. Yes, sir.

1           Q.       This question is addressed to the proposed  
2 addition dealing with discretionary elimination of  
3 nominations. Do you know if the statute requires the  
4 Division to look at nominations prior to setting  
5 allowables?

6           A.       The statute says that "the Commission shall  
7 receive nominations," and then further says that "they  
8 shall consider nominations" and other things.

9           Q.       And then looking at the proposed change to  
10 Rule 8 on minimum allowables --

11          A.       Yes.

12          Q.       The way you envision the minimum allowable  
13 working, would that allowable be subject to  
14 redistribution if it is assigned to wells that do not  
15 make it over time?

16          A.       Well, I don't think that the rules require  
17 that. I think that that is done to a certain extent.

18          Q.       If minimum allowables are adopted for these  
19 pools, would you expect that to continue to be done?  
20 And I'm thinking now we had the case last week with  
21 the Eumont proposed allowable of 600 Mcf a day, and  
22 there were a number of wells in that pool that could  
23 not make that allowable. I'm wondering if you  
24 envision that allowable that is not produced being  
25 redistributed to wells in the pool?

1           A.       Not entirely. I have always had a bias  
2 against minimum allowables because minimum allowables  
3 don't guarantee market. And you can set the  
4 allowables as high as you want to, but that doesn't  
5 mean that the market is going to give you the demand  
6 where you can produce those minimum allowables.

7                   Each month when we look at the allowables  
8 for the coming month, we look at the pool status. And  
9 it has been my practice that if a pool is  
10 overproduced, it tells me I have not given the pool  
11 enough allowable, and therefore I throw in additional  
12 allowable to try to get that pool in balance with its  
13 production.

14                   And this would continue to be done, I  
15 think. I'm not going to be administering these rules,  
16 but I think that it will continue to be done so that  
17 allowable which is cancelled and therefore changes the  
18 pool status will take into effect the allowable that  
19 was not produced by wells that received it but did not  
20 produce it, and allocate some of it to wells who did  
21 and can produce it.

22                   MR. PEARCE: Thank you, sir.

23                   Thank you, Mr. Chairman.

24                   COMMISSION DIRECTOR: Thank you, Mr.

25 Pearce. Additional questions of the witness?

1                   COMMISSION DIRECTOR: Yes, sir.

2                   MR. FOPPIANO: My name is Rick Foppiano  
3 with OXY.

4                                   CROSS-EXAMINATION

5 BY MR. FOPPIANO:

6           Q.       Mr. Lyon, I have just one brief question of  
7 clarification. The proposed rules envision  
8 classification periods changing from four months to  
9 three months, as I understand them?

10          A.       Yes.

11          Q.       If the allowable is fixed on a six month by  
12 six month basis, of what benefit is it to reclassify  
13 wells every three months? I guess the question is, do  
14 you see the allowable changing as a result of the  
15 reclassification midway in the allocation periods?

16          A.       No, I do not see allowables changing  
17 midway. The only advantage that I can see to having  
18 two classification periods in an allocation period is  
19 to put out a second proration schedule and reclassify  
20 wells so as to show perhaps a better indication of  
21 pool balance because those wells that are reclassified  
22 to marginal, their underproduction will be dropped  
23 out; so it would give a more current pool status, but  
24 that's the only advantage I can see.

25                   MR. FOPPIANO: Thank you. That's the only

1 question I have.

2 COMMISSION DIRECTOR: Thank you.

3 Additional questions of the witness? Yes, sir.

4 CROSS-EXAMINATION

5 BY MR. DEES:

6 Q. Mr. Lyon, my name is Allan Dees with  
7 Texaco. The suggested Rule 5 says that the Division  
8 will be estimating market demand for each gas pool; is  
9 that correct?

10 A. Yes, sir.

11 Q. Can you describe the mechanics of the  
12 procedure by which the estimated market demand will be  
13 determined?

14 A. I can't.

15 Q. Will you, please. You say you cannot?

16 A. No.

17 Q. Do you have any opinions as to how that  
18 estimated market demand should be determined?

19 A. Yes, yes, I do. I think that the best  
20 measure we have of market demand is actual production  
21 and sales, together with any information that we may  
22 receive from transporters, purchasers, producers, or  
23 whoever is in a position to know to advise of changes  
24 since the last data that we have would indicate.

25 Q. To what extent would producer input be

1 invited as a way of determining if historical  
2 production is actually representative of market  
3 demand?

4 A. Well, I think the best information that  
5 they can give us is their production. I think that's  
6 the best nomination that we can get is actual  
7 production.

8 Q. Do you have any indication as to whether  
9 that opinion is going to be shared then by the people  
10 who are going to actually be doing the market demand  
11 estimation?

12 A. I have no control over that at all.

13 MR. DEES: Thank you, sir.

14 COMMISSION DIRECTOR: Thank you, Mr. Dees.

15 Additional questions of the witness? If  
16 not, he may be excused.

17 Mr. Stovall, do you have any other  
18 witnesses?

19 MR. STOVALL: I do have one, and it will be  
20 very brief, Mr. Chairman. I call Mr. Jim Plewa.

21 JIM PLEWA,  
22 the witness herein, after having been first duly sworn  
23 upon his oath, was examined and testified as follows:

24 DIRECT EXAMINATION

25 BY MR. STOVALL:

1 Q. Mr. Plewa, please state your name and place  
2 of residence.

3 A. My name is Jim Plewa, and I live in Santa  
4 Fe.

5 Q. How are you employed?

6 A. I'm employed as the bureau chief for data  
7 processing for the Oil Conservation Division.

8 Q. Do those responsibilities include  
9 supervision and management of the section of the data  
10 processing division which handles the gas proration  
11 schedules and produces, takes the information in and  
12 makes the allocation?

13 A. Yes, they do.

14 Q. Are you familiar with the system?

15 A. I'm somewhat familiar with it. I've dealt  
16 with trying to document it.

17 Q. Have you had an opportunity to review the  
18 proposals that have been presented by the committee?

19 A. Yes, I have.

20 Q. Let me just ask you, do you feel that these  
21 systems can be implemented using the resources that  
22 are available to you, and, if so, what time frame  
23 would that take?

24 A. The systems proposed or the changes  
25 proposed don't seem to be that complicated on the

1 face. It's a very straightforward kind of  
2 mathematical process. So changing the systems would  
3 appear on the surface to be very simple.

4 The problem is that the data processing  
5 systems have evolved over the last 20 years, and  
6 making any kind of change is extremely difficult in  
7 trying to figure out where to change something without  
8 affecting any other part of the system.

9 What we are trying to do at this point is  
10 to document the system well enough to know where  
11 things are.

12 Our conclusion so far is that we really  
13 need to redo the system in any case. And this kind of  
14 proposal would be involved in that in terms of  
15 requiring us -- a change of this kind would require us  
16 really to change the entire system.

17 Q. If I understand you correctly, what you  
18 said is, if the changes as recommended by the  
19 committee were to be implemented, it really wouldn't  
20 make sense to try to modify the existing system, but  
21 rather that would be a catalyst for redeveloping the  
22 system or developing a new system which might need to  
23 be done anyway if you had a dream world; is that  
24 correct?

25 A. Right.

1           Q.       How long would it take to do that? Using  
2 the resources that you reasonably could expect to have  
3 available, could you do it by April 1st?

4           A.       No. The problem we have right now is we're  
5 shorthanded, and we have this project coming up plus a  
6 very large project involving two other agencies called  
7 the On Guard Project. And we just can't put the kind  
8 of resources on it that we'd like to.

9           Q.       What would be your recommendation as to a  
10 time frame to input it if you had -- based upon just  
11 your limited area of responsibility and resources,  
12 what would you --

13          A.       I believe we could do it by October, which  
14 is the midpoint of the proration year, as I understand  
15 it.

16          Q.       Do you have any specific comments on any  
17 specific aspects of the proposal as they would be  
18 affected by data processing, particularly the  
19 generation of reports, the frequency of that?

20          A.       My current understanding is that the data  
21 is there, the historical data is there, that all that  
22 really needs to be done is to clarify exactly how the  
23 data should be used, when the reports should be  
24 generated, and so on. That's in my mind not a problem  
25 in terms of how many reports are generated or when.

1 The problem is in redesigning the current system to  
2 produce those reports.

3 Q. So if you were able to create a new system,  
4 I'll say, for lack of a better term, to meet the  
5 requirements of any changes, then the frequency of  
6 reports would not be a significant issue in terms of  
7 that redesign?

8 A. Correct.

9 Q. Anything further you'd like to add with  
10 respect to these proposed changes from a data  
11 processing standpoint?

12 A. No.

13 MR. STOVALL: I have nothing further of Mr.  
14 Plewa?

15 COMMISSION DIRECTOR: Questions of Mr.  
16 Plewa? You may be excused. Thank you very much.

17 Do you have any more witnesses?

18 MR. STOVALL: I have no more at this time.

19 COMMISSION DIRECTOR: Let's take a  
20 15-minute break and reconvene at 10:30.

21 (Thereupon, a recess was taken.)

22 COMMISSION DIRECTOR: Shall we convene?  
23 Are you through, Mr. Stovall?

24 MR. STOVALL: I'm through, Mr. Chairman.

25 COMMISSION DIRECTOR: I'd like to have Mr.

1 Eric Nitcher for Amoco.

2 MR. NITCHER: Mr. Chairman, we just have a  
3 few general comments today.

4 First off, Amoco would like to thank the  
5 Oil Conservation Division for allowing us to  
6 participate in the rules committee process. We  
7 appreciate the opportunity because I think that gives  
8 Amoco an opportunity to reflect its views and increase  
9 production in the state.

10 Amoco believes the proposed changes as the  
11 committee has proposed will eliminate many of the  
12 problems that are now in the current proration rules  
13 and regulations, and these changes will be for the  
14 better.

15 Amoco also believes that it will increase  
16 production in the state, which is ultimately good for  
17 the state and ultimately good for the producer.  
18 Basically, there's just a few specific remarks we  
19 would like to look at.

20 The first thing is in addressing the  
21 six-month allocation period, I think Amoco would like  
22 to reiterate the benefits that six-month allocation  
23 period provides. I'll basically read back what I  
24 think was put forward to the committee.

25 The first is it allows ample time for

1 knowledgeable parties to prepare nominations. The  
2 second, it allows the proration system to be utilized  
3 as a long-term planning tool. Third, it allows the  
4 Commission and industry groups to examine and  
5 incorporate market trends. It allows the reduction of  
6 administrative burdens on the Commission and Division  
7 staff. And it reduces computer and mailing expense.  
8 And, lastly, it provides insight among the status of  
9 the pools.

10           The next thing that I'd like to address is  
11 basically the quarterly reclassification. Amoco  
12 thinks a quarterly reclassification is good because it  
13 allows the acceleration of reclassification of  
14 marginal GPU's, which encourages more participation.  
15 We think this is a very valid point, and it gets the  
16 parties working in the marketplace and getting gas  
17 moving.

18           Lastly, I think, after hearing the  
19 testimony, Amoco is in agreement and thinks that the  
20 committee did a good job, and we're on a good road to  
21 getting the rules, the regulations, in a form that  
22 will allow the state to maximize production and  
23 profits and allow the operators to maximize production  
24 and profits. And we would recommend that the Division  
25 accept the rules and regulations as proposed and go

1 from there. I think it's a good process, and we ought  
2 to entertain such changes whenever necessary and work  
3 together with the Commission and producers.

4 COMMISSION DIRECTOR: Thank you very much,  
5 Mr. Nitcher.

6 Miss Reuter, for Doyle Hartman?

7 MS. REUTER: Thank you, Mr. Chairman. May  
8 it please the Commission, my name is Joanne Reuter of  
9 the Gallegos Law Firm of Santa Fe, New Mexico, and I  
10 represent Doyle Hartman. We just have a few brief  
11 comments.

12 I'd also like to at this time file written  
13 comments with the Commission, if I may. I'll hand  
14 four of them up to Florene.

15 Mr. Hartman is an operator of natural gas  
16 wells and a working interest owner in southeast New  
17 Mexico, and, as such, he wants to wholeheartedly  
18 support and urge the Commission to adopt the rule  
19 change to Rule 8 that would more specifically allow  
20 the Commission to adopt minimum allowables.

21 As to the other changes proposed at this  
22 time, Mr. Hartman is neutral and does not have any  
23 position.

24 In the filed comments, we have set forth  
25 first for the Commission's convenience the various

1 statutory provisions that we believe give the  
2 Commission authority to go ahead and set minimum  
3 allowables. Generally, it's from its powers to  
4 prevent waste and protect correlative rights.

5 I'd also like to point out that the  
6 Commission has specific statutory authority that  
7 expands on that a little bit under NMSA Section  
8 72-17(d), which provides that the Commission may  
9 establish minimum allowables for some wells.

10 It's our position that although the rule  
11 change is not absolutely necessary for the Commission  
12 to go ahead and adopt minimum allowables on a  
13 case-by-case basis, the changes are good and are  
14 recommended by us because they clarify that the  
15 Commission is willing to consider such changes, and  
16 they clarify some of the factors that the Commission  
17 would be interested in in making such a  
18 determination.

19 Establishment of minimum allowables is  
20 probably more necessary than it is obvious. As the  
21 Commission well knows, since the Federal Energy  
22 Regulatory Commission's orders establishing open  
23 access on interstate natural gas pipelines, the  
24 industry has entered into a competitive situation  
25 which has created a great deal of problems for

1 producers and the Commission. The Commission has been  
2 struggling to respond, and the producers have been  
3 struggling to survive in this competitive  
4 marketplace.

5 I'd like to point out that in the  
6 competitive system, market demand is really becoming a  
7 function of price and is no longer necessarily  
8 determined by pipeline purchases. The only real  
9 constraints on demands on producers are going to be  
10 pipeline and transportation capacity. Thus the demand  
11 for a producer's' gas is largely going to be a  
12 question of his choice and his ability to compete in  
13 the marketplace. The Commission has certainly  
14 attempted to make the proration system responsive to  
15 these changes in the marketplace. Unfortunately, it  
16 does not appear to have worked terribly well.

17 If you look at Appendix 1 to the comments  
18 that we filed, you'll see as an example a chart which  
19 depicts the levels of allowables since 1980. And if  
20 you look at it, you can see 1980 to 1983, the  
21 allowables in the Eumont and Jalmat Pools were  
22 relatively constant. And after that, they fluctuate  
23 all over. And even a lawyer such as myself can look  
24 at that and see that it's going to be difficult to  
25 operate as a natural gas producer in that kind of an

1 environment.

2                   These fluctuations have irreparably harmed  
3 producer economics, resulting in slower and  
4 inefficient development of potentially vast reserves  
5 in the state. This has caused a depression in state  
6 revenues and also depresses local economies. Most  
7 importantly, however, they create waste causing the  
8 inefficient recovery of reserves in the pools. And  
9 they also hamper correlative rights of different  
10 producers by delaying their opportunities to recover  
11 their fair share of gas in the pools.

12                   Establishment of minimum allowables would  
13 assure a stable level of permissible production as a  
14 floor on the allowable set by the Division and would  
15 provide sufficient assurance to producers that they  
16 would be able to effectively recover the reserves at a  
17 rate appropriate to the industry.

18                   By the same token, minimum allowables would  
19 not create a system of deproration. You would still  
20 have a minimum allowable that would be divided up  
21 among producers in the pool and divided up among  
22 standard and nonstandard proration units so that  
23 producers would not helter-skelter develop, drill, and  
24 continued efficient management of the pools of gas in  
25 New Mexico would be continued.

1           We support Mr. Stovall's suggestion that  
2 the Commission might like to look at the application  
3 that was filed by Texaco, Inc., and that was heard by  
4 Division Examiner last Wednesday for a full  
5 explanation and a really good presentation of the hard  
6 and concrete facts that would support establishment of  
7 a minimum allowable in an individual pool, and we  
8 would request that you go ahead and take notice of the  
9 transcript of that hearing and look at it before you  
10 make a decision on Rule 8.

11           In sum, Mr. Hartman therefore urges the  
12 Commission to go ahead and adopt the changes to Rule 8  
13 establishing a minimum allowable. Thank you.

14           COMMISSION DIRECTOR: Thank you, Miss  
15 Reuter.

16           I'll now hear from Allan Dees with Texaco.

17           MR. DEES: We have written comments which  
18 I'd like to offer.

19           My name is Allan Dees with Texaco. I'm  
20 Safety & Regulatory Compliance Manager for Texaco's  
21 Midland Producing Division, which covers all of our  
22 drilling and production operations in New Mexico. I'm  
23 going to partially read from this statement. What I  
24 say may not be exactly what's written here, and if I  
25 say something different, then I guess what I say is

1 what I mean to take precedent.

2 Texaco, Inc., and its wholly owned  
3 affiliate, Texaco Producing Corporation, are major  
4 producers and aggressive marketers of New Mexico oil  
5 and gas. We believe that a gas proration system can  
6 and should be designed to, first, prevent waste  
7 through good reservoir management principles, protect  
8 correlative rights of producers and royalty interests,  
9 and fully satisfy market demand for New Mexico gas.

10 We recognize the record of the Oil  
11 Conservation Division in meeting the first two design  
12 conditions. We believe that adoption of the  
13 amendments being proposed by the Division in this  
14 rule-making will be a major step toward meeting this  
15 third objective. The following comments include some  
16 additional -- will include some suggested additional  
17 amendments which we believe would lengthen that step.

18 We support the Division of the one-year  
19 proration period into two allocation periods and  
20 reduction of the length of the classification period  
21 from four to three months. These changes, coupled  
22 with those proposed in Section E for reclassification  
23 of gas proration units, will help to make the system  
24 more responsive to changes in well producing  
25 capability, and thus more able to allocate nonmarginal

1 allowables to meet market demand.

2           What we're primarily referring to is that  
3 these changes will, we believe, create a more rapid or  
4 a more responsive reclassification of nonmarginal  
5 wells to marginal status where that's warranted.

6           Gas nominations have notoriously been  
7 inaccurate in the past. The Division is suggesting  
8 that the Division Director be given the authority to  
9 suspend the requirement for nominations if he decides  
10 that they are of little or no value. Texaco would  
11 recommend eliminating this requirement now. The New  
12 Mexico law requires in subsection (d) -- this is  
13 Section 70-2-16 -- that the Division shall consider  
14 purchaser nominations. It doesn't bind the Division  
15 to use them. Also it doesn't bind the Division to  
16 require them to be submitted. It just says that the  
17 Division will consider them if they are submitted. So  
18 we would recommend the gas nominations be made an  
19 optional method for purchasers, transporters, and we  
20 think even producers to furnish information on any  
21 significant gas demand changes which they have reason  
22 to believe that the Division doesn't already have.

23           I've suggested some language in the written  
24 comments for Rule 3-A. I won't read that here, but  
25 I'll offer that for you to consider.

1           In Section C, allocation and granting of  
2 allowables, the Division's proposed language for Rule  
3 5 places a new emphasis on meeting market demand. We  
4 concur with this need. Texaco suggests, however, that  
5 it may not be adequate to simply equate pool  
6 allowables to estimate market demand. Our past  
7 experience indicates that most marginal wells and many  
8 wells that are classified as nonmarginal cannot  
9 consistently produce their assigned allowables.

10           Simple mathematical equating of anticipated  
11 market demand to each pool will inevitably result in  
12 insufficient nonmarginal and allowable assignment to  
13 meet actual market demand in many cases. In some  
14 instances, the proposed adjustments to compensate for  
15 overproduction and so on may not be adequate. We'd  
16 recommend that Rule 5 be amended to require assignment  
17 of sufficient allowable to each pool to actually  
18 satisfy market demand or estimated market demand as  
19 it's estimated by the Division. Again, I've suggested  
20 some language changes for Rule 5 to accomplish that.

21           Texaco does agree with the setting of  
22 marginal GPU allowable based on average production  
23 over an extended period. Instead of using the latest  
24 available monthly production, we believe this will  
25 tend to stabilize the marginal allowables and bring

1 them more closely into line with actual production.

2           We disagree with using the allowable from  
3 the same allocation period of the previous year.  
4 Marginal well production should be relatively free  
5 from seasonal impacts and will often be on decline.  
6 So we've recommended that Rule 5-A-1 read: "The  
7 monthly allowable to be assigned to each marginal GPU  
8 shall be equal to its average monthly production from  
9 the latest available classification period." In other  
10 words, we're suggesting simply getting some more  
11 current information.

12           The material I've handed you has some stuff  
13 scratched out in there, and I apologize for that. I'm  
14 one of the people that managed not to receive the  
15 information that was deleted on the original mail-out  
16 on definitions. So I found after the testimony was  
17 prepared and I was up there, those comments were  
18 already answered, and so I've deleted those comments,  
19 and that's the reason for that being scratched out.

20           We concur with the remaining Division  
21 proposals for that section, especially the expansion  
22 of Rule 8, Minimum Allowables. I might add  
23 parenthetically that it is our hope with minimum  
24 allowables that we will be able to get sufficient  
25 allowables so that we can consistently meet our market

1 demand. We certainly have never thought that minimum  
2 allowables would guarantee any markets for us. It  
3 would simply give us the allowables to meet those  
4 markets.

5           In Section E, as we've already mentioned,  
6 we concur with the Division of the proration period  
7 into two allocation periods and four classification  
8 periods. We believe this will allow more timely  
9 reclassification of wells, it will provide a  
10 sufficiently long period for averaging to determine  
11 actual capacity.

12           We think the Division may need to be still  
13 more aggressive in reclassifying nonmarginal GPU's to  
14 marginal. We strongly believe that the market demand  
15 can best be satisfied by insuring that only capable  
16 wells share in the allocation of nonmarginal pool  
17 allowable.

18           The Division is recommending that a GPU has  
19 to be underproduced at the beginning of an allocation  
20 period in order to be eligible for reclassification to  
21 marginal under the first of its two tests. We believe  
22 that each classification period is long enough to be  
23 handled independently, and we recommend that Rule 13-A  
24 read: "After the production data is available for the  
25 last month of each classification period, any GPU

1 which had an underproduced status at the beginning of  
2 the classification shall be reclassified to marginal  
3 if its highest single month's production during the  
4 classification period is less than its average monthly  
5 allowable during such period," and so on as it's  
6 currently written in the rule. We agree with the  
7 remainder of the changes proposed by the Division for  
8 this section.

9                   These are all of the prepared comments that  
10 I have. We appreciate the opportunity to offer these  
11 recommendations and comments to the Commission, and  
12 I'll be happy to respond to any questions you may  
13 have.

14                   COMMISSION DIRECTOR: Thank you, Mr. Dees.  
15 With a statement, we don't usually entertain  
16 questions, but we appreciate very much your input into  
17 the process. Thank you very much.

18                   We're going to delay the construction  
19 project on the building here for a minute.

20                   We can probably call Mike Zimmermann, and  
21 you can take the stand or the microphone here and be  
22 ready when Mr. Humphries returns.

23                   Just checking here, Perry and Tom, you have  
24 witnesses to present or just statements?

25                   MR. FOPPIANO: Just a statement.

1                   COMMISSION DIRECTOR: Just a statement?  
2 You don't have a witness? Mr. Pearce, a witness or a  
3 statement?

4                   MR. PEARCE: No witness.

5                   COMMISSION DIRECTOR: Tom, you just have a  
6 statement or a witness?

7                   MR. KELLAHIN: Neither, sir.

8                   COMMISSION DIRECTOR: We'll finish this up  
9 before lunch, easily.

10                  Mike, if you'd like to --

11                  MR. ZIMMERMANN: Sure. I'd like to start  
12 off, Mr. Chairman, by expressing our appreciation to  
13 the NMOCD for their responsiveness to the proposed  
14 rule changes in all of the allowable system.

15                  The specific comments as presented to you,  
16 under Rule 1, Conoco strongly supports the proposed  
17 six-month allocation period with the constant  
18 allowables, in summary, for the reasons given by  
19 Amoco.

20                  As is previously discussed, the reliability  
21 of pipeline nominations is questionable at best. For  
22 example, over 85 percent of El Paso's throughput is  
23 moved as transportation gas. I think that's a pretty  
24 well-known fact. Our opinion would be that total  
25 throughput on El Paso and Transwestern would be a

1 better reflection of the total market demand rather  
2 than the purchaser and pipeline nominations due to the  
3 changes in the way gas is moved today. And, in fact,  
4 the total throughput on both Transwestern and El Paso  
5 is probably less than the total market demand as  
6 evidenced by the new pipeline proposals to serve the  
7 California market. In other words, that there's even  
8 additional demand that exceeds the current pipeline  
9 capabilities.

10 Our opinion is that the market, in other  
11 words, the producers and consumers, should determine  
12 who chooses to produce and at what rates, and that  
13 correlative rights should be protected via the six  
14 times overproduced limit and the spacing unit  
15 requirements.

16 I'd like to briefly touch on the shut-in  
17 periods as far as the nonmarginal wells, and part of  
18 the reason that's led up to all of the proposed  
19 changes, and that would simply be that when the  
20 nonmarginal wells are shut in, the total pool  
21 production is decreased, and the succeeding allowables  
22 granted to the nonmarginal wells therefore decrease.  
23 And this ratcheting down of allowables is a very  
24 difficult trend to stop, and it's very difficult to  
25 get the wells to ratchet back up. It's much easier to

1 make them ratchet down.

2           In regards to Rule 8, Conoco strongly  
3 supports a minimum allowable for all of the prorated  
4 pools. We feel very strongly that a realistic minimum  
5 allowable will enable producers to propose new  
6 drilling wells, recompletions, and even increase  
7 remedial work to increase the production from existing  
8 wells.

9           Under Rule 9, it's a slight change, but  
10 Conoco would recommend changing the deliverability  
11 exemption for the Pictured Cliffs wells from 250 Mcf  
12 per month, which is 8.3 Mcf per day, to 1,500 Mcf per  
13 month or 50 Mcf a day. This is simply a small  
14 proposal that would save to pipelines and well  
15 operators some operating expenses without  
16 significantly affecting the allowable situations.

17           Lastly, under Rule 12-A, we feel that the  
18 semi-annual reclassification would be sufficient  
19 provided that only wells capable of producing in  
20 excess of the nonmarginal allowable were granted the  
21 nonmarginal status. In other words, once we got out  
22 the marginal wells that are truly classified as  
23 nonmarginal but not capable of making that allowable.

24           That's all I have. Thank you, sir.

25           COMMISSION DIRECTOR: Thank you very much,

1 Mr. Zimmermann. Mr. Foppiano for OXY, USA.

2 MR. FOPPIANO: Good morning,  
3 Commissioners. My name is Rick Foppiano, and I  
4 represent OXY USA. I passed out a prepared statement  
5 there. I'm going to follow it somewhat but expand on  
6 a few things that I think are important.

7 OXY USA is a major producer of oil and  
8 natural gas in southeast New Mexico, and we've  
9 actively participated in the efforts of the Gas Rules  
10 Committee to analyze the gas proration problems in New  
11 Mexico and propose some solutions.

12 First off, OXY supports the proposed  
13 changes, but we've got some reservations to that. The  
14 way the rules are interpreted and put into practice by  
15 the Commission staff is critical to achieving the  
16 benefits envisioned by the participants in the  
17 committee. As Vic Lyon pointed out in minutes of the  
18 last committee meeting, there are pros and cons in  
19 these proposed rules. The 64 thousand dollar question  
20 is, of course, what's the net effect. The answer  
21 depends in large part on how these proposed changes  
22 are put into practice to determine the market demand  
23 and apportion it between the wells in the pool.

24 We're not saying anything was left out of  
25 the proposed rule changes. Quite the contrary, we

1 think the committee members did an outstanding job in  
2 redesigning the gas proration system and drafting rule  
3 changes to implement.

4           The concerns we have are about the next  
5 step called the interpretation phase. We strongly  
6 believe that the door should be left open to fine-tune  
7 these rules or procedures after they have been in  
8 practice and everyone has had a chance to see the net  
9 effect of these changes. For this reason, we propose  
10 that if these changes are adopted, they be adopted on  
11 a trial basis. A review hearing should be set up one  
12 year after the new system has been installed to hear  
13 comments and suggestions on how to fine-tune the  
14 proration system.

15           Just a few technical observations. We,  
16 like other companies, still don't understand why  
17 nominations are being required since they don't really  
18 serve any greater purpose under the proposed rules as  
19 they did under the current proration system. We  
20 think, since that's the case, that it's unnecessary  
21 paperwork and should be eliminated if they're not  
22 going to be used.

23           Also, we recommended a change to Rule  
24 5-A-1, to what it was proposed as Rule 5-A-1. That's  
25 the rule that defines how much allowable will be

1 assigned to a marginal well; specifically, the average  
2 production during the same allocation period of the  
3 previous year.

4           As we all know, gas wells decline in  
5 production, even marginal gas wells. So to avoid  
6 adversely affecting nonmarginal allowable by assigning  
7 more allowable than necessary to marginal wells, we  
8 propose that Rule 5-A-1 be changed to provide that a  
9 marginal well is assigned an allowable equal to its  
10 average production equal to the last classification  
11 period.

12           As has been testified to, OXY worked on a  
13 special subcommittee that addressed the minimum  
14 allowable issue. We originally proposed the minimum  
15 allowable at one of the committee meetings, and our  
16 purpose in proposing that was to provide a base level  
17 of allowable in prorated gas pools that is necessary  
18 to encourage further development, workovers of  
19 existing wells, compression installations, and so  
20 forth.

21           Our analysis of one particular field  
22 indicated that the proration system was sometimes  
23 causing allowables to be so low that operators were  
24 not drilling new wells or reworking old wells because  
25 the low allowables prevented recovery of their

1 investment. Also, some operators of marginal wells  
2 were avoiding the expense of compression installations  
3 because of the low nonmarginal allowables.

4 The suggested change in Rule 8 was designed  
5 to allow operators to adopt a minimum allowable that  
6 recognizes the economics of drilling and operating gas  
7 wells in a prorated pool. We recommend that it be  
8 adopted.

9 I might expand a little bit on how we  
10 envision the minimum allowable to be implemented in a  
11 particular pool. It was OXY's overage suggestion that  
12 the OCD perform their normal allowable calculation for  
13 a pool determining what the level of nonmarginal  
14 allowable should be for the nonmarginal wells in the  
15 pool. And if that nonmarginal allowable for a  
16 standard proration unit fell below the level of  
17 minimum allowable that had been adopted for that pool,  
18 then the minimum allowable should kick in to, in  
19 effect, be the minimum nonmarginal allowable for that  
20 month or allocation period or whatever it is.

21 And in that way, we think that the minimum  
22 allowable provides a base nonmarginal allowable so  
23 that the nonmarginal allowable will not go below  
24 that. But if in fact through the allowable-setting  
25 process the nonmarginal allowable is higher than the

1 minimum, then in that case the minimum allowable  
2 wouldn't even be applicable.

3           That's how we envisioned that the minimum  
4 allowable should operate in a pool. I wasn't present  
5 at the Eumont hearing the other day. I don't know  
6 what was proposed there, but that was our thoughts  
7 behind proposing it originally in the committee.

8           And, lastly, if the OCD decides that it's  
9 not prudent to have a review hearing on these rules or  
10 adopt them on a trial basis or have some other method  
11 whereby the system can be fine-tuned if there's some  
12 things in there that are not working as everybody  
13 thought they were going to work, then we think that  
14 the OCD should have the flexibility to issue monthly  
15 or even quarterly schedules. In other words,  
16 adjusting the allowables in a prorated pool on a  
17 monthly or quarterly basis when, in their estimation,  
18 the six-month allocation period is not working  
19 properly and not determining market demand correctly  
20 and not apportioning it amongst all the wells in an  
21 equitable fashion.

22           I would like to compliment the OCD on  
23 attacking such a difficult problem as prorating gas in  
24 today's gas market situations. As you probably know,  
25 most of the states are grappling with similar issues,

1 and it appears that New Mexico is blazing the path for  
2 others to follow. So we think you all are doing a  
3 great job, and that's all I have to offer today.

4 COMMISSION DIRECTOR: Thank you for your  
5 kind words, Mr. Foppiano.

6 Mr. Perry Pearce.

7 MR. PEARCE: Thank you, Mr. Chairman.

8 For El Paso Natural Gas Company, we  
9 appreciate the efforts of the Division and the  
10 committee in making these suggestions, and we  
11 generally favor the adoption of these rules. There  
12 are a few matters which we would like clarified if the  
13 rules are adopted.

14 First of all, we are concerned that the  
15 former and present Rule 3-A dealing with nominations  
16 seems to imply that a purchaser can unilaterally pass  
17 off a nomination responsibility to a pipeline simply  
18 by informing the Division. That's of great concern to  
19 us because, as several people have said, there's a  
20 great question of whether or not a pipeline can  
21 accurately nominate, and we don't want to be put in a  
22 position that we have a responsibility to perform a  
23 service that we cannot.

24 We would suggest that if the provision  
25 instead is that a purchaser and a pipeline and an

1 operator agree that the nomination responsibility is  
2 the pipeline's so that we are cooperating and we are  
3 getting their cooperation to provide you with accurate  
4 nominations, that's acceptable to us, but we are  
5 concerned about this unilateral transfer provision,  
6 and it scares us.

7           The second thing is, we would like to  
8 emphasize some comments that Mr. Lyon made about the  
9 monthly proration schedule. For transporters and  
10 producers, some of the information in the present  
11 monthly proration schedule is particularly important,  
12 and I am thinking about the directions to shut in for  
13 overproduction.

14           We would like to indicate that if the  
15 Division takes a step to eliminate the distribution of  
16 monthly proration schedules, that some substitute  
17 method needs to be adopted so that all producers and  
18 purchasers and transporters are aware of which wells  
19 are not supposed to produce. Again, we're concerned  
20 that we not be put in a position of having rule  
21 violations without people being aware that rules are  
22 being violated. That information is vital to  
23 production operations and will continue to be vital, I  
24 think, in the future the way we're all envisioning the  
25 system, and I think we have to have that monthly in

1 one form or another.

2           So I'd just ask that the Division consider  
3 either continuing the monthly proration schedule in  
4 its present form with asterisked wells prior to being  
5 shutting in or that some other way be devised for  
6 distributing that information. Thank you, sir.

7           COMMISSION DIRECTOR: Thank you, Mr.  
8 Pearce. Mr. Kellahin?

9           MR. KELLAHIN: We have no comments at this  
10 time, Mr. Chairman. Thank you.

11           COMMISSION DIRECTOR: Thank you, Mr.  
12 Kellahin. Are there any additional comments,  
13 statements to be taken into consideration in this  
14 case? Let me phrase it a different way. Is there  
15 anyone that's here opposes the two main concepts, one  
16 of a minimum allowable, the other of a six-month  
17 allocation period with the corresponding resultants  
18 three-month classification period? Mr. Pearce?

19           MR. PEARCE: If I may, I might suggest that  
20 we leave this record open for 30 days.

21           COMMISSION DIRECTOR: Thank you.

22           MR. PEARCE: Thank you, sir.

23           COMMISSION DIRECTOR: Was there another  
24 comment I missed?

25           MR. STOVALL: We may have one in just a

1 minute, here.

2                   COMMISSION DIRECTOR: Okay. I'll take  
3 administrative note that the Commission will take into  
4 account, unless there's objection, the Eumont hearing,  
5 which at least the record of the Eumont hearing which  
6 is currently before the examiners at the Division  
7 level, so that we better acquaint ourselves of the  
8 issues in that case, at least as pertains to a minimum  
9 allowable concept.

10                   And we do plan, and we will leave the  
11 record open for 30 days for additional comment for  
12 those people that wish to make additional comments.

13                   Mr. Stovall?

14                   MR. STOVALL: I think the only thing  
15 further we'd like to make, we may make some additional  
16 input from Mr. Chavez after he's reviewed his notes,  
17 but I think the one thing in response to what I've  
18 heard is that the one concern that Division staff has  
19 at this point is that, particularly if we go to a  
20 six-month allocation period, that there be some  
21 flexibility for the Division to respond to some of  
22 these things. It's going to be new. It's going to be  
23 a little bit different. And I think, as some of the  
24 other commenters have said, we want to be able to,  
25 particularly if demand should change during a period,

1 signs of demand, to have some flexibility to revise  
2 allocations within a period, I think, would be one of  
3 our major concerns.

4           And the other is with respect to reporting,  
5 how to deal with reporting issues. So those are  
6 matters which we may provide some further comment on,  
7 but they're of a major concern in terms of  
8 implementation of a new system by the Division.

9           COMMISSION DIRECTOR: Thank you, take those  
10 comments.

11           MR. NITCHER: Mr. Chairman, one thing I  
12 might have overlooked. In terms of implementing the  
13 new rules if they are promulgated, Amoco would be  
14 willing to assist in any manner in expediting the  
15 process, and the commission and the staff could call  
16 on Amoco in any way to get the process implemented in  
17 a very expedited time frame.

18           COMMISSION DIRECTOR: Thank you, very much.

19           I think it may be appropriate for at least  
20 the Chairman of the Commission to comment on policy  
21 that we have had on proration. I think it's obvious  
22 that changes need to be made, not necessarily large  
23 changes, but as you'll note through memorandum,  
24 there's lots of discretion given a Division Director  
25 and the department for the Division to effect these

1 changes.

2           You all note that we do have a Gas  
3 Marketing Division and an Office of Interstate Natural  
4 Gas Markets. We are informed on what FERC does, and  
5 obviously what FERC does, 380 is a classic example,  
6 certainly affects our proration system.

7           We do plan to make, call it fine-tuning or  
8 under continual evaluation, our total proration system  
9 and try and interface that with, quote, "market  
10 demand," but also with revisions that come from the  
11 FERC and the CPUC in California, which is our largest  
12 gas market.

13           So you can rest assured that we don't have  
14 a closed issue here, that as these changes occur in  
15 the federal level and especially at the state level in  
16 California, we assess that and see if our proration  
17 system still is effective in light of those changes.  
18 So be assured that we have an evolving process here  
19 and not one that's closed-ended at any one period of  
20 time.

21           As I mentioned, we will keep the record  
22 open for 30 days for additional comment.

23           At this time is there anyone else that has  
24 anything to offer in Case 10009? The Commission will  
25 take that case under advisement.



BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
SANTA FE, NEW MEXICO  
JULY 19, 1990

COMMISSION HEARING

(-----)  
( IN THE MATTER OF: )  
( )  
( The hearing called by the Oil Conservation )  
( Division (OCD) on its own motion to consider )  
( revisions to Division Order No. R-8170, as )  
( amended. )  
(-----)

CASE 10009

BEFORE: William J. LeMay, Director

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil  
Conservation Commission:

Robert G. Stovall  
Legal Counsel for the Commission  
State Land Office Building  
Santa Fe, New Mexico

MR. LEMAY: Call next Case 10009.

MR. STOVALL: Case 10009, in the matter of the hearing called by the Oil Conservation Division (OCD) on its own motion to consider revisions to Division Order No. R-8170, as amended. It is requested that this case be continued to the Commission hearing scheduled for September 27, 1990.

MR. LEMAY: Case 10009 is hereby continued to the Commission hearing scheduled for September 27, 1990. The comment period on this case shall remain open until that date.