NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date SEPTEMBER 22, 1994 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
Monica Kuehling		S.F.
		Farmington
Robert G. Fant		
DALE BONEAU		ARTESIA
Tonya Trujillo		S.F.
JAMES HALL		
Jerry Hoover		Midland, TX

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NAME	REPRESENTING	LOCATION
Wayne Bailey	Bass Enterprises	Ft. Worth
Bill Duncan	Exxon	
George A. Hills	Bass Enterprises	Ft Worth,
James Bruce	Hinkle Law Firm	Santa Fe
E. Ronald Blatt	Bass Enterprises	Ft. Worth, TX

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION COMMISSION FOR THE PURPOSE OF CONSIDERING:

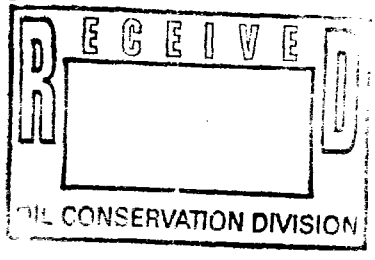
APPLICATION OF THE OIL CONSERVATION DIVISION ON ITS OWN MOTION

CASE NO. 11,102

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING



BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
GARY CARLSON, COMMISSIONER

September 22nd, 1994

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission on Thursday, September 22nd, 1994, at Morgan Hall, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

September 22nd, 1994
Commission Hearing
CASE NO. 11,102

I N D E X (Continued)

* * *

E X H I B I T S

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* * *

A P P E A R A N C E S

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CONOCO, INC.; ORYX ENERGY COMPANY; MERIDIAN OIL, INC:

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By: W. THOMAS KELLAHIN

* * *

WHEREUPON, the following proceedings were had at 9:03 a.m.:

CHAIRMAN LEMAY: Good morning. This is the Oil Conservation Commission hearing.

My name is Bill LeMay. To my left is Commissioner Bill Weiss, to my right Commissioner Gary Carlson representing the Commissioner of Public Lands, State of New Mexico.

We're here today to consider first of all Case Number 11,102, which is the Application of the Oil Conservation Division on its own motion to consider the proposed October 1994 to March 1995 gas allowables in the prorated gas pools in New Mexico.

At this time I shall call for appearances in Case Number 11,102.

MR. CARROLL: Mr. Chairman, Rand Carroll on behalf of the Oil Conservation Division.

I have two witnesses.

CHAIRMAN LEMAY: Thank you, Mr. Carroll.

Additional appearances?

MR. BRUCE: Mr. Chairman, Jim Bruce from the Hinkle law firm in Santa Fe, representing Exxon Corporation.

I have one witness.

CHAIRMAN LEMAY: Thank you, Mr. Bruce.

MS. TRUJILLO: Mr. Chairman, I'm Tanya Trujillo from the Santa Fe law firm Campbell, Carr, Berge and Sheridan, here on behalf of Amoco Production Company, Amerada Hess and Chevron USA Production Company.

I have no witnesses today, but I have some statements to read.

CHAIRMAN LEMAY: Thank you, Ms. Trujillo.

Mr. Kellahin?

MR. KELLAHIN: Mr. Chairman, I'm Tom Kellahin of the Santa Fe law firm of Kellahin and Kellahin, appearing today on behalf of Marathon Oil Company; Phillips Petroleum Company; Conoco, Inc.; Oryx Energy Company; Meridian Oil, Inc.

From those companies I have three witnesses, and then statements from the balance.

CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

Additional appearances in the proration case?

Will those witnesses that will be giving testimony please stand and raise your right hand?

(Thereupon, the witnesses were sworn.)

CHAIRMAN LEMAY: Thank you.

Mr. Carroll, we'll get the show rolling with you.

MR. CARROLL: Thank you.

I call Jim Morrow to the stand.

JIM MORROW,

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

DIRECT EXAMINATION

BY MR. CARROLL:

Q. Mr. Morrow, will you please state your name and your residence?

A. Yes, my name is Jim Morrow. I reside in Santa Fe.

Q. And Mr. Morrow, who are you employed by and in what position are you employed?

A. By the Oil Conservation Division as Chief Petroleum Engineer.

Q. Have you testified before the Oil Conservation Commission before and had your qualifications accepted as an expert?

A. Yes.

Q. And do your duties as a petroleum engineer include managing gas proration and the Application of proration rules and regulations to operators in New Mexico?

A. Yes.

Q. And for today's hearing, have you prepared exhibits regarding gas proration?

A. Yes.

Q. And Mr. Morrow, I'll direct you to what is marked

as OCD Exhibit Number 1. Could you explain what is contained on this exhibit?

A. Yes, sir. I might go ahead and talk about Exhibits 1 and 2 together. They're very similar.

Q. All right.

A. And they are the allowable determination schedules which we've been using for the last several allocation periods as a starting place in determining allowables for the prorated pools in New Mexico.

These schedules start with pool production for the previous winter period and assume that the allowable for the next similar period should be very similar to last year's production for that six-month period.

Marginal production is then subtracted from total pool production to come up with an amount to be divided up among the nonmarginal wells or gas proration units in each pool.

For the upcoming period, October through March, the production information which is usually available to us was not this time. That was because of delays in getting the 1994 C-115 information into the new ONGARD system. So most of the numbers on these two schedules are the best estimates we could make using the production data which was available.

We did look at October through December, 1993,

and that was available for most of the pools, so we just doubled that and assumed that that would be the production for the six-month period.

The --

Q. Now, Mr. Morrow, I notice for the Blinebry and the Tubb Pools there's zero production. Why is that?

A. Yes, sir, the totals which come out on the statistical report combine both the casinghead gas and gas well gas for those two pools, so it takes a program -- One of the ONGARD programs is necessary to seine the gas well production data out of the total pool data. So we really didn't have any data there; we just used what we thought would be about right from previous periods and put that in the adjustment column in order to come up with a number for the Tubb and the Blinebry.

I might point out that the number of nonmarginal wells in each pool is also an estimate, and we feel like this is probably high.

We have done some preliminary reclassifications in each of the pools, and while the information that those reclassifications is based on is incomplete, it does appear that there will be even fewer nonmarginal wells for future proration, for this coming-up proration period, than what is shown here in the schedule, and what's shown in the schedule is taken from last period's number of nonmarginal

wells.

Q. Mr. Morrow, taking you through the math on Exhibit 1, it appears that columns 1 and 2 add up to column 3. If you subtract column 4 from column 3, you get column 5. And if you divide 5 by column 6, you wind up with the number in column 7; is that correct?

A. That's on Exhibit 1 you're talking about?

Q. Yes.

A. Yes, sir, I believe that's correct, what you said.

Q. And in the sixth column, the number of nonmarginal acreage factors, that just doesn't refer to wells, does it? It refers to gas proration units?

A. Yes, sir, that's right. There might be two wells in some of the gas proration units, and some of the gas proration units might be fractional proration units, less than a full one, or maybe more than a full one.

Q. Now, turning to Exhibit 2, the math is a little more complicated. The computations -- You add another step; is that correct?

A. Yes, sir, the math to be assigned to the nonmarginal wells in the pools in the northwest is based on a two-phase allocation formula. Part of the allowable is distributed based on acreage, and part of it is distributed based on acreage times deliverability. So you do have two

factors in the northwest.

Q. And the pools in the northwest, there's one pool governed by its own dual computation, and then the last three, the Blanco Mesaverde, the Blanco P.C South, and the Tapacito Pictured Cliffs, have a different --

A. Yes, sir, in the Basin Dakota 60 percent of the allowable is distributed based on acreage, and then the other three, 25 percent of the allowable is distributed based on acreage, and the remainder on acreage times deliverability for each well.

Q. So for example, in the Basin Dakota, you would take the monthly nonmarginal pool allowable in Column 5 and take that times 60 percent, then you divide it by 15, and you'd get 11,200 for the acreage factor?

A. Yes, that's right.

Q. And then for the acreage-times-deliverability factor, you would take the 280,000 times .4, divided by the 8000 in column 7, and you'd wind up with the 14 in the last column?

A. Yes, sir.

Q. And then you would take that 14 times the deliverability of the gas proration unit, if the acreage factor was 1, to find out the remainder of the gas allowable for that --

A. That's right.

Q. -- GPU?

A. That's right.

Q. Now, in these exhibits, Mr. Morrow, you're not really making a specific recommendation as to gas allowables but merely recommending a starting point from which adjustments can be made if the evidence is there; is that correct?

A. That's correct, based on what we've seen in the past allowable assignments. And we've talked to Gas Marketing, and they feel that there will probably be no decline in the demand for New Mexico gas, at least no decline. So we feel that these would approximate what the allowable should be, at least.

Q. Mr. Morrow, do you have an opinion on the effect of prorationing on gas proration units, really on the ability -- Or does gas prorationing impose an artificial restraint on production from prorated pools?

A. No, I don't think it is at this time. With the high demand that New Mexico has enjoyed for its gas and the allowables that we've been assigning, we've just about changed all the wells in all the prorated pools from nonmarginal status to marginal, so that most of the wells in the prorated pools can't make the allowables that have been assigned.

So there's very little restrictions on the wells,

even in the prorated pools, by the gas proration system.

Q. Well if -- Mr. Morrow, if gas prorationing doesn't really affect hardly any wells in the State, is there any reason to keep gas prorationing?

A. Yes, we think there is. There are some pools where there's extremely high production, the Indian Basin Upper Penn, for instance. Prorated wells there produce around 6 million a day, and even some marginal wells produce -- wells assigned marginal status produce in excess of 5 million a day.

So I think there is. It puts a cap on production, and it allows some equity which wouldn't be there otherwise.

Also in the Eumont and the Jalmat Pool, there are some small-acreage tracts which the allowable system assigns much lower allowables to than it does the larger acreage tracts and provides for protection of correlative rights in those situations.

I think on some of those small-acreage tracts that operators would probably work their wells over and produce much more than they're producing now, if they were completely unrestricted and could produce anything they wanted to.

MR. CARROLL: Thank you, Mr. Morrow.

I have nothing further, Mr. Chairman, and I offer

OCD Exhibits Number 1 and 2 into evidence.

CHAIRMAN LEMAY: Without objection, Exhibits 1 and 2, OCD, will be admitted into the record.

Questions of Mr. Morrow?

Commissioner Weiss?

COMMISSIONER WEISS: I have no questions.

CHAIRMAN LEMAY: Commissioner Carlson?

EXAMINATION

BY COMMISSIONER CARLSON:

Q. Could you explain, Jim, some of the pool adjustment figures, where those came from?

A. Yes, sir. In -- As I stated, we really didn't have good production data here, so actually what we did is go in and decide what we thought the allowable should be, based on what we saw as production and what we had been assigning in previous periods.

So some of those adjustments, for instance, the one in the Atoka Penn, the one -- Well, let's just take the one in the Atoka Penn. It was assigned in order to get the allowable up to something similar to what we had been assigning there. Since we didn't have good production data, we didn't have -- really didn't have a good reason to reduce or recommend a reduction in the allowable, so we put an adjustment in there.

Q. So you started at the allowable and worked

backwards?

A. More or less, yeah. We just --

Q. And just --

A. -- kind of came up with something that we could start with, is what we did, since we didn't have any production data.

Q. I see.

A. Do you want me to go ahead and explain the others, or is that --

Q. Well, if that's the case with all --

A. Yeah.

Q. -- whatever it is, four of them, that's fine.

A. Okay.

COMMISSIONER CARLSON: Thank you.

EXAMINATION

BY CHAIRMAN LEMAY:

Q. Just for my own clarification, on Exhibit 2, in the average monthly allowable for the well, the nonmarginal well in those pools would be the second from the right column, huh? The -- Like Basin Dakota would produce -- be allowed a little over 11 million a month and --

A. If you had a well that -- Let's say you had a well that had a deliverability of a million and it had an acreage factor of 1, then it would get the 11.2 million assigned to it, plus an allowable equal to 14, times its

deliverability, times its acreage factor. So that would get it another 14 million. It would get two --

Q. I see, so --

A. There would be two components to the allowable assignment.

The first would be the monthly acreage allocation factor times the acreage factor for that proration unit. If it were one, it would be 11,200.

And then the other component of the allowable would be 14, times the deliverability, times the acreage factor. And those two would be added together to come to the total allowable.

Q. So there wouldn't be an average -- Because you have the deliverability factor, which would vary, if you had an acreage factor of 1, you're adding the last two columns, assuming a deliverability of a million?

A. Right. A well with better deliverability would need and would get a better allowable, a higher allowable.

CHAIRMAN LEMAY: All Right. Yeah, I thought that was it.

Thank you very much.

I have no additional questions of the witness.

THE WITNESS: Thank you.

CHAIRMAN LEMAY: You may be excused, thank you.

MR. CARROLL: Call Chris Williams to the stand.

CHRIS WILLIAMS,

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

DIRECT EXAMINATION

BY MR. CARROLL:

Q. Mr. Williams, would you please state your name and your place of residence?

A. Chris Williams. I live in Santa Fe.

Q. And Mr. Williams, where are you employed and in what position are you employed?

A. I'm employed by the Oil Conservation Division as a natural gas marketing specialist.

Q. Mr. Williams, have you previously testified and had your qualifications accepted as a gas marketing specialist?

A. No.

Q. Could you please summarize your post-high-school educational background?

A. I have a bachelor's degree in business with emphasis in petroleum land management and management, and that's it.

Q. Would you also please summarize your professional background since college?

A. I have about 17 years of experience in the oil and gas industry, from roustabout to field engineer.

Q. And who were you employed by during that 17 years?

A. I was employed by Shell Oil for 10 years and Hondo Oil for three years, and four years in this job.

Q. And what are your duties in your current position?

A. As a gas marketing specialist, our primary duties are to promote and advocate the sale of New Mexico-produced natural gas at FERC, at California Public Utilities Commission, to try and seek out new markets for the increased production that we have.

Q. And in the course of your duties, do you look at production trends and market trends regarding New Mexico-produced natural gas?

A. Correct.

Q. And are you prepared to make opinions today regarding the ability of New Mexico gas to find markets?

A. Yes.

MR. CARROLL: I offer Mr. Williams as an expert gas marketing specialist.

CHAIRMAN LEMAY: His qualifications are acceptable.

Q. (By Mr. Carroll) Mr. Williams, have you prepared exhibits for today to support your conclusion regarding the increasing ability of New Mexico gas to find markets?

A. Yes.

Q. And are they marked as OCD Exhibits 3 through 5?

A. Right.

Q. Let's look at Exhibit Number 3 first. What does this show the Commission?

A. Basically this is a breakdown of production in New Mexico by the different types of gas that we have, which is coal seam gas, Permian conventional and casinghead gas and San Juan conventional gas.

And we don't have any production numbers from 1994, which Mr. Morrow has already stated, but in 1993 the biggest jump in natural gas production occurred in the San Juan Basin due to coal seam development.

The Permian casinghead and conventional gas and San Juan conventional are both, at the present time, just holding steady. They're not declining that much.

Q. So all the incremental gas produced is largely attributable to --

A. It's coal seam gas.

Q. -- coal seam gas. All right.

Let's move to Exhibit Number 4, and what does this tell the Commission?

A. This is the exhibit of what coal seam has done in New Mexico since 1989. Coal seam development actually started in 1988, and this shows the general trend and rise

in coal seam production.

At the present time there's over 1900 wells that are connected and producing, and on the average 25 wells have been added every month for the last 48 months to coal seam.

Q. Now, that last production figure, 730 million a day, is that for 1993?

A. Right, 730,000 cubic feet a day, that's the average for each well.

Q. All right. Let's move to Exhibit Number 5.

A. Exhibit Number 5 is a projection of actual volumes that were produced in New Mexico in 1994 and what we have projected as the actual volumes for those years.

In 1994 the projected number is 1.612 trillion cubic feet of production, is what we project to be produced in New Mexico this year.

Q. Now, is that projection different than what was presented to the Commission in March?

A. Right, it is. We didn't have the last three months' production numbers, and we were trying to just use best guess.

Q. What was the March projection that was presented to the Commission?

A. 1.4 -- I think it was 1.46, something like that.

Q. So we're looking at another 150 billion cubic

feet?

A. Correct.

Q. Mr. Williams, although prorated production is not broken out here in these exhibits, is it your opinion that nonprorated production is somehow restricting the ability of prorated production to find markets?

A. No.

Q. And why is that? Is there something in market trends or --

A. Well, only 12 percent of the total production in the state comes from prorated pools. And of that, only a third of it comes from the nonmarginal wells in those pools, so...

Q. So we're looking at about four-percent statewide production is from nonmarginal wells?

A. Right, right. It works out to about 6.9 BCF per year for nonmarginal wells.

Q. Do you have any general observations regarding market trends for New Mexico gas, maybe in California or Mexico or wherever?

A. Okay, California has always been historically our major market, and their gas usage is about 1.9 trillion cubic feet a year. We supply about 1.1 trillion cubic feet of that, and Canada makes up most of the rest of it.

There are several expansions that are ongoing

terms of gas on gas competition.

MR. CARROLL: Okay. Thanks, Mr. Williams.

I have nothing further, and I offer OCD Exhibits 3 through 5 into the record.

CHAIRMAN LEMAY: Without objection, OCD Exhibits 3 through 5 will be admitted into the record.

Questions of Mr. Williams?

feet?

A. Correct.

Q. Mr. Williams, although prorated production is not broken out here in these exhibits, is it your opinion that nonprorated production is somehow restricting the ability of prorated production to find markets?

A. No.

Q. And why is that? Is there something in market trends or --

A. Well, only 12 percent of the total production in the state comes from prorated pools. And of that, only a third of it comes from the nonmarginal wells in those pools, so...

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A. Right, right. It works out to about 6.9 BCF per year for nonmarginal wells.

Q. Do you have any general observations regarding market trends for New Mexico gas, maybe in California or Mexico or wherever?

A. Okay, California has always been historically our major market, and their gas usage is about 1.9 trillion cubic feet a year. We supply about 1.1 trillion cubic feet of that, and Canada makes up most of the rest of it.

There are several expansions that are ongoing

that will help New Mexico; the Mojave pipeline expansion into northern California which should bring in an extra 400 million cubic feet a day of southwest gas.

The only problems that will be or could take place within the next 10 years, it's that with all the expansions that have been put on line and the ones that have already been before the FERC, the total capacity coming into California by the year 2000 is about 4310 -- That's not right. About 4-point -- I'm losing it. Right now the expansions are at about -- The total demand by 2000 will be 3561 MMCF. The total capacity going to California will be 4310 MCF by the year 2000.

So there's going to be 750 million cubic feet a day of excess capacity, so the market will tighten up in terms of gas on gas competition.

MR. CARROLL: Okay. Thanks, Mr. Williams.

I have nothing further, and I offer OCD Exhibits 3 through 5 into the record.

CHAIRMAN LEMAY: Without objection, OCD Exhibits 3 through 5 will be admitted into the record.

Questions of Mr. Williams?

Commissioner Weiss?

EXAMINATION

BY COMMISSIONER WEISS:

Q. Yes, Mr. Williams, how do you make such a

forecast?

A. This forecast is basically just a linear regression off of -- from historical data. And the only thing that changed this last time is, we did not have the last three months' production numbers.

Plus, Mr. Hall, who was in this position before, went in and actually added to the linear regression a seasonal adjustment factor, which changed how the regression looked.

Q. This is the year 2000?

A. Oh, you mean -- No, the 2000 prediction, those are from the California gas utilities themselves, and those are the predictions of what pipeline capacity will be and what their total demand will be.

COMMISSIONER WEISS: Thank you.

CHAIRMAN LEMAY: Questions?

Commissioner Carlson?

EXAMINATION

BY COMMISSIONER CARLSON:

Q. Yeah. Chris, if I looked at your Exhibit -- If I look at your Exhibit 3 and compare it to your Exhibit 4, on the coal seam part of Exhibit 3 it doesn't look anything like the graph in Exhibit 4.

A. Well, the Y axis is different.

Q. I understand that. But I mean, look at January

1989 production, for example.

A. Okay.

Q. In Exhibit 4, you have it somewhere -- it looks like about 3 BCF. And Exhibit 3 it looks like about 30.

A. Okay.

Q. And it appears that -- Is there a reason for that?

A. No, there isn't. To be honest with you, Gary, I don't know. I haven't looked at them that close. Dan did these projections before he left.

Q. Have you noticed any decline in the drilling of coal seam wells after the tax credit debate for drilling those under the tax credit expired?

A. It's slowed down some, but it hasn't slowed down as much as we thought it would.

Q. Is this 25 wells -- That's the ones that are connected, right? That's not the ones that are completed drilling? They could have completed --

A. Yeah, that's the ones that -- That's connecting, right.

Q. Excuse me?

A. That's the ones they are connecting. It doesn't mean wells that are drilled and completed, that are just sitting there waiting for connection.

COMMISSIONER CARLSON: Right, okay. That's all I

have.

CHAIRMAN LEMAY: Okay, I don't have any questions. Thanks, Commissioner.

I think in the past what we've done is take the southeast on a pool-by-pool basis, collecting the comments, and then the northwest the same way, so we're not jumping back and forth on pools.

Is that acceptable presentation?

MR. KELLAHIN: I'm not sure which area's turn to go first.

CHAIRMAN LEMAY: We have alternated, haven't we --

MR. KELLAHIN: Yes, sir.

CHAIRMAN LEMAY: -- in the past?

MR. KELLAHIN: I have one witness for the San Juan Basin. My other witnesses apply to various pools in the southeast.

CHAIRMAN LEMAY: Well, I think you're in the southeast, are you, Mr. Bruce?

MR. BRUCE: Yeah. I mean, we can let Mr. Kellahin go first if he wants. It's no big deal.

MR. KELLAHIN: I have no preference, Mr. Chairman.

CHAIRMAN LEMAY: Well, we'll give the southeast preference, I guess, for being first today, so -- since

we're ready in the southeast with Mr. Bruce.

I might add, does anyone have a time problem? I feel sure we'll be through this morning, as far as witnesses go, trying to get back to Midland or something. Anyone object to going southeast first, pool by pool, and then the northwest?

Okay, I think that's the way we'll handle it then.

You may continue.

WILLIAM T. DUNCAN, JR.,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name and city of residence for the record?

A. My name is William Thomas Duncan, Jr., and I live in Midland, Texas.

Q. Who do you work for and in what capacity?

A. I work for Exxon Company, USA, as a staff engineer.

Q. Have you previously testified before the Division or the Commission as an expert petroleum engineer?

A. Yes, I have.

Q. And were your credentials as an engineer accepted

as a matter of record?

A. They were.

Q. And are you familiar with the gas prorationing matters at issue in this case?

A. Yes, I am.

MR. BRUCE: Mr. Chairman, I tender Mr. Duncan as an expert petroleum engineer.

CHAIRMAN LEMAY: Mr. Duncan's qualifications are acceptable.

Q. (By Mr. Bruce) Mr. Duncan, why is Exxon here today?

A. Exxon is here to request an additional adjustment of the allowables to be assigned in the Eumont Pool and the Blinebry Pool.

Q. Okay, let's start with the Eumont Pool. What is Exxon's request?

A. Exxon is requesting that the monthly acreage allocation factor for the pool be increased from the proposed 30 million a month to 37,772 per month.

Q. Okay, let's discuss that a little further. Would you start with your Exhibit 1 and identify that for the Commission?

A. Exhibit Number 1 is a chart showing several things.

On the left axis I've plotted -- or using the

left axis, I've plotted monthly acreage allocation factor for each of the six gas proration periods that are shown on the bottom or the X axis of the chart.

And on the right-hand axis of the chart I've shown the monthly pool allowable or sales for the given proration period.

Now, each of the gas proration periods are shown, but of course one of them has not occurred yet, and that is the far right proration period, 10-94 through 3-95.

What is actually plotted on the chart, the bars are depicting the monthly acreage allocation factor for each period, and you'll note that there are two bars.

The left-hand bar for each period is the allocation factor from Exhibit A of the Commission's proration order as printed in the beginning of the gas proration schedule, the first few pages of the gas proration schedule, each period.

The right-hand side, or the right bar for each proration period shows the monthly acreage allocation factor as it actually occurs in the text of the proration schedule when you look for a nonmarginal well.

Now, in most cases those are identical. You'll see that they're identical for the first four gas proration periods. In the most recent gas proration period they are not identical for the Eumont Pool. The Exhibit A showed

28,928 per month, and the gas proration schedule actually showed 33,401.

The lines shown with the either open or closed squares for each point depict the monthly pool allowable and sales. The allowable is shown with the closed squares, the sales from each pool is shown with the open squares for each proration period.

What you generally see here is an increasing trend in allowables, which is actually running behind the increasing trend in sales. It's tending to play catch-up.

Sales are only plotted through the 10-93 through 3-94 gas proration period, because they were unavailable for the other two proration periods or for the most recent period.

What is shown in yellow or highlighted on your exhibit in either yellow or blue -- I started with yellow and the highlighter ran out of ink so I changed to blue on some of them. But what is shown highlighted is for the next proration period. And on the left bar is the 30 million a month that is proposed in the Notice for this hearing, and the right bar shows Exxon's proposal of 37,772.

Q. Now, the proposal for the next proration period is actually less than what you took from the proration schedule for the immediately preceding period; isn't

that --

A. That is correct, and we have been producing our top allowable or nonmarginal units at the level of 33,401. And in fact, they are restricted at that rate, and I'll show that more on the next exhibit.

Q. Okay. Why don't you move on to Exhibit 2 and discuss why Exxon is requesting the additional allowable?

A. Exxon is requesting the additional allowable for the Eumont Pool because the trial allowable -- what I've shown as the trial allowable here, the 30 million a month -- would not provide an allowable that's sufficient to make it economically justified to continue the work programs that we are pursuing in this pool.

I've shown on this exhibit each of Exxon's allowable limited gas proration limits.

On the left-hand column you see the leases listed. I've just shown them by shorthand names, the Knox, Adkins, "B" State, Eumont Gas Comm and "G" State leases.

The acreage for each of those proration units is shown in the second column, and the acreage factor for each proration unit is shown in the third column.

The current capability for that particular gas proration unit is shown in the fourth column.

Our worked capability, or what we believe is the capability of that should we continue our work programs, is

shown in the fifth column.

The last allowable is shown in the sixth column.

And our trial allowable, or what I call the trial allowable, which was in the proposed Exhibit A for this hearing, is shown in the third column from the right.

Our proposal is shown in the second column from the right.

And what would be unusable capability under our proposal is shown in the last column on the right.

At the bottom of the exhibit is shown the monthly acreage allocation factor, which would correspond to each of those columns. You can see that the last proration period had an allocation factor of 33,402. The trial allowable shows 30 million a month. Exxon's proposal shows 37,772.

Now, what --

Q. Is this -- Go ahead.

A. Sorry. The way that we arrived at the 37,772 is simply to increase the allowable allocation factor up to the point where the least capable of our nonmarginal proration units has no excess unusable capability, and that would allow us to continue work programs in those fields. One of the things that we've been doing in all of -- Excuse me, in those leases.

One of the things we've been doing in all of

these leases is trying very hard to optimize our production rates and therefore optimize our profitability of these leases. Profitability is extremely important now, maybe more so than at other times, and it essentially determines the survivability of the lease.

Q. Now, you mentioned workovers. What does Exxon anticipate doing in -- on these leases that you've just mentioned? And I'll refer you to your Exhibit 3.

A. The work programs are listed on Exhibit 3 for each of the leases that were listed on Exhibit 2. You may wish to leave Exhibit 2 out and refer to it occasionally.

But for the Knox gas proration unit, it currently has two wells producing on it, the 1 and 3. Well Number 9 is on that proration unit, and we are doing work on that well. Essentially, it's just stimulation and artificial lift work on that well, which we believe would increase its capability a million MCF per day.

On the Adkins lease, that is a simultaneously dedicated lease also with four wells on it. We would like to workover wells 2 and 9, which would add about 800,000 a day.

The "B" State lease is currently capable of 800 MCF per day without any additional work, so that's actually not a work program; it's a result of previous work that we've done, mainly of an artificial lift nature. We've

installed gas lift on a lot of these wells, and we're debugging that and finding that the production is increasing quite nicely as we learn how to use the production equipment better.

In the Eumont Gas Comm lease, we'd like to work over an additional well, and that workover is planned for next week to add an additional 600 MCF per day. With additional allowable, we would also pursue work on two other wells.

On the "G" State lease it's now allowable-limited, but we would like to do additional work on two additional wells on that gas proration unit.

Q. Why is Exxon sure that it would get these approximate numbers of additional production by its workovers?

A. Well, we have been very actively pursuing our profit optimization and production optimization work in this field, and in fact the allowables that have been assigned in the past two periods have allowed us to go out and do some of that work, and we've gone from marginal proration units to nonmarginal proration units as a result of that work.

Q. Now, if you would refer back to your Exhibit 2 again for a minute, Mr. Duncan, Exxon is proposing the 37,772 figure. You would still be limited in production

from some of your gas units at that figure, would you not?

A. That's correct, and we probably would be limited on the Knox also, but that's just using the current estimate of what we would be able to realize on that proration unit.

Q. In order to have no limit on production, what would the nonmarginal acreage factor have to be?

A. Oh, it would have to be about -- almost 48 million a month.

Q. Is that Exxon's proposal?

A. No, it's not. We're proposing the 37,772 as a realistic adjustment that would still give us the economic incentive to continue work programs on these leases.

Q. Now, let's move on to the Blinebry Pool. What is Exxon's proposal for that pool?

A. For the Blinebry Pool, Exxon is proposing 42,550 as the acreage allocation factor.

Q. And referring to your Exhibit 4, would you go through that for the Commission?

A. Exhibit 4 is the same format as Exhibit Number 1. And for the proration periods shown you can see that the monthly pool allowable and sales have tracked very well. In fact, the sales have outpaced allowables through the last complete proration period for which we have data.

In the Blinebry Pool, there is one less period's

worth of data, so we are unable to show the sales since that time. But allowables have been set a little bit higher in that pool, at least during the corresponding period last year.

And as you can see by the bar, the monthly acreage allocation factor in 10-93 through 3-94 was about 45.6 million a month. And during this most recent period it was reduced substantially to either 37.9 or 38.5, depending upon where you get the number, whether you get it off the Exhibit A or off the text of the schedule.

But the proposal of 38 million a month, we believe, is low, and we would like to see that increased to 42.5 million, initially 42,550 as shown on the right-hand bar.

Q. How did you get to that 42,550 figure?

A. I would like to refer to the next exhibit. Exhibit Number 5 is, again, the same format that you saw on Exhibit Number 2 earlier. And using that exact format, you can see that with our two allowable-limited gas proration units, increasing the allowable allocation factor up to 42,550 would simply bring the less capable proration unit up to having little unusable capability.

Q. So you have existing excess capacity in the Blinebry at this --

A. That's correct, and it again is a result of our

work programs over the past two periods.

Q. Again, you would still be limited at this proposed 42,550 level?

A. That's correct. Arguably, one well might be on the border and the other well would be limited.

In order to have both wells unlimited, that would require an acreage allocation factor close to 60 million a month.

Q. Okay. Who is Exxon's purchaser for these pools?

A. Exxon sells its gas to Sid Richardson Carbon.

Q. Is there a market for the gas if the allowables are increased?

A. Yes, there is. I contacted Sid Richardson's representative -- I don't see his name here. David -- I forget his name. -- in Fort Worth, and he said that Sid Richardson will be able to take anything that we can produce, just absolutely had no problem saying that he would be able to -- they would be able to accept and take that gas.

Q. Okay. Have you discussed your proposals for these two pools with some of the other operators in the pools?

A. Yes, have, a few of the other operators. Exxon has been working on this, I guess you'd say, kind of at the last minute. And over the past two days I've been on the

phone to various operators in the two pools, attempting to notify them and ask them for their concurrence, but I've been largely unsuccessful because there is an awful lot of moving going on right now between offices, I think, as a result of industry reorganizations and changes.

But the people that I have been able to locate, I'll be happy to identify.

Q. Please go ahead.

A. Okay. In the Eumont Pool I've spoken to Chevron, who had no objection to increasing the allocation factor.

Conoco, I spoke to Conoco this morning, and they again had no objection to increasing the factor.

Let's see, Marathon supported the increase quite wholeheartedly.

Mobil -- I'm sorry, I didn't speak to Mobil. And that's all I've been able to locate, I'm sorry.

Q. Amerada Hess was moving its offices, and you couldn't locate anyone there?

A. Right. I believe it was the Tulsa office referred me to Houston, and the Houston office said that they're not here yet, so they are apparently in transit.

Q. What about the Blinebry Pool?

A. In the Blinebry Pool, I spoke to -- I attempted Amerada Hess but was unable to locate anyone.

Chevron had no objection to an increase.

Conoco, I spoke to this morning, and voiced no objection to an increase.

Marathon had no objection to an increase.

Q. Now, in these pools, do operators other than Exxon also have nonmarginal wells?

A. Yes, they do.

Q. And one final question. In the Eumont, speaking of nonmarginal wells, what percentage of the wells in that pool are Exxon's wells, and what percentage of production?

A. Well, I don't have the figure for percent of wells. The percent of production from the pool is about 10 percent.

Q. Okay.

A. From what I understand, other operators are pursuing fairly similar work plans, similar to what Exxon is doing in the pool, in the Eumont, and achieving reasonably good results from what I understand too.

Q. In your opinion, is the granting of Exxon's proposals in the interest of conservation and the prevention of waste?

A. Yes, it is.

Q. And were Exhibits 1 through 5 prepared by you or under your direction?

A. Yes, they were.

MR. BRUCE: Mr. Chairman, I would move the

admission of Exxon's Exhibits 1 through 5.

CHAIRMAN LEMAY: Without objection, Exhibits 1 through 5 of Exxon into the record.

MR. BRUCE: I have nothing further.

CHAIRMAN LEMAY: Questions of Mr. Duncan?

Commissioner Weiss?

EXAMINATION

BY COMMISSIONER WEISS:

Q. Yes, are your leases adjoining leases in both these pools?

A. No, our leases do not adjoin one another.

Q. Did -- The people that you contacted, are they offset operators to your leases?

A. I did not attempt to find the offset -- In fact, I didn't even identify the direct offsets in my process of going through this.

I identified the major operators in the pool, the largest in terms of their wells and production in the pool, and I attempted to notify them first. But no, I did not attempt to notify offset operators.

What we're requesting, especially in the Blinebry, is significantly less than was assigned a year ago, and I guess I didn't think that the rates we were proposing in the Eumont were excessive rates. They're about 1.25 million a day. And that, again, does not appear

to be an excessively high rate.

But no, I did not contact the offsets directly.

Q. And the other question I had was, your workovers, you say, is pretty much installing gas lift equipment?

A. I know it sounds kind of elemental, but that's -- We're installing gas lift, we're learning how to use it. You can just watch the learning curve on our production records.

In fact, I have some of those, and you can just very clearly see the installation, you can see what happens with increased training and increased knowledge on the part of our field people in the use of the equipment. It's quite gratifying, actually, to see that.

Q. What is the fluid you're producing?

A. Gas, but there is a little bit of oil -- or a little bit of condensate. And water, I believe there's some water too.

Q. I understand that. Thank you.

A. We're unloading the wells, keeping them unloaded, and --

Q. That's water?

A. Yeah. So it keeps them producing.

COMMISSIONER WEISS: Thank you, I have no other questions.

CHAIRMAN LEMAY: Commissioner Carlson?

EXAMINATION

BY COMMISSIONER CARLSON:

Q. Yeah, on -- Maybe I don't understand the graphs. On your Blinebry pool, the bar graph there, that's your -- Is that your Exhibit A allowable for last winter?

A. The bar graphs on the left side of each bar show the allowable or the monthly acreage allocation factor for -- or that was shown in the Exhibit A, as approved by the Commission, so it was the Exhibit A attached to the order.

The right side of each bar shows what was actually in the text of the proration schedule. And as you can see, they match for every period except the last one. So if you were to look in the text for a nonmarginal well, you would see what appears on the right-hand bar.

Did I misunderstand your question?

Q. No, I -- Okay, then I look at the line graph at the top, and your allowable actually went down, it says there. I'm -- Maybe I'm not understanding this graph, but --

A. I have plotted two different things on one graph, on one chart. The bars represent the monthly acreage allocation factor, which would be applicable to the nonmarginal wells in the pool. The total pool allowable is what is shown by the lines, and the total pool allowable

includes all the nonmarginal wells in the pool.

Q. Oh, okay, that's total pool, I see.

Okay, so -- Maybe this question should be asked of Jim. Why -- If our proposed allocation factor for this winter -- if you intend it to be the same as last winter, why is a 38,000 one proposed instead of the 45,000 or 46,000, whatever it was last year?

MR. MORROW: Let's see, which one is that?

COMMISSIONER CARLSON: The Blinebry.

MR. MORROW: I don't have a good answer for that. I don't -- It is some lower. It was much what we assigned in the spring-summer period, was, as you can see, much lower than that, so --

COMMISSIONER CARLSON: Uh-huh.

MR. MORROW: -- so we just -- We put something in there as a starting place, and possibly we should have given more consideration to the last winter period, which is shown here, so...

COMMISSIONER CARLSON: Okay, but they were -- They did get an allocation factor of some 45, 46 million for last winter?

MR. MORROW: Let me look. I have that schedule, and I'll be glad to look and be sure.

It was 45,653, that's correct.

COMMISSIONER CARLSON: And the Division would not

have any problem with going back to at least their proposal for --

MR. MORROW: No, sir, I wouldn't have any problem with that.

THE WITNESS: Exxon also wouldn't have any objection to going back to what the Commission assigned last year, the 45,653.

COMMISSIONER CARLSON: That's all I have.

CHAIRMAN LEMAY: Thank you, Commissioner.

EXAMINATION

BY CHAIRMAN LEMAY:

Q. Mr. Duncan, as long as we're on the Blinebry Pool, I see there are only three nonmarginal wells in that pool. You have two of them. Who has the other? Do you know?

A. Well, we have two now. Ours were nonmarginal before. Excuse me, ours were marginal before, and they are -- they would be nonmarginal now, because we've increased the production rates from those wells. I think one actually did show up as nonmarginal last time.

Q. So that would make four? Is that -- I'm just trying to get a handle for -- There aren't many nonmarginal wells. Evidently one kind of superstar that would do the 2 million a day, but the others are kind of in a range that --

A. At these rates it's kind of hard to call any of them a superstar. Even, you know, at 42 million a month it's less than a million and a half a day.

CHAIRMAN LEMAY: I guess I was using that phrase in comparison to the other wells.

MR. BRUCE: I think Marathon --

THE WITNESS: Yeah, I can check that very quickly.

During the last period, Exxon was shown with no nonmarginal wells or nonmarginal proration units.

John Hendrix was shown with one nonmarginal unit, and Marathon was shown with two nonmarginal units, so Exxon had no nonmarginal units, according to this past summer's proration schedule.

So it's definitely just an increase or --

Q. (By Chairman LeMay) And Marathon supported your proposal for an increase?

A. They loved it. They did support it, yes.

Q. Did you contact Doyle Hartman?

A. No, I didn't. I didn't. I probably should have, but I didn't.

Q. I'm sorry.

The other question, back on Eumont. Did you say those were estimated based on some previous experience, I guess, those increases that -- in the workover that you

haven't done, I assume, but you would anticipate increasing production to those levels?

A. That's correct. In fact, one of the workovers is to be done next week, so obviously we've got great confidence in our estimate, and our management has good confidence in it. But yes, it's based upon recent work.

Q. Do you have some overproduced status in some of those wells now, do you know, or --

A. I do not know what the actual current status of each well is. I would assume that they're not underproduced.

Q. Okay. Normally our procedure has been geared in the past -- We've deviating from that somewhat, but as you do the workovers, you increase the production, you get overproduced, come to us, and then the allowable is raised, and you work off that overproduction so that you don't get in a shut-in situation.

But your production, by virtue of the workover, gives you the production ammunition to come to us and say, we need higher allowables. What you're doing is anticipating the production ahead of time and asking for those allowables to accommodate the anticipated increased production?

A. Well, we're going to make investments based upon the ability to see the results of these workovers, and we

would like to know that we're going to be able to realize that increase before we make the investment.

COMMISSIONER WEISS: I have another question.

CHAIRMAN LEMAY: Yeah, Commissioner Weiss?

FURTHER EXAMINATION

BY COMMISSIONER WEISS:

Q. Would you be here today if the proration schedule had been based on last winter's demand rather than this spring's?

A. Are you talking about in the Blinebry Pool?

Q. Yes.

A. No, I would not.

COMMISSIONER WEISS: Thank you.

CHAIRMAN LEMAY: Any other questions of the witness?

You may be excused. Thank you, Mr. Duncan.

MR. BRUCE: Nothing further, Mr. Chairman.

CHAIRMAN LEMAY: Does anyone have any testimony concerning the Eumont or Blinebry fields?

Mr. Kellahin?

MR. KELLAHIN: I have a witness to present on the Eumont.

CHAIRMAN LEMAY: Okay. Let's do that, let's take it pool by pool. Is that all right with -- You're through, Mr. Bruce, basically?

MR. BRUCE: Yes, sir.

CHAIRMAN LEMAY: Thank you.

MARK McCLELLAND,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Would you please state your name and occupation?

A. Yes, my name is Mark McClelland. I'm a staff engineer with Conoco, working in the Midland office.

Q. Mr. McClelland, on prior occasions have you testified before the Commission in the gas allowable hearings?

A. Yes, I have.

Q. Has that testimony included a presentation by you on behalf of your company and the Eumont Gas Pool?

A. Yes, it has.

Q. Have you continued to study production out of that pool in relation to the allowables assigned for wells in the pool?

A. Yes.

Q. Based upon your study and work, do you have engineering opinions and conclusions about the recommended allowable level for the next coming proration period?

A. Yes, I do.

MR. KELLAHIN: We tender Mr. McClelland as a reservoir engineer with expertise in gas proration.

CHAIRMAN LEMAY: His qualifications are acceptable.

Q. (By Mr. Kellahin) Let me direct your attention, sir, to the package of your exhibits, if you'll turn past the cover sheet.

Prior to this morning, had you examined the Division's preliminary schedule for the assignment of an allowable for the Eumont Gas Pool?

A. Yes, I had.

Q. And based upon that study, what was your recommendation for the assignment of an allowable to that pool?

A. We were in support of the Oil Conservation Division, 30 million per month for the Eumont Gas Pool.

Q. What's the basis for that support and that recommendation?

A. The 30 million per month gives us economic incentive to develop the Eumont Gas Pool, to continue development of the Eumont Gas Pool, and also it allows for equitable sharing between the owners and the Eumont Gas Pool.

Q. In past allowable hearings, have you made a presentation about the necessity for an allowable incentive

to encourage your company to make the investment of resources to work over existing wells to increase their productivity?

A. Yes, in previous testimony this past spring, we gave several exhibits demonstrating individual leases where Conoco had developed additional wells, both drilling and workover activity, and we showed in those exhibits the additional production that was attributed to that work, plus the additional reserves that we anticipated recovering through that work.

Q. This morning Mr. Duncan, on behalf of Exxon, asked you if you had any objection to Exxon's proposed adjustment for increasing the allowable in the Eumont. What is your company's position with regards to the Exxon request?

A. We are not in opposition to that recommendation.

Q. Let's turn to your first exhibit here, and describe for us this spreadsheet.

A. This spreadsheet is just simply a history of the Eumont Gas Pool. It shows the allocation periods over the past five years, plus the next allocation period that's been proposed.

Q. Simply repeats what the Commission has authorized for the recent past on the six-month periods for production from the Pool?

A. That is correct.

Q. Starting in the far right column, then, take us through your recollection of the justification for the continued increases that have been applied to that pool.

A. Well, initially back in 1991 and 1992, the monthly acreage allocation factor was approximately 600 MCF a day, the 18,300 you see in the far right column, which is termed the F1 factor.

During 1992 and 1993 I believe Chevron, with other companies, was -- promoted additional increase in this allowable, based on fieldwork and results.

We got involved approximately a year ago in supporting that allowable increase due to our work also.

Currently, this past summer, it was initially set at 28,928. As Mr. Bruce explained, when the proration schedule itself came out, the number in the proration schedule was 33,401 approximately 1100 MCF per day.

What the Commission has proposed for the next proration unit period is 30 million a month, which is 984 per day. We are in agreement with 30 million a month, but we don't have opposition to what Exxon has promoted as 37,772, which works out to 1240 MCF per day.

Q. Is there a minimum allowable, a floor, if you will, in the allowable, that's been approved by the Commission for production from the pool?

A. Yes, the minimum allowable was approved last February at 600 MCF per day or 18,300 per month.

Q. Are the operators utilizing the differential between the minimum allowable and the assigned allowable for their wells?

A. Most definitely.

Q. Let's turn to Exhibit Number 2, Mr. McClelland, and have you identify and describe that display.

A. Without the benefit of having the total field production curve to look at, Conoco is showing our gross gas production from the Eumont Gas Pool.

As you can see, we have done 40 projects, 10 drilling wells and 30 workovers, during the past 18 months. Our production increase has risen from 9.4 million a day, in June of 1993, to currently just under 25 million a day, in August, 1994.

The plan for the upcoming winter season, we have 11 drilling projects and four workovers that are definite projects we plan to do. We may even add to that number, time permitting.

We anticipate our total gas production growing from approximately 24 million a month right now, up towards 30 million a month by the end of this coming proration unit period.

Q. After you complete the workover on a well and

find it has the potential to produce as a nonmarginal well, do you have any of those kind of creatures?

A. We have three gas proration units right now, during the summer season, that are exceeding their allowables. They've gone from marginal to nonmarginal status.

Q. Are any of those nonmarginal spacing units overproduced more than six times?

A. Not currently at this time.

Q. Do you have spacing units in which you have assigned an allowable that's currently being underutilized? In other words, you're accruing underproduction in the spacing unit?

A. Yes, we do, and in the -- and that's how we target development for our leases. We look at our underproduction, we look at offset production, and we propose projects to meet the offset production.

Q. Can you show us by turning to Exhibit Number 3 your anticipated plans for this coming year?

A. This is a list of our drilling wells, a few of which we've actually completed already. There are 11 drilling wells, and we have AFEs either working on or being planned on, and these wells will be drilled through next March, 1995.

Q. Describe for us the basis for Conoco's drilling

program as illustrated here.

A. It's a combination of taking advantage of both uncaptured allowable and inactive areas. We have gas proration units that do not have active gas wells on.

For example, the Sanderson A lease is an area where we used to have gas wells. The wellbores were unitized into deeper waterfloods, we lost the gas production. This was mainly during the late 1980s, when gas did not have significant value. Since then, we target these leases for additional development.

In other areas, such as the State D area, it's a highly competitive area. There we are reducing our lease spacing down to 80 acres to take advantage both of existing production in the Queen-Penrose portion of the Eumont Gas Pool, and also new production has been discovered up in the Yates-Seven Rivers section.

Q. If the Division approves at least a monthly acreage allowable factor of 30,000 a month, will that provide an incentive in terms of the allowable so that this work can go forward?

A. All these projects are viable under 30,000 per month.

MR. KELLAHIN: That concludes my examination of Mr. McClelland.

We move the introduction of his Exhibits 1, 2 and

3.

CHAIRMAN LEMAY: Without objection, Conoco's Exhibits 1, 2 and 3 will be admitted into the record.

Questions of Mr. McClelland?

Commissioner Weiss?

EXAMINATION

BY COMMISSIONER WEISS:

Q. Yes, are offset operators notified of your drilling plans?

A. If the -- We, in our Application to Drill, if the well is nonstandard, we have to seek approval of offset operators. If the well is at a standard location, I don't believe we have to seek that approval.

Q. So if you're putting an extra well on a proration unit, they know about it?

A. If the well is at a standard location on that proration unit, they are not required to know about it until we permit the well and it's public knowledge in the PI reports.

COMMISSIONER WEISS: Okay, thank you.

CHAIRMAN LEMAY: Commissioner Carlson?

COMMISSIONER CARLSON: No.

CHAIRMAN LEMAY: I have none.

You may be excused. Thank you, Mr. McClelland.

Ms. Trujillo, I think you had a witness, did you,

on the --

MS. TRUJILLO: Mr. Chairman, I don't have --

CHAIRMAN LEMAY: -- Eumont field?

MS. TRUJILLO: -- any witnesses, but I have two statements on the Eumont.

CHAIRMAN LEMAY: Why don't we hold the statements until the end? I think we can accommodate the statements after --

MS. TRUJILLO: -- after?

CHAIRMAN LEMAY: -- after, yeah. Thank you.

Are you through on Eumont and -- ?

MR. KELLAHIN: Yes, sir. I have a witness on Indian Basin.

CHAIRMAN LEMAY: Let's see --

MR. KELLAHIN: That's the only witness I have on southeast.

CHAIRMAN LEMAY: Okay. Do we have anything more on Eumont or Blinebry in the way of witnesses? Okay, let's move on to Indian Basin, then, Counselor.

MARK A. PEAVY,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Peavy, for the record would you please state

your name and occupation?

A. Yes, my name is Mark Peavy. I'm an operations engineer with Oryx Energy.

Q. Where do you reside, sir?

A. I reside in Dallas, Texas.

Q. Are you familiar with the gas prorationing system as it applies to Oryx's production in the Indian Basin Upper Pennsylvanian Gas Pools?

A. Yes, I am.

Q. On behalf of your company, have you prepared a presentation to the Commission concerning the allowable schedule for that pool?

A. Yes, I have.

Q. And based upon your study, do you have a recommendation for the Commission?

A. Yes, we do. We support the currently proposed 200-MCF-per-month allowable.

Q. Describe for us as an operations engineer the particular activities that you perform with regards to the Indian Basin wells that you operate.

A. I have managed these properties primarily by overseeing daily well production and, in conjunction with reservoir and geology, assessed the potential for improvements in production, as well as within field operations.

Q. Mr. Peavy, there's a lot of background noise in the auditorium. You'll have to keep your voice up. The microphone does not amplify.

A. I'm sorry.

Q. Summarize for us your education, sir.

A. I graduated from the University of Texas in 1978 with a bachelor's in business and then went back to the University of Texas and graduated in 1981 with a petroleum engineering degree.

Q. And how long have you held your current position with Oryx?

A. I've been employed with Oryx since my graduation in 1981 as an operations engineer.

MR. KELLAHIN: Mr. Chairman, we tender Mr. Peavy as an expert witness.

CHAIRMAN LEMAY: His qualifications are acceptable.

Q. (By Mr. Kellahin) Let's go through your exhibits.

A. Okay.

Q. Identify for us what's contained on Exhibit 1.

A. Exhibit 1 is a letter that supports the allocation factor of 200 MCF per month that was written by me. The document supports the position.

Q. All right, sir. Let's turn to the plat and

orient the Commission on where you have your spacing units and your wells.

A. That would be Exhibit 2. You can see that our properties which we operate are highlighted in yellow. The properties in which we have a working interest are highlighted in green.

Currently, of the properties we operate, we have five wells producing out of the Upper Penn.

Q. This doesn't show the entire pool; it simply represents your spacing units within the pool?

A. That's correct.

Q. All right. And those spacing units color-coded in yellow are operated by Oryx?

A. That is correct.

Q. This gas pool is 640 gas spacing?

A. Yes, sir.

Q. All right. Turn now to Exhibit Number 3 and identify and describe that for us.

A. Exhibit 3 is a production history since January, 1992, of the gas wells we operate in the Indian Basin field within the Upper Penn.

You can see that we have an acceleration in production from January, 1992, through July, 1992, and since this point in time we have maintained a relatively stable production volume of around 28 million cubic feet a

day.

Q. All right, sir. Let's turn to Exhibit 4 and have you identify that display for us.

A. Yes, sir, Exhibit 4 is a letter from our gas marketing people that documents our ability to market our current production over the next six months.

Q. All right, sir, turn to Exhibit 5.

A. Exhibit 5 through Exhibit 9 are production histories of the wells that we operate within the Indian Basin field.

You can see that in Exhibit 5 it is our Federal 28 Number 1 well. Production is depicted in green with a reference to pool allowable and highlighted in red.

This well has produced extremely well for us, and it currently is in an overproduction mode within this reservoir.

Q. Continuation of the current level of assignment of allowables for the pool would provide that this well would continue to be capacity-restricted by the allowable?

A. Yes, sir.

Q. All right, let's turn to the next display, which is Number 6.

A. Number 6 is our well listing in Basin Unit Number 1. It is a well that performed at or near pool allowable from October, 1992, to January, 1994.

In February of 1994, we installed a larger compressor and at that time encountered wellbore difficulties that we believe caused our production to decrease down to its current level. We have gone through and diagnosed the downhole conditions of this wellbore, and through an upcoming workover believe that we will be able to return this well to its current -- or to expected production rate around 200 MCF per month.

Q. Would continuation of the current allowable level provide the economic incentive for you to do that work to attempt to restore the productivity to this well?

A. Yes, it would.

Q. Let's look at Number 7. Identify and describe this well, please.

A. This is our Bright Federal Number 1 production history, and this well currently produces at or slightly below the pool allowables assigned to it.

Q. All right, sir.

And Exhibit 8?

A. Exhibit 8 is the Bunnell Federal Number 1. This well produces well below pool allowables. It is in a poorer quality section of the rock within this reservoir and we feel would never be capable of producing that pool allowable.

Q. Its performance is directly related to the poor

quality of the reservoir in which it's located?

A. That is correct.

Q. Exhibit 9?

A. Exhibit 9 is our Conoco State Number 1. This well has produced at or near pool allowable since October, 1992.

Q. Based upon your study, what then is your recommendation to the Commission?

A. Our recommendation is to maintain the currently assigned allowables proposed by the OCD of 200 MCF per month.

Q. And your research confirms for you that you have the market demand to support that level of allowable?

A. That is correct.

MR. KELLAHIN: That concludes my questions of Mr. Peavy.

We move the introduction of his Exhibits 1 through 9.

CHAIRMAN LEMAY: Without objection, Exhibits 1 through 9 of Oryx will be admitted into the record.

Questions of Mr. Peavy?

Commissioner Weiss?

COMMISSIONER WEISS: I have no questions.

CHAIRMAN LEMAY: Commissioner Carlson?

COMMISSIONER CARLSON: Just one or two.

EXAMINATION

BY COMMISSIONER CARLSON:

Q. On your Exhibit 2, what's the blue line there?

A. The blue line is a fault.

Q. I see. On your gas sales out of the Indian Basin, are those warranty contracts, or are those tied to specific leases? Do you know?

A. I don't know myself, no, sir.

COMMISSIONER CARLSON: That's all I have.

CHAIRMAN LEMAY: I have no questions.

The witness may be excused.

Anything else on Indian Basin field in the way of testimony?

Any other fields in the southeast that anyone has any witnesses to present?

Are your statements -- Are they geared such that you have statements on the southeast and statements on the northwest?

MS. TRUJILLO: Yes, they do.

CHAIRMAN LEMAY: Ms. Trujillo, why don't you give the statement on the southeast so we can wind it up, if you would, please?

MS. TRUJILLO: Mr. Commissioner, I have two statements on the Eumont Pool and one on the Indian Basin Pool.

CHAIRMAN LEMAY: Okay. Please proceed.

MS. TRUJILLO: Mr. Chairman, on behalf of Amerada Hess Corporation regarding the Eumont Pool, Amerada Hess has prepared a letter to the Oil Conservation Division to the attention of Mr. William LeMay, Director.

It reads:

Dear Sirs:

Amerada Hess Corporation, a gas producer in prorated gas pools in New Mexico, respectfully supports the proposed Market Demand and Allowable Determination Schedule. Existing allowables in the Eumont Prorated Gas Pool, Lea County, New Mexico, have in the past 9 months encouraged development drilling of seven (7) Eumont gas wells, six (6) of which are completed and produce an average of 1319 MCFPD. One (1) fracture stimulation of an existing producer was performed exhibiting a 600 MCFPD production increase.

For the coming six (6) month period Amerada Hess plans, based on current allowables, to drill three (3) additional Eumont wells; perform two (2) recompletions to the Eumont; and perform six (6) fracture stimulations of existing producers.

Diminished allowables would discourage current activity and development levels resulting in delay or

cancellation of planned work. Amerada Hess Corporation thus supports allowable recommendations as presented.

Signed, Robert Williams, Jr., Senior Production Foreman, Monument Area - New Mexico Production, Amerada Hess Corporation.

CHAIRMAN LEMAY: Thank you.

MS. TRUJILLO: And Mr. Commissioner, I did not speak with Amerada Hess regarding Exxon's proposal.

I also have a statement on behalf of Chevron USA Production Company regarding the Eumont. Again, it's a letter with a statement for the Commission.

It says:

Mr. Commissioner, Chevron U.S.A. Production Company, as the principal producer in the Eumont Prorated Gas Pool, supports the preliminary Monthly Acreage Allocation Factor (F1) of 30,000 MCF as presented in the OCD's Memorandum dated September 2, 1994.

Since March, 1994, Chevron has completed 6 workovers and 4 Re-Frac stimulations yielding a net increase of approximately 5.3 MMCF gas per day. This brings Chevron's total production of 24,672 MCF per

day in March, 1994, to approximately 29,998 MCF per day in September, 1994. Further, Chevron plans to pursue 6 more Re-Frac stimulations and 3 more workovers to increase production to an estimated 4 MMCF gas per day by the end of 1994.

In order to complete our 1994 development program and economically pursue a similar, already budgeted, program for 1995, Chevron requests that the proposed Monthly Acreage Allocation Factor of 30,000 MCF be adopted for the period of October, 1994, through March, 1995. Any lower allowable would have a negative economic impact, jeopardizing continuation of our development program within the Eumont Prorated Gas Pool.

Additionally, Chevron understands that a higher allowable may be sought by other operators within the Eumont Prorated Gas Pool, and Chevron would not be opposed to a higher allowable if the Commission deems it appropriate.

This statement was prepared by Alan Bohling of Chevron USA Production.

CHAIRMAN LEMAY: Thank you.

MS. TRUJILLO: And I also have a statement from Chevron USA Production Company regarding the Indian Basin

Upper Penn Gas Pool.

This is a letter to the Oil Conservation Commission, to Mr. William LeMay:

Chevron U.S.A. Production Company operates 10 producing gas wells in the subject field and has a working interest in 3 non operated properties in the subject pool.

Chevron U.S.A. Production Company supports the Oil Conservation Division's proposed allowable assignment factors that resulted in a Monthly Acreage Allocation Factor of 200,000 mcf. Eight of Chevron's 10 wells are currently capable of producing at or above the proposed allowable. In July and August 5 additional compressors were installed on our wells which increased our production by 11,500 mcfd. An allowable of 200,000 mcf per month will protect the interest of a majority of operators in the Pool.

Signed, Brian Huzzey, Chevron USA Production Company.

Thank you.

CHAIRMAN LEMAY: Thank you. Are there additional statements that wish to be given at this time concerning the southeast?

MR. KELLAHIN: Yes, Mr. Chairman.

CHAIRMAN LEMAY: Mr. Kellahin?

MR. KELLAHIN: On behalf of Marathon Oil Company, I was advised by Mr. Dave Petro, who is an engineering manager responsible for the prorated gas production in southeastern New Mexico that he had examined the preliminary schedule for the Blinebry Oil Pool, that the preliminary schedule of 38,000 MCF a month was -- had Marathon's support.

He advised me last night when he called me that Mr. Duncan had talked to him about Exxon's request. Mr. Petro authorized me to tell you that he supports Mr. Duncan's request for increasing that pool.

In addition, Marathon supports the adoption in the Eumont Gas Pool of the preliminary schedule, the 30,000 MCF a month, and Mr. Petro has no objection to the Exxon increase.

In addition, and finally for the Indian Basin Upper Penn Pool, Marathon recommends the continuation of that allowable that we've had for the last few proration periods, which is comparable to the 200,000 MCF a month.

CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

Any additional statements concerning prorated pools in the southeast?

We only have one witness, do we, on the northwest?

MR. KELLAHIN: Yes, sir, Mr. Fraser, and it shouldn't take more than five or ten minutes.

CHAIRMAN LEMAY: Let's finish that up so we can finish the proration hearing before we get on with the cases then.

We'll now move on to prorated fields in the northwest.

Mr. Kellahin?

MR. KELLAHIN: Call at this time, Mr. Chairman, Mr. Jim Fraser of Meridian Oil, Inc.

JAMES FRASER,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Fraser, would you please state your name and occupation for the record?

A. My name is James Fraser. I'm the production manager for Meridian Oil, Inc., in Farmington, New Mexico.

Q. On prior occasions, Mr. Fraser, have you testified before the Commission in that capacity?

A. Yes, sir, I have.

Q. And do you continue to perform that role for your company and look at the production from the prorated gas pools in the San Juan Basin?

A. Yes, sir, I do.

Q. Based upon that study, do you have recommendations with regards to the prorated gas pools in northwestern New Mexico?

A. Yes, sir, I do.

MR. KELLAHIN: We tender Mr. Fraser as an expert witness.

CHAIRMAN LEMAY: His qualifications are acceptable.

Q. (By Mr. Kellahin) With regards to the prorated gas pools in the San Juan Basin, Mr. Fraser, what if any recommended adjustments do you have?

A. Exhibit 1 shows my recommendation for the Blanco Mesaverde Pool in the northwestern portion of the Basin -- or the State.

The first line there shows the NMOCD recommendation, which is slightly under 16.5 BCF per month. My recommended adjustment is 551,925 MCF per month, which yields a total revised monthly pool allowable of 17 BCF for the month.

Q. Let's turn to Exhibit 2 and have you show us how you arrived at that recommendation.

A. Exhibit Number 2 is a historical production curve of the Blanco Mesaverde Pool from July of 1991 through May of 1994. The last eight months of that time frame, October

of 1993 through May of 1994, have been arithmetically averaged to arrive at the "Average = 17" notation in the upper right-hand portion of the plot.

Q. On the plot there is a couple of downward spikes in 1994. Do you know what that represents?

A. Yes, sir, I do. This is a total production for the month. Those downward spikes are a result of short months.

For instance, the most recent one would be in April of 1994 where there's only 30 days in the month. The previous one is February of 1994, which of course there's only 28 days in the month. So if you have a shorter month, you're consequently going to have lower production in the month, as compared to the standard 31 day per month. So even though the daily rate is probably not any different, the monthly total is.

And you can see that throughout this curve from 1991 through 1994. The short months are simply going to have less production due to less days in the month.

Q. Do you recall from memory what the Division approved for the current allowable in this pool, for the period we're in now?

A. Yes, for the summer period, 1994, the pool allowable was very close to 16.5 BCF per month. I think the actual production for that same time frame has been

slightly under that. I don't have the number on the exhibit, but it's very comparable to that.

Since that time, I think we've seen an increase in production from the Mesaverde Pool, in the fall and also the first five months of this year. I think that's a result of capital programs that several operators, including Meridian, have participated in.

As you'll remember from the State's exhibit, they did not have production statistics in 1994. I have estimated what I think the pool's production is in the first five months of 1994, based on Meridian's internal production volumes from our operated wells, simply grossed that up by our historic percentage of the pool production, to arrive at this exhibit.

Meridian typically produces 45 to 46 percent of all production in the Blanco Mesaverde Pool.

So I think our production volumes are fairly representative, when grossed up, of the total pool production. So I feel fairly comfortable in my estimates.

Q. Is there any difference in the total assigned allowable for the pool between the summer period versus the winter period?

A. Well, historically, in the -- before the 1990s, I think there was a definite difference in summer takes versus winter takes. Since the 1990s, I think that has

gone away for the most part.

However, one factor that has changed that somewhat is the mechanical work that is done in the summer months.

For instance, El Paso Natural Gas operates the two single largest natural gas processing plants in the Basin. For several weeks during the summer both of those plants are down for annual maintenance. So that in that respect, the summer production will be slightly less than the winter production, simply because those plants are shut down and the wells behind there have to be shut in as well.

Q. Let's turn to your final display. If you'll look at Exhibit Number 3, identify and describe that.

A. Exhibit Number 3 is simply a bar graph of the Blanco Mesaverde production from 1982 through 1994, year to date. And it is an average over the 12 months of each year of the production in BCF per month.

What you can see is 1994 year-to-date average production through May is 17.3 BCF per month, which is higher than any year since before 1982. The 1982 value is 16.43 BCF per month, so you can see that 1994 has higher production than any year in the last 12 years.

This simply adds to my point that production in the Mesaverde, in my opinion, is increasing, and especially in the last several years since pipeline capacities out of

the Basin have been installed and operators are taking advantage of that space by doing capital work, drilling wells, recompletions, all the normal activities that operators do to increase their production.

Q. If the Commission adopts your recommended adjustment, is there a market for gas if the allowable is based at 17 BCF a month on the pool?

A. Yes, sir, that's -- that market's been there since at least 1992, as shown by Exhibit 2.

MR. KELLAHIN: That concludes my examination of Mr. Fraser.

We move the introduction of his Exhibits 1, 2 and 3.

CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

Questions of Mr. Fraser?

Commissioner Weiss?

COMMISSIONER WEISS: I have no questions.

CHAIRMAN LEMAY: Commissioner Carlson?

COMMISSIONER CARLSON: No.

CHAIRMAN LEMAY: I have one that's maybe indirectly related to this.

EXAMINATION

BY CHAIRMAN LEMAY:

Q. Jim, do you happen to know, with increasing production on both the coal seam and the Mesaverde here, if

we're approaching capacity constraints on the pipeline now in the Basin?

A. Yes, sir, we are, and the major pipeline companies are addressing that.

For instance, El Paso Natural Gas has planned a further expansion out of the San Juan Basin in the spring of 1994. I think it's about a 250-million-cubic-feet-a-day increase out of the San Juan Triangle, as they call it.

Trans Western, which is the other main line, which actually heads east out of the Basin, they're considering making modifications to their system, i.e., added compression, to also try to relieve that.

At this point in time, there is a slight excess capacity out of the Basin. But as you mentioned, as producers continue to do this work it will start pushing that window. I think the pipeline companies are well aware of that and are addressing those needs.

CHAIRMAN LEMAY: Thank you.

Additional questions?

If not, you may be excused. Thank you.

Statements?

Ms. Trujillo?

MS. TRUJILLO: I have statements.

CHAIRMAN LEMAY: Does that complete your testimony?

MR. KELLAHIN: Yes, sir.

CHAIRMAN LEMAY: Is there anyone else that wishes to present a witness for giving testimony for the northwest?

Okay. We'll go to statements.

Ms. Trujillo?

MS. TRUJILLO: Mr. Commissioner, on behalf of Amoco Production Company, I would like to state for the record that Amoco has reviewed the recommended figures as provided by the Oil Conservation Division, they believe that the recommended figures are reasonable and appropriate for each of the pools, and they believe that these figures should be adopted by the Commission.

I have not spoken with Amoco regarding Meridian's proposed increase, but the statement stands on the figures as projected by the Commission.

Thank you.

CHAIRMAN LEMAY: Thank you.

Additional statements for the northwest prorated pools?

MR. KELLAHIN: Yes, sir.

CHAIRMAN LEMAY: Mr. Kellahin?

MR. KELLAHIN: Thank you, Mr. Chairman.

On behalf of Phillips Petroleum Company, they support the Division's level of allowables for the prorated

pool, plus they support Mr. Fraser's recommended adjustment for the Mesaverde Pool that Meridian is requesting.

And that concludes my statement on behalf of --

CHAIRMAN LEMAY: Thank you.

Additional statements? Anyone else have anything to say concerning the proration hearing for the next six months, prorated pools?

If not, we'll take that one under advisement and call a recess of about 15 minutes before we take up the rest of the docket.

(Thereupon, these proceedings were concluded at 10:40 a.m.)

* * *

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Commission was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL September 27th, 1994.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1994