

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:)
HEARING CALLED BY THE OIL CONSERVATION)
DIVISION ON ITS OWN MOTION TO CONSIDER)
PROPOSED APRIL, 1996 - SEPTEMBER, 1996)
ALLOWABLES FOR THE PRORATED GAS POOLS)
IN NEW MEXICO)

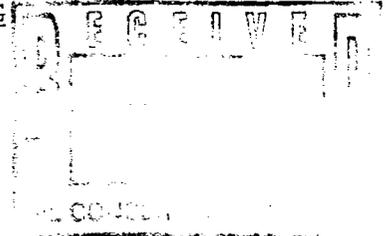
CASE NO. 11,468

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
JAMI BAILEY, COMMISSIONER



February 15th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission on Thursday, February 15th, 1996, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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 Commission Hearing
 CASE NO. 11,468

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* * *

1 WHEREUPON, the following proceedings were had at
2 9:45 a.m.:

3 CHAIRMAN LEMAY: We shall now call Case Number
4 11,468, which is the matter called by the Oil Conservation
5 Division on its own motion to consider the proposed April,
6 1996 - September, 1996, allowable for prorated pools in New
7 Mexico.

8 I'd like to call for appearances now in Case
9 Number 11,468.

10 MR. CARROLL: May it please the Commission, my
11 name is Rand Carroll and I'm here representing the Oil
12 Conservation Division. I have one witness.

13 CHAIRMAN LEMAY: Thank you, Mr. Carroll.

14 Additional appearances?

15 MR. CARR: May it please the Commission, my name
16 is William F. Carr.

17 I'd like to enter an appearance on behalf of
18 Amoco Production Company and Chevron USA Production
19 Company.

20 CHAIRMAN LEMAY: Thank you. How many witnesses,
21 Bill?

22 MR. CARR: I have no witnesses.

23 I have one statement for Amoco on the San Juan
24 Basin and statements to present for Chevron on the Indian
25 Basin also.

1 CHAIRMAN LEMAY: Okay, thank you.

2 Mr. Bruce?

3 MR. BRUCE: Jim Bruce of the Hinkle law firm in
4 Santa Fe.

5 I'm representing Exxon Corporation, and I have
6 one witness, and I'm here for the Tubb, Blinebry and
7 Eumont.

8 CHAIRMAN LEMAY: Thank you.

9 Additional appearances? Mr. Kellahin?

10 MR. KELLAHIN: Mr. Chairman, I'm Tom Kellahin of
11 the Santa Fe law firm of Kellahin and Kellahin, appearing
12 this morning on behalf of Marathon Oil Company and Kerr-
13 McGee Corporation. Both companies have a request in
14 southeastern New Mexico.

15 CHAIRMAN LEMAY: Any witnesses?

16 MR. KELLAHIN: No, sir.

17 CHAIRMAN LEMAY: Okay. Additional appearances?

18 I'd just like to state a little ahead of time
19 what we're doing this time. In fact, our witness who we
20 all know, Jim Morrow, who was the architect of this
21 concept, we thought we'd try it out, that being, if there's
22 any confusion, we put out those default allowables out
23 there.

24 They're pretty much the same allowables we've had
25 for some time, and I know both my Commissioners have told

1 me more than once that we -- it's kind of silly to come
2 here and listen to the same thing over and over again when
3 we have agreement out there what it should be.

4 So in the interest of efficiency, I guess you'd
5 say -- Now, these allowables are out there, they're
6 justified with production, the subtraction, all that.
7 They're just numbers that we feel are appropriate under
8 historical conditions and current conditions. And if for
9 any reason you're disagreeing with these -- either they're
10 not high enough or they're too high -- then we'll take
11 testimony on it.

12 But otherwise, just the support of it, generally
13 it speaks for itself. And that's what we're trying out
14 this time.

15 So that's kind of the format we're going to work
16 today, and then we'll take some comment on whether you all
17 like this, or maybe my fellow Commissioners here will have
18 additional suggestions that we can employ.

19 With that, we'll begin.

20 Mr. Carroll?

21 MR. CARROLL: I call Jim Morrow to the stand.

22 CHAIRMAN LEMAY: Let's -- Before we do that, I'm
23 sorry, Jim, you and others that are going to give
24 testimony, would you stand and raise your right hand?

25 (Thereupon, the witnesses were sworn.)

1 JIM MORROW,

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

4 DIRECT EXAMINATION

5 BY MR. CARROLL:

6 Q. Mr. Morrow, will you please state your name and
7 your place of residence for the record?

8 A. Yes, sir, my name is Jim Morrow. I live in
9 Austin, Texas.

10 Q. Mr. Morrow, will you please describe the capacity
11 in which you're employed by the Division at current?

12 A. Yes, sir, I'm on contract on a consulting basis.

13 Q. And for what matters does your consulting
14 contract cover?

15 A. Mostly the gas proration process, a few other
16 things.

17 Q. Mr. Morrow, have you testified before the
18 Commission before regarding proration matters and had your
19 qualifications accepted as an expert witness?

20 A. Yes, sir.

21 MR. CARROLL: Mr. Chairman, I offer Mr. Morrow as
22 an expert witness on proration matters.

23 CHAIRMAN LEMAY: His qualifications are
24 acceptable.

25 Q. (By Mr. Carroll) Mr. Morrow, are you prepared

1 today to make certain recommendations regarding allowables
2 for prorated pools in New Mexico?

3 A. Yes.

4 Q. And how are your recommendations set forth?

5 A. Mostly they were outlined in a letter which -- or
6 a memorandum -- which Bill LeMay sent out to industry in
7 January. And he reviewed those this morning, those
8 recommendations.

9 We're proposing that we take the allowable
10 allocation factors that have been used in recent proration
11 periods and adopt those for the next period, the April-
12 through-September period, and then continue to use those
13 same factors on a continuing basis, so long as they are
14 appropriate.

15 If we see, here at OCD, or someone in industry
16 has a need to change one of those -- and there may,
17 certainly from all indications, be some changes here this
18 morning that will be recommended in certain pools, but we
19 believe those will be confined to maybe one or two pools
20 each time so that we can speed up the process and skip some
21 of the testimony that usually goes on at these hearings by
22 saying that we will use these factors more or less as
23 default allowable allocation factors, unless someone shows
24 us that we should change.

25 Does that explain what I'm --

1 Q. Yeah. And are these default factors set forth in
2 what has been marked OCD Exhibit Number 1?

3 A. Yes, they are. And those are the same factors
4 that are in effect now.

5 Q. Do you have anything else to say about Exhibit
6 Number 1?

7 A. No.

8 Q. Okay, let's move on to Exhibit Number 2. What
9 does this show us?

10 A. This shows the decline in the number of acreage
11 factors in both southeast New Mexico and northwest New
12 Mexico over the past several years.

13 As production has increased in the state and
14 we've moved the allowables up in these pools to allow them
15 to produce more to meet demand, the number of nonmarginal
16 wells has shown a significant decline, as this shows.

17 This is the number of acreage factors, which is
18 roughly correlatable to the number of prorated wells in all
19 the pools in southeast New Mexico and all the pools in
20 northwest New Mexico, added up for each year.

21 And you can see that there's -- proration is
22 really not affecting production in -- to any large extent,
23 either in the southeast or the northwest.

24 Q. Mr. Morrow, let's turn to Exhibit Number 3, and
25 Number 3 just provides more of this information, more

1 detailed information that was contained on Exhibit Number
2 2?

3 A. Yes, sir. This is -- There are six fields which
4 were selected, and the production, monthly average
5 production, as well as the number of nonmarginal acreage
6 factors in each pool, is summarized here to show, for the
7 most part, increased production with time, in most of the
8 pools, and a decline in the number of nonmarginal acreage
9 factors.

10 MR. CARROLL: Mr. Chairman, may I approach the
11 witness?

12 CHAIRMAN LEMAY: Yes, please do.

13 (Off the record)

14 Q. (By Mr. Carroll) Mr. Morrow, what do Exhibits
15 Number 4 and 5 show us?

16 A. Exhibits 4 and 5 are the market demand and
17 allowable determination schedules which we -- which the
18 ONGARD system generates. Normally, we -- and the ONGARD
19 system did generate these for the April of 1996 through
20 September, 1996, periods.

21 And normally what we do is put pool adjustments
22 into these schedules to bring the allowables to what we
23 consider the desired level, circulate those to industry,
24 and then receive comments at this hearing.

25 This time we didn't do that. We chose to

1 recommend that the existing allowables be continued, and
2 we've put these in as exhibits just for the record, for
3 comparison purposes, so that you can look at what we've
4 recommended and compare what ONGARD has said should be the
5 starting place for the allowables, just to see it for
6 comparison purposes, to -- and to have that data in the
7 record.

8 Q. Right. But the OCD's recommendations are
9 contained in Exhibit Number 1 --

10 A. As shown in Exhibit Number 1.

11 MR. CARROLL: -- not Numbers 4 and 5?

12 All right. Mr. Chairman, I offer what have been
13 marked OCD Exhibits 1 through 5 as evidence to be entered
14 into the record.

15 CHAIRMAN LEMAY: Without objection, Exhibits 1
16 through 5 will be admitted into the record.

17 And questions of the witness?

18 Mr. Kellahin?

19 MR. KELLAHIN: Thank you, Mr. Chairman.

20 Good morning, Jim.

21 THE WITNESS: Hello, Tom.

22 EXAMINATION

23 BY MR. KELLAHIN:

24 Q. Question of clarification, Mr. Morrow, please.

25 On Exhibit 4, when I look down -- And perhaps we

1 could pick the column over -- it's the third from the right
2 that says the monthly nonmarginal pool allowable, and if we
3 read down to the Blinebry, you get 38,000. Do you see that
4 number?

5 A. Yes.

6 Q. If you turn over on Exhibit 1 and find the
7 Blinebry again, which is the second row down under the
8 pool --

9 A. Right.

10 Q. -- monthly allocation, F1, is 44,000-plus.

11 A. Right.

12 Q. Are those two different numbers, or should they
13 be the same?

14 A. No, they shouldn't be the same. The ONGARD
15 system believed there were no nonmarginal acreage factors
16 in the Blinebry.

17 Q. And we know that's not correct?

18 A. That's not right. So -- Or I don't think it's
19 right.

20 So the monthly acreage allocation factor would be
21 zero if there's nothing to allocate any allowable to.
22 Since there probably is, we have suggested here that the
23 allowable be set at 44,500.

24 Q. All right.

25 So the request by the Division to the Commission

1 is to use page 1 -- Exhibit 1, these monthly allocation
2 numbers, and not be disturbed if it doesn't match or can't
3 be explained when you look at Exhibit 4?

4 A. That's right.

5 Q. All right. When we look --

6 A. Even if there were no nonmarginal acreage
7 factors, as there probably are not in the Atoka-Penn, we
8 would recommend these factors, or some positive number
9 other than zero, because the system assigns a shadow
10 allowable even to the marginal wells, and we need a number
11 in there to assign to each one of the marginal wells as a
12 shadow well.

13 Q. What's happening in the Indian Basin Upper Penn
14 Gas Pool? When you look at Exhibit Number 4 and you read
15 down under the monthly nonmargin allowables, you see
16 330,000 --

17 A. Yes, sir.

18 Q. -- and then you come over and you compare to what
19 I believe is a consensus of the operators in that pool,
20 which is to continue the 200,000 --

21 A. Right, instead of 165,000, we're proposing that
22 the 200,000 be used.

23 The acreage allocation factor is in the last
24 column, Tom.

25 Q. Ah, I'm read- -- All right.

1 A. That's the one you need to compare it with what
2 we recommend --

3 Q. Okay, on Exhibit 4, the far right column is the
4 one I need to look at when I compare to the Exhibit 1?

5 A. Yes, sir.

6 Q. All right. Lastly, then, on the Indian Basin
7 Morrow Gas Pool, on Exhibit 4, it's 14.5, and then on
8 Exhibit 1 it's 20.6.

9 What's the difference there? What's the
10 explanation for the difference?

11 A. Well, the system took the numbers and ground
12 through them and said the allowable should be 14 million a
13 month.

14 Q. Okay.

15 A. Instead of that, we're recommending 20 million a
16 month.

17 Q. All right. And then from this Exhibit 1,
18 companies this morning that want to request adjustments
19 would be making adjustments as to Exhibit 1?

20 A. That's right.

21 MR. KELLAHIN: All right, sir. Thank you, Mr.
22 Morrow.

23 CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

24 Additional questions of the witness?

25 Commissioner Bailey?

EXAMINATION

1
2 BY COMMISSIONER BAILEY:

3 Q. ONGARD is constantly progressing. Do you expect
4 within six months that it will be more reliable than this?

5 A. I guess I shouldn't respond to that. I have not
6 been out here and up against it like you all have. You
7 probably know better than I do, Jami.

8 Q. As far as you know, though, is there work
9 continuing to be able to come up with a closer correlation
10 here, or --

11 A. As far as I know, it is --

12 Q. -- anything like that?

13 A. -- it is progressing, yes. But as far -- as to
14 the six months, I'm not sure about that.

15 Q. Do you see any lack or any change in
16 responsiveness if this default system is put into effect?

17 A. Any -- Say it again?

18 Q. Do you see any change in the responsiveness of
19 the Commission to industry's needs if this default system
20 is put into effect?

21 A. We would probably gradually look at them a little
22 less if the number of nonmarginal wells continues to
23 decline. You know, as it gets to zero and stays zero a few
24 months or a few periods, we would probably go ahead and
25 just drop that pool from the proration process.

1 we're only curtailing 192 of them?

2 A. Yes.

3 Q. Or 182, I guess, yeah, a very small percentage of
4 the wells being --

5 A. It is, yes, very small part of your business.

6 CHAIRMAN LEMAY: Yeah, okay. Appreciate it,
7 appreciate your recommendations.

8 Anything else?

9 COMMISSIONER WEISS: No.

10 CHAIRMAN LEMAY: Any other questions of the
11 witness?

12 Thank you very much, Mr. Morrow. You may be
13 excused.

14 Anything else, Mr. Carroll?

15 MR. CARROLL: That's all I have, Mr. Chairman.

16 CHAIRMAN LEMAY: Okay. Mr. Carr?

17 We usually run this southeast-northwest. Do you
18 still want to do that, or are your witnesses -- I mean, we
19 can do that if we have a lot of testimony on that. What
20 does your witness --

21 MR. CARR: I don't think we care. I'm not
22 intending to call a witness myself.

23 CHAIRMAN LEMAY: Oh, I'm sorry, that's right.
24 You just have statement?

25 MR. CARR: I have a general statement on the

1 northwest, right.

2 CHAIRMAN LEMAY: Okay. Well, let's -- I'm sorry,
3 I had the one there and couldn't see that. Mr. Bruce, you
4 have a witness, don't you?

5 MR. BRUCE: Yeah, we have a witness on the
6 southeast.

7 CHAIRMAN LEMAY: On the southeast, okay. Let's
8 swear him in, and you're on.

9 My notes here indicate, I think, this will be the
10 only witness. The rest have statements, or is there anyone
11 else going to be a witness?

12 Okay, we'll do this with statements then.

13 WILLIAM T. DUNCAN, Jr.,

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

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Would you please state your name for the record?

19 A. My name is William Thomas Duncan, Jr.

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

21 A. I work for Exxon Corporation as a staff engineer
22 in the regulatory compliance group

23 Q. Have you previously testified before the
24 Commission as a petroleum engineer?

25 A. Yes, I have.

1 Q. And were your credentials as an expert accepted
2 as a matter of record?

3 A. Yes, they were.

4 Q. And are you familiar with the gas prorating in
5 the Tubb and Blinebry Pools?

6 A. Yes, I am.

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

9 CHAIRMAN LEMAY: His qualifications are
10 acceptable.

11 Q. (By Mr. Bruce) What three pools are you here for
12 today, Mr. Duncan?

13 A. We're here for the Tubb, Blinebry and the Eumont
14 Pools.

15 Q. Okay. Well, let's discuss the Tubb first. What
16 is Exxon's proposal in the Tubb?

17 A. Exxon is proposing to raise the nonmarginal
18 acreage allocation factor for the Tubb Gas Pool to
19 18,425,000 per month.

20 Q. And what type of increase is that, or what amount
21 from the proposal contained in the hearing notice?

22 A. That is a 10-percent increase from the proposal
23 in the hearing notice.

24 Q. Does Exxon have wells limited by current
25 allowables in the Tubb pool?

1 A. Yes, we do.

2 Q. Okay. Well, let's refer to Exhibit 1, and would
3 you identify that and discuss its contents for the
4 Commission?

5 A. Exhibit Number 1 is a tabulation of Exxon's
6 allowable limited gas proration units in the Tubb pool.
7 We've listed two wells on this particular exhibit, the New
8 Mexico S State Well Number 20 and the New Mexico S State
9 Well Number 13U.

10 Each of those wells has a 160-acre gas proration
11 unit with an acreage factor of one, and current capability
12 in excess of the trial allowable that was included in the
13 notice and in excess of the allowable that we're proposing,
14 which is a 10-percent increase.

15 There remains some additional capability that
16 would not be realizable, but we're proposing a 10-percent
17 increase as shown.

18 Q. Okay. Why don't you refer to Exhibits 2A, 2B and
19 2C and discuss the reason for your proposed increase as it
20 relates to the S State Number 20 well?

21 A. Okay. Exhibits 2A, 2B and 2C are all detail on
22 the New Mexico S State Number 20, showing the production
23 history of that well.

24 Exhibit Number 2A is a tabulation showing for
25 this particular well its production history from October of

1 1994 through current and then extending on into the future,
2 through September of 1996.

3 The monthly sales is shown in the second column
4 on the exhibit.

5 The allowable for the well is shown in the third
6 column.

7 The monthly over- or under-status -- in this case
8 it's over-status -- is shown in the fourth column.

9 And the fifth column or far right column is the
10 cumulative overproduction for the well.

11 The New Mexico S State Number 20 has production
12 included in this tabulation through the end of November,
13 1995. Anything after the end of November, 1995, is
14 estimated. So as you see, we've estimated that the well
15 will continue to produce and sell gas at a rate of about
16 18,500,000 per month.

17 As you look at the cumulative overproduction
18 column on the far right, the well produced through the end
19 of September, 1995, at which time it was six times
20 overproduced at that point.

21 The acreage allocation factor was increased at
22 that -- at the hearing in August and became effective in
23 October of 1995, and therefore the well continued to
24 produce and accumulated additional overproduction. And if
25 the allowable allocation factor is not increased over

1 what's included in the notice, the well will be six times
2 overproduced during the months of August and September.

3 Q. Okay. Does Exhibit 2B show similar data, then?

4 A. Yes, Exhibit 2B is exactly the same type of
5 presentation, with the one change that for this well we've
6 included, instead of the allocation factor that was
7 included in the notice, we've increased the allocation
8 factor by 10 percent, to 18,425,000 per month.

9 With this change, the well can continue to
10 produce throughout the entire balancing period without
11 going six times over.

12 Q. And what is Exhibit 2C?

13 A. Exhibit Number 2C is simply a plot of what was
14 shown on Exhibit 2B. Again, it's for the New Mexico S
15 State 20, and it includes our proposed Tubb allowable.

16 We've shown the same period, and you can see that
17 the allowable and sales get very, very close for the entire
18 April-through-September balancing period.

19 Q. Do Exhibits 3A, 3B and 3C show similar data,
20 then, for the S State 13U well?

21 A. That's correct, and they're in the same format.

22 For the 13U on Exhibit Number 3A, it shows that
23 while the well never gets more than six times overproduced,
24 it does approach five times overproduced with the allowable
25 allocation factor that's proposed in the notice.

1 Exhibit 3B shows that with the 10-percent
2 increase in the allowable allocation factor, the well is --
3 its overproduction is moderated somewhat.

4 The plot in Exhibit 3C shows that the well is
5 still -- still has significant capability in excess of
6 allowable, even with the proposed Tubb allowable, but, you
7 know, we are proposing only a 10-percent increase.

8 If anyone else proposes more, we would support
9 that too, but we're proposing a 10-percent increase.

10 Q. Is there -- Does Exxon have additional potential
11 to increase production from the Tubb Pool?

12 A. Yes, we do. The production increases that we've
13 seen in the past two or three years are just the result of
14 a fairly aggressive production program, just trying to keep
15 our wells producing at their greatest ability.

16 And we have additional work that we do plan to
17 do. They're not major things, they're in some cases not
18 even workovers, but we do believe that we can continue
19 producing at current rates or even higher over the next
20 couple of years.

21 Q. Let's move on to the Blinebry. Again, what is
22 your proposal on the Blinebry, as far as allowable?

23 A. Exxon is proposing that the Blinebry nonmarginal
24 allocation factor be increased by 10 percent also, from
25 44,500 -- actually from the current 42,500 to 46,800.

1 Q. Okay. Well, let's move on to your Exhibit 4.
2 What does that show?

3 A. Exhibit 4 shows the same type of tabulation that
4 you saw for the beginning of Exhibit Number -- I guess it's
5 Exhibit Number 1.

6 Q. Exhibit 1?

7 A. It shows that we have one allowable limited gas
8 proration unit in the Blinebry, the New Mexico S State
9 Number 38.

10 That well has an acreage factor of 0.5, current
11 capability of about 27 million cubic feet per month, and
12 the trial allowable or the allowable that you would get
13 with the acreage factor that's actually shown on the notice
14 would be 22,275 per month.

15 We're proposing that the nonmarginal allocation
16 factor be increased 10 percent from the 42,550 that was in
17 effect during the summer -- excuse me, during the winter.
18 And that would give us a proposed allowable for this well
19 of 23,400 per month, and that still leaves capacity in
20 excess of the allowable.

21 Q. And what are Exhibits 5A through 5D?

22 A. 5A is a tabulation for Well Number 38 showing the
23 well's history and its forecasted cumulative overproduction
24 on the far right-hand column.

25 It shows that with the well continuing to produce

1 at its capacity of about 27 million per month, the well
2 would be about 85 million cubic feet overproduced at the
3 end of the next -- this coming balancing period. That is
4 with the allowable set at the rate -- with the allowable
5 allocation factor set just like it was during this past
6 allocation period, or balancing period.

7 Exhibit Number 5B changes that allowable
8 allocation factor to the 44,550, which was shown in the
9 notice, and therefore you can see in the bold numbers down
10 at the bottom of the page that the allowable is increased
11 somewhat. But the well is still significantly overproduced
12 at the end of the period.

13 Exhibit Number 5C shows in bold at the bottom of
14 the page the proposed allowable allocation factor, reduced
15 to the allowable for this particular well, and it shows
16 that the cumulative overproduction would be somewhat less,
17 although the well would still be producing in excess of its
18 allowable.

19 Exhibit Number 5D is a tabulation of this same
20 information, again with the well -- You can see on the far
21 right-hand side of the plot that the last six months shows
22 the well to be producing in excess of allowable, but that
23 the cumulative overproduction would be reduced somewhat by
24 an increase in the acreage allocation factor.

25 Q. And again, does Exxon have ongoing workover

1 programs in the Blinebry pool?

2 A. Well, workover and work programs, also related to
3 surface production equipment and restrictions that we might
4 be able to eliminate.

5 Q. And generally what Exxon has been doing has been
6 relatively low-cost work programs?

7 A. That's correct, very low-cost.

8 Q. And as a result, I think we've been here for
9 about the last three years, Mr. Duncan, asking various
10 increases in the allowables because of the well -- or
11 production restrictions in those three pools?

12 A. That's correct.

13 Q. Is there a market for the additional gas?

14 A. Yes, there very much is. We have had -- We have
15 been working with five different gas purchasers during the
16 past -- recent months, to try and satisfy their future
17 demands for gas, and they are very much interested in
18 getting more gas from the leases that we operate in these
19 pools.

20 Q. Just one question on the Eumont, Mr. Duncan.
21 What is Exxon's position on the proposed Eumont allowable?

22 A. We propose -- or support setting it at the level
23 that was included in the notice and believe that we will be
24 able to produce very close to some of those nonmarginal
25 rates.

1 Q. Were Exhibits 1 through 5D prepared by you or
2 under your direction?

3 A. Yes, they were.

4 Q. And in your opinion, is the granting of Exxon's
5 proposals in the interests of conservation and the
6 prevention of waste?

7 A. Yes.

8 MR. BRUCE: Mr. Chairman, I'd move the admission
9 of Exxon Exhibits 1 through 5D.

10 CHAIRMAN LEMAY: Without objection, Exxon's
11 Exhibits 1 through 5D will be admitted into the record.

12 MR. BRUCE: And I have no further questions.

13 CHAIRMAN LEMAY: Questions of Mr. Duncan? Mr.
14 Carroll?

15 MR. CARROLL: Yes, I have one.

16 EXAMINATION

17 BY MR. CARROLL:

18 Q. Mr. Duncan, how many prorated wells does Exxon
19 have in each of these pools?

20 A. We have currently two nonmarginal wells in the
21 Blinebry Pool and one in the Tubb, and currently we're just
22 below nonmarginal status for our Eumont wells.

23 MR. CARROLL: Thank you.

24 CHAIRMAN LEMAY: Other questions? Commissioner
25 Bailey?

EXAMINATION

1
2 BY COMMISSIONER BAILEY:

3 Q. Production for these wells reflects the work that
4 you did in early 1995?

5 A. Continuing work. It's not just a one-time piece
6 of work.

7 For instance, in one of the wells -- I believe it
8 was the Well Number 38, I believe we installed a plunger
9 lift in that well. It might have been the S State 20. But
10 in cases like that where we're installing a new artificial
11 lift mode, then the subsequent months usually show
12 increases that are just increases based on the field
13 personnel learning to operate that particular piece of
14 equipment better.

15 So there are increases after a major investment,
16 often, that are just lining out or improvements in
17 production operations.

18 De-bottlenecking is also a factor.

19 Q. Do you expect these wells will be the most
20 successful of the workovers that you contemplate?

21 A. No, actually we're not looking at any significant
22 workover program, more de-bottlenecking in the future.

23 COMMISSIONER BAILEY: Okay, that's all I have.

24 CHAIRMAN LEMAY: Commissioner Weiss?

25 COMMISSIONER WEISS: I have no questions.

EXAMINATION

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BY CHAIRMAN LEMAY:

Q. You had two wells curtailed out of how many? How many wells does that have in the Tubb field?

A. Oh, gee, offhand I can't recall. I can refer to the proration schedule and tell you.

Q. Just a guess is all right. I just wondered, two out of how many?

A. I think eight.

Q. Eight?

A. Let me see.

We've got six gas proration units shown. Some of those gas prorations have multiple wells on them.

Q. How about Blinebry, offhand? Do you know?

A. Blinebry. Offhand, I'd say 16, but let me check.

Q. I just wondered what percentage, roughly, of the wells that you have in the field are curtailed.

A. The last time I checked, we were in the 10-percent range of the pool. I don't remember whether that's based on a well basis or on a volume basis. So we're -- We're not the largest operator in the pools.

Q. Does the higher allowable -- Is it easier to get authorization to propose workovers and spend some money in New Mexico on other wells?

A. Very much so. In fact, the first question that's

1 asked when you're proposing anything from a surface
2 standpoint or a subsurface standpoint is whether an
3 additional production increase will be realizable with the
4 allowables in place. And if you can't answer that question
5 the right way, well, the work just isn't done. It can't be
6 justified.

7 CHAIRMAN LEMAY: Thank you. Commissioner Weiss?

8 COMMISSIONER WEISS: I have no --

9 CHAIRMAN LEMAY: Any other questions of Mr.
10 Duncan?

11 Thank you. You may be excused, Bill. Thank you.

12 There are no other witnesses, I take it, so why
13 don't we wrap it up with some statements? Now, Mr. Carr.

14 MR. CARR: May it please the Commission, I would
15 like to make just a brief statement on behalf of Amoco.

16 Amoco Production Company concurs with the
17 recommendations and suggestions set forth in the January
18 26th memorandum from Mr. LeMay. They encourage the
19 Commission to adopt the allowable factors used for October,
20 1995, through March, 1996, for that allocation period, on a
21 continuing basis, and they would support using these
22 factors for future allocation periods until such time as it
23 is determined that changes are needed, and we believe based
24 on past experience the changes that you're considering are
25 appropriate, and we would encourage you to do it.

1 Now, on behalf of Chevron, Chevron has in the
2 past testified, I believe all allowable hearings, on both
3 the Eumont and the Indian Basin. They have asked me to
4 read a statement as to each pool, and I would start with
5 the Indian Basin.

6 Chevron USA Production company operates ten
7 producing gas wells in the subject field and has a working
8 interest in three nonprorated properties in the Indian
9 Basin Upper Penn Gas Pool. Chevron USA supports the Oil
10 Conservation Division's proposed allowable assignment
11 factors that resulted in a monthly acreage allocation
12 factor of 200,000 MCF.

13 Seven of Chevron's ten wells are capable of
14 producing at or above the proposed allowables. Our current
15 efforts in additional compression installations is expected
16 to maintain an improved current production capability in
17 this field, and an allowable of 200,000 MCF per month will
18 protect the interest, we believe, of a majority of
19 operators in this pool.

20 As to the Eumont, Chevron is a principal operator
21 in the Eumont prorated gas field and fully supports the
22 Division's proposed allowable adjustments, which result in
23 a monthly acreage allocation factor of 38,000 MCF for the
24 Eumont-Yates-Seven Rivers-Queen Prorated Gas Pool.

25 During 1985 [sic], Chevron has completed two new

1 drills and 15 recompletions or restimulations, yielding an
2 incremental increase of approximately 5 MMCF of gas per day
3 in the subject pool. Furthermore, Chevron plans to pursue
4 a similar program in 1996, augmenting current pool daily
5 production with an estimated incremental increase of
6 approximately 3.2 MMCF per day.

7 In order to economically pursue these already
8 budgeted proposals for 1996, Chevron requests that the
9 proposed monthly acreage allocation factor of 38,000 MCF be
10 adopted for the period running from April, 1996, through
11 September, 1996. Any lower allowables, we would believe,
12 would have an economic impact on operators in the pool and
13 would jeopardize continuation of Chevron's development
14 program in the Eumont Prorated Gas Pool.

15 We feel that maintaining the monthly acreage
16 allocation factor at the proposed 38,000 MCF for this pool
17 through the upcoming proration period will allow
18 continuation of current development throughout this pool,
19 will prevent waste and at the same time will protect
20 correlative rights.

21 I'd like to leave with you copies of those
22 statements, and that includes the statements for Chevron
23 and Amoco.

24 CHAIRMAN LEMAY: Thank you, Mr. Carr.

25 Anything else on Amoco or -- We're okay, aren't

1 we? Okay.

2 Mr. Kellahin?

3 MR. KELLAHIN: Members of the Commission, on
4 behalf of Marathon Oil Company, Marathon Oil Company is an
5 operator in the Blinebry Oil and Gas Pool. They've asked
6 me to advise you that they support the 10-percent increase
7 that Exxon has requested for that particular pool.

8 In addition, Marathon supports and requests the
9 continuation of the 200,000-MCF-per-month allowable for the
10 Indian Basin Upper Penn Gas Pool. That is consistent with
11 how the Division and the Commission have handled that
12 reservoir for some time. Marathon has a letter, which I
13 have submitted to you, in which they detail and summarize
14 for you their position with regards to the Indian Basin
15 Upper Penn.

16 The last pool that they asked me to comment on
17 with regards to southeastern New Mexico is the Indian Basin
18 Morrow Pool. I've submitted to you a letter concerning
19 that pool. Kerr-McGee Corporation also joins with Marathon
20 in the Indian Basin Morrow Pool.

21 You may remember that the Indian Basin Morrow is
22 an unusual reservoir. In fact, it -- The Morrow reservoir
23 is divided into two pools. The northeastern portion is
24 Cemetery Morrow. It's a nonprorated gas pool on 320-acre
25 spacing. And as you move to the southwestern portion of

1 the same reservoir, you get into the Indian Basin Morrow,
2 which is on 640 gas spacing, and we've prorated that pool.

3 Both Kerr-McGee and Marathon believe that the
4 688-MCF-per-day nonmarginal allowable for that pool is far
5 too low. We are preparing an examiner case to present to
6 the Division to consider deprorating the Indian Basin
7 Morrow Gas Pool, and we're putting together the science and
8 the information to go forward with that case and to poll
9 the operators in that pool as to their preference.

10 We conducted a poll last summer, and I believe of
11 the operators in the pool, all of them at that point
12 supported both higher allowables and pursuing deprorating.

13 We have taken an initial step with a Division
14 order in November of 1995; it's Order Number R-8170-0.
15 Because the two pools were growing together, there was a
16 transition area of about eight or nine sections in between
17 the two. And as Marathon and others began to drill to the
18 southwest in the Cemetery Morrow, we were overlapping in
19 our pool rules.

20 So the Division, based upon Marathon's request,
21 froze the boundaries of the prorated pool so that the
22 nonprorated pool could be expanded.

23 We're now coming back and preparing an examiner
24 case to talk to the Division about terminating prorationing
25 in the Indian Basin Morrow, and we hope that will address

1 the operators' concerns in that pool for the low allowables
2 as well as satisfy any correlative-rights and waste issues
3 the Division might have.

4 So rather than presenting to you a lengthy
5 testimony today on increasing Indian Basin Morrow, we're
6 choosing another option, but we wanted to let you know that
7 that was in the works.

8 That's all I have.

9 CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

10 Anyone else have anything to say on proration?
11 Commissioner Bailey?

12 COMMISSIONER BAILEY: No.

13 CHAIRMAN LEMAY: Commissioner Weiss?

14 COMMISSIONER WEISS: No.

15 CHAIRMAN LEMAY: That's the quickest one we've
16 had yet.

17 We shall take that case under advisement, and
18 we'll have a recess of about fifteen minutes. We'll come
19 back at a quarter to eleven and listen to you all; it's
20 your agenda. Thank you.

21 (Thereupon, these proceedings were concluded at

22 10:28 a.m.)

**I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____,
heard by me on _____ 19____.**

24

_____, Examiner
Oil Conservation Division

