

NEW MEXICO OIL CONSERVATION DIVISION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date SEPTEMBER 25, 1997 Time 9:00 A.M.

NAME	REPRESENTING	LOCATION
W Kelobini	Kelobini & Kelobini	Santa Fe
JAMES STRICKLER	BURLINGTON	FARMINGTON
R. Chavez	OCV	AETEC
Jim TA	Talleges hnd Lin	SF
Gene Kelley	" "	Santa Fe

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:) CASE NO. 11,705
)
APPLICATION OF THE OIL CONSERVATION)
DIVISION TO AMEND ORDER R-8170, AS)
AMENDED, "GENERAL RULES FOR THE PRORATED) ORIGINAL
POOLS OF NEW MEXICO")
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

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

September 25th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, WILLIAM J. LEMAY, Chairman, on Thursday, September 25th, 1997, 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.

* * *

STEVEN T. BRENNER, CCR
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I N D E X

September 25th, 1997
 Commission Hearing
 CASE NO. 11,705

PAGE

APPLICANT'S WITNESS:

FRANK CHAVEZ, District Supervisor, Aztec
 District Office (District 3) NMOCD
 Direct Testimony by Mr. Chavez

4

REPORTER'S CERTIFICATE

34

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	33
Exhibit 2	9	33

* * *

A P P E A R A N C E S

FOR THE COMMISSION:

LYN S. HEBERT
 Deputy General Counsel
 Energy, Minerals and Natural Resources Department
 2040 South Pacheco
 Santa Fe, New Mexico 87505

* * *

1 WHEREUPON, the following proceedings were had at
2 9:07 a.m.:

3
4
5 CHAIRMAN LEMAY: Okay, we shall begin by calling
6 Case Number 11,705, which is the Application of the Oil
7 Conservation Division to amend Order R-8170 for prorated
8 pools.

9 And call for members that will give testimony in
10 that case.

11 MR. CHAVEZ: Yes, Mr. Examiner, Frank Chavez, the
12 OCD Aztec Office.

13 CHAIRMAN LEMAY: Thank you, Mr. Chavez.

14 Is there anyone else that will be giving any
15 evidence in Case Number 11,705?

16 If not, Mr. Chavez, please be seated and -- or
17 stand up first and be sworn in.

18 (Thereupon, the witness was sworn.)

19 CHAIRMAN LEMAY: Thank you, you may sit down.

20 Since OCD counsel is not with us today, I would
21 just beg the indulgence of my fellow Commissioners here in
22 just letting you have the floor and explain what's been
23 going on to date and what your committee has done to date,
24 and what you would like us as Commissioners to consider
25 today.

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FRANK CHAVEZ,

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

DIRECT TESTIMONY

BY MR. CHAVEZ:

Mr. Chairman, what I intend to present today is an interim, if you want to call it, report which includes some suggested revisions to the rules and regulations on prorated gas wells and on gas-well testing.

We're presenting these today to the Commission so that they can go out for review by the industry and for comments, so that the committee can look at those comments and take them into consideration for a final proposal for rules changes.

A couple of things to consider first of all is that the advertisement for this case did not include an amendment to Order R-333, which is the order establishing the testing rules.

CHAIRMAN LEMAY: Order -- ?

THE WITNESS: -- R-333.

CHAIRMAN LEMAY: 333.

THE WITNESS: So the case would have to be revised to include that amendment.

This committee was established to address a need which we in the OCD and the industry had presented before,

1 that deliverability testing rules as they are currently in
2 the regulations, require testing of a lot of wells for
3 which the tests are not used in prorating the wells. And
4 consequently, it creates a burden for both the operator to
5 conduct these tests and for the OCD to process them when
6 they have no benefit derived for prorating those wells.

7 Also, changes are occurring in the field,
8 especially with commingling, and since the change in the
9 commingling rules there have been well over 200
10 applications for commingling requests that include prorated
11 wells. The testing requirements for wells that are
12 commingled create a lot of inaccuracy inherent in
13 conducting the deliverability tests and further makes them
14 that less useful.

15 The information historically that had been
16 gathered by deliverability tests had been rather useful for
17 the industry and for the OCD, to monitor the activity, the
18 completion rates or whatever, what's going on in the
19 reservoirs, the prorated pools.

20 But over time newer tools have been developed
21 which make that information less usable, especially now
22 that there is considerable history in the pools. And many
23 of the wells in the pools are reaching what you might call
24 the end of their economic life or the autumn of their
25 years, I guess. So the information that we had gathered

1 historically has less of a use than it had years ago.

2 So the committee, in meeting, we came up with
3 some recommendations to amend the rules to require a lot
4 less testing, also to ease the proration process, which in
5 itself will reduce testing, will reduce the amount of
6 testing required, but also make the prorating of these
7 wells a lot easier to do.

8 What I've placed before you there are several
9 documents. I think the documents on the top are stamped as
10 exhibits, but I didn't fill the exhibit block out because
11 at this time these are just some recommendations that I --
12 should go out. If you want me to include them as exhibits,
13 I will go ahead and mark them after we go through this.

14 But one of the documents says at the top
15 "Proposed revision to: Rules of Procedure for Northwest
16 New Mexico". That document is our proposal to amend the
17 current testing rules.

18 Now, the current testing rules, what I've also
19 put before you is our testing rules for northwest New
20 Mexico, and I've dog-eared the page at the front where
21 these current rules start. They were the result of Order
22 R-333.

23 Now, our proposal -- what we propose now will
24 change those rule of procedure through that section. What
25 is significant in this -- in the changes, are that there

1 would not be initial deliverability tests required for new
2 wells in the prorated pools. Deliverability test would be
3 required only for wells in nonmarginal GPUs or gas
4 proration units. When we get to the section about the
5 revision of the proration rules, you'll see how that is
6 significant.

7 That is a dramatic change, and if you were to
8 look through the rules you would see the test procedures
9 have not been changed except for a slight change -- I'm
10 sorry, I must have failed to number the pages here. On the
11 third sheet, on the front, the fourth paragraph down which
12 starts, "Deliverability pressure" --

13 COMMISSIONER WEISS: What are you looking at?

14 THE WITNESS: I'm sorry, I'm looking at the
15 document, "Proposed revision to: Rules of Procedure".
16 Okay, the third sheet, fourth paragraph down that starts,
17 "Deliverability pressure" --

18 CHAIRMAN LEMAY: Still not with you.

19 COMMISSIONER WEISS: I've got two sides to mine.
20 Are you talking --

21 CHAIRMAN LEMAY: Is this the proposed revision to
22 the rules?

23 THE WITNESS: Yes.

24 COMMISSIONER WEISS: And the third sheet or the
25 third --

1 THE WITNESS: The third sheet.

2 COMMISSIONER WEISS: -- page? Third sheet, not
3 page, yeah, that's it. One, two, three.

4 CHAIRMAN LEMAY: Yeah, got it. We're with you.

5 THE WITNESS: The change also allows us, the OCD,
6 to set a fixed pressure rather than a percentage pressure
7 for the deliverability pressure. That change was put in
8 there because of the significant difference in producing
9 pressures across the San Juan Basin.

10 We've found that over time high-pressured wells
11 producing into high-pressured pipelines would continue to
12 have a higher deliverability pressure when it's a
13 percentage of the pressure, and consequently their
14 calculated deliverability is skewed low compared to wells
15 which have low pipeline pressures over time. As the wells
16 with low pipeline pressures deplete more quickly, their
17 percentage of shut-in gives a lower deliverability
18 pressure, which is closer to the pipeline pressure.

19 And the deliverability equation would -- just
20 below there shows what would happen, basically, that the
21 calculated deliverability would increase proportionately
22 higher for lower-pressured wells producing into low-
23 pressure pipelines. By using -- the ability use a fixed
24 deliverability pressure, it would hold the wells equal.

25 In my conversations with the previous OCD

1 engineers and engineers from the industry, that particular
2 paragraph would have been adequate very early in the life
3 of the pool when pipeline pressures were more even and
4 shut-in pressures were more even.

5 Okay, the other two documents that you have in
6 front of you, one says at the top, "General Rules for the
7 Prorated Gas Pools of New Mexico", and the other document
8 says, "Proposed Amendments to:"

9 The General Rules for Prorated Gas Pools is just
10 for reference. It is the current rule, and it's already in
11 the OCD records. I just have it here so that you can refer
12 to it.

13 What we're proposing is, under these rules, that
14 we delete Rule 5(b)1(B), which requires deliverability
15 testing for new connections. That is on page 8 of the
16 reference.

17 What I'm doing is, I'm going down the proposed
18 amendments referring to these general rules for prorated
19 gas pools. If you look on the General Rules for Prorated
20 Gas Pools, on page 8 in the middle starts Rule 5(b)1, and
21 the paragraph below is (B). We propose to delete that and
22 also to delete 5(b)2 on the next page for new connections.

23 Okay, down further on page 9 near the bottom is
24 where Rule 9 starts. Rule 9 in the General Rules, the
25 entire series there deals with deliverability testing. So

1 we propose to amend it in its entirety to a smaller
2 paragraph which I show on the proposed amendments page.

3 Basically, this is a rather dramatic change in
4 that it says that only nonmarginal -- only wells on
5 nonmarginal GPUs will be tested.

6 It also makes a reference to an order classifying
7 the well, which we will get to shortly.

8 Okay, under the General Rules, if you will turn
9 to page -- it's past page 15 in the General Rules, and
10 these other pages are unnumbered -- we get to what would be
11 Exhibit B from the original proration case, which has
12 Special Rules and Regulations for the Basin-Dakota Gas
13 Pool. We propose to delete Rule 9(a) in its entirety and
14 insert Rule 14, and this is the most dramatic change that
15 we have in proposing in proration, and this will be for
16 each of the prorated pools in the San Juan Basin.

17 I'll go ahead and read it: "A gas proration unit
18 in the Basin-Dakota Gas Pool shall be classified as
19 marginal except after notice and hearing. Any operator in
20 the Basin-Dakota Gas Pool may request a hearing to
21 reclassify a gas proration unit in that pool to
22 nonmarginal."

23 What this does is, it reclassifies -- By our
24 amendment it would say that all wells in these pools --
25 right now, just for Basin-Dakota Gas Pool but this is for

1 all pools also, their specific rules -- it would say that a
2 well would be classified as marginal, unless there was
3 documentation after notice of hearing that the well should
4 be classified as nonmarginal.

5 What happens here, so dramatic, is, it puts the
6 burden or the onus on the operator to present the case to
7 show why one of his wells should be nonmarginal, or an
8 offset operator, who thinks that they may be -- their
9 correlative rights may be impinged by production from an
10 offset well or another well in the pool, to bring forth a
11 case to classify a gas proration unit as nonmarginal. This
12 reduces the administrative burden on the OCD tremendously.

13 COMMISSIONER WEISS: Did you say that this is
14 going to replace this right here, special rules (a), well
15 acreage and location requirements? I thought that's what I
16 understood you to say.

17 THE WITNESS: No.

18 COMMISSIONER WEISS: What's it going to replace?

19 CHAIRMAN LEMAY: No --

20 THE WITNESS: You're talking about Rule 14?

21 COMMISSIONER WEISS: 9(a), I just heard, (a), you
22 said, 9(a).

23 THE WITNESS: I'm sorry, 9(a).

24 COMMISSIONER WEISS: Okay, all right.

25 CHAIRMAN LEMAY: Since this is rulemaking, just

1 jump in, because I'm going to jump in right now, Frank
2 and --

3 THE WITNESS: Okay.

4 CHAIRMAN LEMAY: -- try and, in my own mind,
5 simplify. There's more or less a default? When you drill
6 a well or have a well, the assumption is it's marginal?

7 THE WITNESS: Yes.

8 CHAIRMAN LEMAY: And so that's kind of a default
9 category all wells go into.

10 How do you know if a well is nonmarginal, if
11 you're an offset operator? Is there a test they must run
12 that you can somehow get wind of and therefore be
13 knowledgeable to make the application to the Division for
14 nonmarginal status?

15 THE WITNESS: No, the operator -- We discussed
16 this at some length, and the committee members felt that --
17 the other committee members felt that they had access
18 enough, to enough information, to determine whether or not
19 production from an offset well was affecting their
20 correlative rights.

21 COMMISSIONER WEISS: Where do they get that
22 information? What's its access?

23 THE WITNESS: Production information from the
24 wells and pressure data that they have access to on their
25 own wells.

1 COMMISSIONER WEISS: So they don't have -- they
2 don't need access to the new well? Just their offset
3 information, huh?

4 THE WITNESS: Well, they can have production
5 information from the new well also.

6 COMMISSIONER WEISS: And that's from State
7 records?

8 THE WITNESS: Yes.

9 CHAIRMAN LEMAY: So you've got a lag of a few
10 months, maybe, but at that point in time I guess they could
11 -- you could play make-up.

12 In other words, if their correlative rights were
13 violated for three months until they get the ONGARD data in
14 the system, they can petition the Division to hold a
15 hearing and structure some kind of allowable to accommodate
16 those three months of, quote, correlative-rights violations
17 until --

18 THE WITNESS: Yes.

19 CHAIRMAN LEMAY: -- they get the information?

20 THE WITNESS: Yes, we anticipate that an operator
21 should be able to request at the hearing what the effective
22 date of the classification would be.

23 Now, nearly all of the classifications that we
24 had used before were retroactive, so that's already a way
25 that we --

1 CHAIRMAN LEMAY: Yeah, that's a good point, the
2 retroactive nature of a classification. What I'm hearing
3 you say -- and correct me if I'm wrong -- is, the
4 retroactive nature of a classification protects correlative
5 rights, because that's been the way we've done it in the
6 past?

7 THE WITNESS: Yes.

8 CHAIRMAN LEMAY: Okay, it's not a problem?

9 THE WITNESS: No.

10 CHAIRMAN LEMAY: Okay. And for the benefit of my
11 fellow Commissioners, a committee has been -- You've
12 identified yourself, but tell us a little bit about the
13 committee that you've been working with to come up with
14 these recommendations.

15 THE WITNESS: We have a representative from --
16 Well, what I did is, I tried to invite as many people as I
17 could originally to join the committee. In fact, if you
18 would look in front of the test rules, you see that the
19 last time we revised these rules we had a very large
20 committee. It's under the acknowledgements on the second
21 sheet.

22 COMMISSIONER WEISS: Where is this?

23 THE WITNESS: On the test rules.

24 COMMISSIONER WEISS: In the orange book?

25 THE WITNESS: In this book.

1 So I called nearly everybody who had been on this
2 committee before, who was still available, and asked them
3 if they wanted to participate. Most of the people did not
4 want to. So I had to go out and actually do some tree-
5 shaking, and we were able to get a representative from
6 Amoco, Williams Field Services and Burlington on this
7 committee.

8 COMMISSIONER WEISS: And who were they? Are they
9 on here?

10 THE WITNESS: No. Pam Staley represented Amoco,
11 Bob Stanfield represented Burlington. Warren Curtis wanted
12 to come but he sent a representative; I can't remember his
13 name. I'm sorry, I'm embarrassed. It was Paul -- I'm
14 sorry.

15 CHAIRMAN LEMAY: That's okay, just --

16 THE WITNESS: Okay.

17 CHAIRMAN LEMAY: -- give us an idea that you had
18 some industry folks --

19 THE WITNESS: Yes.

20 CHAIRMAN LEMAY: -- at work with you on these
21 recommendations?

22 THE WITNESS: That's correct.

23 CHAIRMAN LEMAY: I didn't mean to interrupt you.
24 I just thought --

25 THE WITNESS: Okay.

1 CHAIRMAN LEMAY: -- since this is rulemaking
2 we'll be casual with you.

3 THE WITNESS: Sure.

4 CHAIRMAN LEMAY: When a question comes up, maybe,
5 if you don't mind, we'll interrupt you and kind of explore
6 that point a little further.

7 THE WITNESS: That's fine.

8 COMMISSIONER BAILEY: Can we go back to the
9 production reporting availability for offset operators?
10 Does OCD issue a monthly production report now, as they did
11 in the past?

12 THE WITNESS: Well, the data -- Yes, we've been
13 doing that. There have been some problems with it, but the
14 report is coming out. But the data is available now
15 through several different means.

16 New Mexico Tech now has a piece of software on
17 the Internet that people can get the latest ONGARD data
18 from.

19 PI and -- has information, also, that they
20 download monthly that we put on the Internet.

21 And for an operator, they can also download the
22 data, latest ONGARD data, off the Internet monthly. We
23 place it out there for their use.

24 There is, of course, the ONGARD system within
25 each office where an operator can go and get the latest

1 data that's in the system.

2 So the data availability is there.

3 COMMISSIONER WEISS: Historically, haven't people
4 just come down to the office and got the -- whatever you
5 call that form, C-114? Is that how you report the
6 production?

7 THE WITNESS: Yes.

8 COMMISSIONER WEISS: And you get that instantly,
9 right? I mean, the day it comes in?

10 THE WITNESS: No, it's not keyed the day it comes
11 in. When the data comes into --

12 COMMISSIONER WEISS: Can you get the paper, the
13 piece of paper, and look at it?

14 THE WITNESS: Here in Santa Fe you can.

15 COMMISSIONER WEISS: But you can't do it in --

16 THE WITNESS: Not in the districts.

17 COMMISSIONER WEISS: Okay.

18 CHAIRMAN LEMAY: If it's filed electronically,
19 would -- That would make a difference, it would be
20 available as soon as it hit the ONGARD system?

21 THE WITNESS: Yes, the electronic data goes
22 through the system much more quickly; it doesn't have to be
23 keyed. So it's dumped into a file that's run through a
24 data test to check the correctness of the data, compared to
25 the codes that we have, before it goes into the system.

1 CHAIRMAN LEMAY: Yeah, I think it's January 1, is
2 it, they'll be -- any operator who has a hundred or more
3 wells will be required to file electronically. So -- I
4 know there was some testimony at one time that 85 percent
5 of all well records will be filed electrically after
6 1-1-98?

7 THE WITNESS: That's right.

8 CHAIRMAN LEMAY: So I mean, the majority of
9 information should be available instantaneously with that
10 requirement?

11 THE WITNESS: Yes, sir.

12 CHAIRMAN LEMAY: Did you have something else,
13 Bill? Go ahead.

14 COMMISSIONER WEISS: Yeah, I -- Let me get it
15 clear in my own mind. Now, if I'm an operator or a land
16 owner or an offset that Burlington -- and I see a 500-foot
17 flare out there, I'm interested, okay? How do I find out
18 what that well is making as soon as possible? What steps
19 do I go through? What's the time frame there?

20 THE WITNESS: The C-115s are to be filed the
21 third month following the month of production.

22 Now, our goal has been -- If it comes in on a
23 C-115 the goal has been to key it within a month, but
24 there's been some lag on that because of some problems.

25 So you wouldn't start looking for, say, a January

1 production on the well until probably April, because then
2 the report would be ready. Electronic reporting would put
3 it there, and if we could get caught up with the physical
4 keying it would be there also.

5 COMMISSIONER WEISS: Okay, so four months,
6 right --

7 THE WITNESS: Right.

8 COMMISSIONER WEISS: -- after the well starts
9 producing?

10 THE WITNESS: That's right.

11 COMMISSIONER WEISS: And the information is
12 available so that I can request a hearing to see if -- and
13 to follow through on proration and determine that whatever
14 you -- whatever -- I want to reduce the rates, I can do it
15 in four months?

16 THE WITNESS: Yes. In our discussions we
17 anticipated that an operator or -- Each of the committee
18 members went through the process of how they would do this,
19 and we would anticipate it could take six months or longer
20 by the time they think they may have problems looking at
21 production and pressure data on their own wells before they
22 could come to a hearing.

23 And -- But unanimously everybody thought, Well,
24 we can always request a retroactive classification to the
25 date of connection.

1 COMMISSIONER WEISS: Well, the more I hear, I
2 keep wondering why we don't just use this approach instead
3 of proration, period.

4 CHAIRMAN LEMAY: Good point. There's some legal
5 arguments as to even changing something as -- like the
6 proration rules, whether every operator and interest owner
7 in the San Juan Basin would have to be notified under the
8 *Udden* decision where we changed some things that way.

9 I mean, it's a good point, Bill. We struggled
10 with proration for a long time, and the number of prorated
11 wells are such a small percentage. It still is a
12 correlative-rights tool. Obviously it's --

13 COMMISSIONER WEISS: Yeah, obviously. That's
14 right.

15 CHAIRMAN LEMAY: -- that's the only point that
16 proration plays now, is correlative rights, because we
17 don't have ratable-take arguments. And, you know, to do
18 away with proration completely would be something to
19 consider. I'm not -- I don't -- I mean, that would be
20 something separate than what we're doing right now.

21 COMMISSIONER WEISS: This might be a first step.

22 CHAIRMAN LEMAY: It could be.

23 THE WITNESS: May I comment on that discussion?

24 CHAIRMAN LEMAY: Please do.

25 COMMISSIONER WEISS: Yes, please do.

1 THE WITNESS: We looked at all alternatives,
2 including the issue of just eliminating proration. And we
3 were pretty much unanimous that we couldn't do that because
4 the -- it's a conservation tool that needs to be in place.

5 However, the tool needed the flexibility so that,
6 for example, if all the wells stay marginal and nobody
7 comes in, in that scenario the tool is still in place and
8 the OCD is still the agency that can actually bring forth a
9 case to try to reclassify a well.

10 The -- So the tool is still in place, and
11 proration is occurring, but not at the level that we're
12 doing it now. So we didn't feel strong enough that it
13 should be eliminated. Something could actually happen in
14 another scenario. Pipeline markets or gas markets could
15 have a dramatic change that would cause, possibly, large
16 restrictions in production, and consequently this tool
17 still needs to be in place, to be kicked in, to be sure
18 that correlative rights weren't violated.

19 COMMISSIONER WEISS: Thank you.

20 CHAIRMAN LEMAY: That satisfies -- Yeah. I mean,
21 that argument can be -- or that discussion could be
22 continued at some point to see the pluses and minuses. I
23 think this, as I say, would be a first step and certainly
24 simplify --

25 COMMISSIONER WEISS: See how it works.

1 CHAIRMAN LEMAY: -- proration and --

2 COMMISSIONER WEISS: See how this works.

3 CHAIRMAN LEMAY: -- *de facto*, almost, elimination
4 of it, but still having that tool in place in case you need
5 it in the future as well.

6 COMMISSIONER WEISS: Yeah, that's clear thinking,
7 I believe.

8 CHAIRMAN LEMAY: I guess continue, Frank, or if
9 you're --

10 THE WITNESS: I don't have anything else to
11 present at this time except, like I said --

12 CHAIRMAN LEMAY: You gave some examples for the
13 Basin-Dakota, but I assume your other deletions would apply
14 the same way --

15 THE WITNESS: They're exactly the same way.

16 CHAIRMAN LEMAY: -- to the pool where it's
17 prorated, huh?

18 THE WITNESS: Yes, they're exactly the same way
19 for each of the pools.

20 CHAIRMAN LEMAY: I would welcome at this point,
21 if it's fine with you, since it is a rulemaking, any
22 comments from anyone in the audience that might want to
23 jump here on a first step in eliminating proration or at
24 least simplifying the process. Anyone object to this type
25 of approach?

1 I see a lot of heads shaking they don't object,
2 Frank, so evidently you and your committee, as small as it
3 was, did an excellent job.

4 THE WITNESS: Thank you very much.

5 CHAIRMAN LEMAY: Any other questions here from
6 fellow Commissioners in terms of what this would do? As I
7 understand it, it's going to eliminate the deliverability
8 testing, that the Division would supply a *de facto* pressure
9 for deliverability -- not eliminate deliverability testing
10 but --

11 THE WITNESS: It would reduce it to the
12 nonmarginal wells, those wells for which the test has
13 meaning.

14 CHAIRMAN LEMAY: And how would that -- Who would
15 make that call? The operator after he had brought a well
16 in would assume it's marginal or would make some tests and,
17 if he had an inclination it was nonmarginal, run through
18 the --

19 THE WITNESS: The well -- The default status,
20 using that terminology, is marginal, unless there is
21 hearing to determine that the GPU -- and when we say
22 "well", we actually mean GPU because we can talk about more
23 than one well --

24 CHAIRMAN LEMAY: Proration unit.

25 THE WITNESS: Yes. It would be marginal unless

1 there was a hearing with the evidence to show that it
2 should be classified as nonmarginal. And after the
3 classification to nonmarginal, the rules kick in as to how
4 that well should be tested.

5 CHAIRMAN LEMAY: So there would not be any
6 deliverability tests at all, unless there was an offset
7 operator complaining, I guess; is that --

8 THE WITNESS: Well, unless the well actually was
9 classified as nonmarginal.

10 CHAIRMAN LEMAY: But the only for that to happen
11 would be generally -- Would the operator request
12 voluntarily that be classified, or would that require an
13 offset operator to make that request?

14 THE WITNESS: An operator can request that his
15 own well be classified as nonmarginal.

16 CHAIRMAN LEMAY: So what I'm hearing you say is,
17 the default pressure rather than -- That would only come
18 into play in the event there was --

19 THE WITNESS: -- there was some testing
20 requirements.

21 CHAIRMAN LEMAY: -- some testing going on, which
22 would mean a nonmarginal well.

23 THE WITNESS: Right.

24 CHAIRMAN LEMAY: Which means all marginal wells
25 are exempt from testing?

1 THE WITNESS: That's correct.

2 CHAIRMAN LEMAY: Okay.

3 COMMISSIONER BAILEY: And offset operators would
4 have to comb the Internet on a monthly basis to see if
5 there's been any sort of activity --

6 THE WITNESS: Well, comb the --

7 COMMISSIONER BAILEY: -- the --

8 THE WITNESS: The expression "comb the Internet",
9 I don't know what that means. When operators who want or
10 are interested -- want to know or are interested in
11 production that's offsetting theirs, they develop the tools
12 to do that, whether it's looking at the books monthly or
13 getting it off the Internet, whatever device they can use.

14 COMMISSIONER BAILEY: But operators, I'm
15 thinking, who don't live in the area of Aztec, who don't
16 have access, come into your office on a monthly basis,
17 their only true way, if they had properties throughout the
18 Basin, would be to look at every pool, every location that
19 offsets their properties, and that I consider combing
20 through to see if there's been any activity that would
21 impact them.

22 THE WITNESS: Yes, it's -- The burden is placed
23 on the operator to protect himself in that issue, yes.

24 COMMISSIONER BAILEY: And the Internet is updated
25 monthly?

1 THE WITNESS: Yes, ma'am, it is.

2 COMMISSIONER BAILEY: There's no long delay
3 between ONGARD receipt and updating the Internet?

4 THE WITNESS: The Internet data is updated within
5 days after the latest what you call "dump" goes into the
6 ONGARD system. When the information that's been
7 accumulated has gone through testing and verification, is
8 ready, it's dumped into the main ONGARD table, and then
9 just within a few days that table is put on the Internet.

10 I would point out that without the Internet they
11 would have the same tools they had before, if they're a
12 long ways away, which is nothing.

13 COMMISSIONER BAILEY: Subscription to PI?

14 THE WITNESS: Subscription to PI. And that tool
15 is still available to them.

16 So actually, we have more ways now to get data
17 than we had before.

18 COMMISSIONER BAILEY: True. I just see a real
19 burden on all offset operators who had properties spread
20 throughout the Basin, because notice is going to be
21 nonexistent, other than their own discovery through their
22 own activities on the Internet or these commercial
23 resources.

24 THE WITNESS: That's right.

25 CHAIRMAN LEMAY: On that point, Frank, would it

1 be possible to have a software fix, ultimately, in the
2 ONGARD system, so that any well that did show production in
3 excess of what would be marginal would be automatically
4 kicked up?

5 THE WITNESS: That's a possible tool anybody
6 could build for themselves, once they have the data
7 available.

8 COMMISSIONER WEISS: I think you're putting the
9 burden on the right parties, is the way I see it. It's not
10 the State's responsibility.

11 THE WITNESS: Any -- I'll give you, as best I
12 can, how this discussion went when we were talking about
13 it, how these three people said they might approach this.

14 They each have their own tools, each of the
15 operators have their own tools for getting data. And it
16 surprised me that they each had more than one tool for
17 getting information, but they do that.

18 And when they're interested in an area, it's easy
19 enough to look at the API numbers of the wells that you're
20 interested in. You don't have to search an entire table.
21 Your software query tool, something like that, will extract
22 the data that you request off of a large data table.

23 And they said that it really wasn't that hard to
24 do for them. We asked -- You know, I asked them, What
25 about a small operator? Well, a small operator has

1 basically the same tolls they always had, plus more, if
2 they wanted to get into it.

3 This might go along what you're asking there,
4 also. In the past, the operators had relied on the OCD to
5 find these wells that would be nonmarginal. And the wells
6 that were marginal, because of the quality-of-the-data
7 issue that I mentioned earlier, especially with commingles,
8 differences in line pressure, ageing wells and some real
9 questions as to whether the shut-in pressures are
10 meaningful on the deliverability tests due to liquid
11 buildup, that was an issue where they were putting their
12 trust in the OCD to do the right thing, and we did as best
13 as we could. And yet we find that with all this testing
14 that was going on, it had very little effect on the
15 classifications of the wells.

16 We can eliminate the testing and go to this
17 scenario where wells are marginal, unless they're declared
18 nonmarginal after hearing, reduce a tremendous amount of
19 testing and get those wells that are truly affecting offset
20 operations in here to hearing.

21 There can be a lot of differences between wells
22 that have nothing to do with reserves, if you want to call
23 it that, due to how an operator operates his own wells, his
24 own markets and how they've completed a well.

25 And to put us into the middle there, to start

1 saying, Well, this well is this kind, this well is that
2 kind, given the tools that we've had with this -- the data-
3 quality question, it has become almost unreasonable. And
4 it's a trust that I think the operators have put on us that
5 we really can't fulfill anymore, as well as we used to do
6 it.

7 So by putting the burden back on the operator,
8 they can look at the real issues and say, Yes, here my
9 correlative rights are being -- are a problem, here they're
10 not.

11 Some of the wells that are nonmarginal now are
12 within a -- in the middle of a unit. And if that's the
13 case, what is the real issue for offset rights? Why should
14 -- The question we came up with is, Why should there be a
15 restriction on a well that's in the middle of a unit?

16 COMMISSIONER WEISS: Is that addressed in the
17 Rules, that point right there? I mean, that -- it's
18 preposterous to set limits on a well in the --

19 THE WITNESS: No, it's not. The --

20 CHAIRMAN LEMAY: I think the proper place for
21 that, Commissioner Weiss, may be in the findings, when we
22 issue the order, as reasons for the order. I think that
23 particular point would be, certainly, a finding in the
24 order.

25 COMMISSIONER WEISS: Good. There ought to be

1 some allowance for just -- you know, forget that.

2 COMMISSIONER BAILEY: That's all I have.

3 CHAIRMAN LEMAY: I don't have anything else.

4 COMMISSIONER WEISS: Yeah, good job, that's a
5 good --

6 CHAIRMAN LEMAY: I think in carrying this
7 forward, I'd like to continue the case until November where
8 -- only for the reason of putting this out. This has not
9 been distributed to the public, the companies, I take it?

10 THE WITNESS: The proposed amendments have not
11 been put out. Now, the general rules for prorated gas
12 pools, I just put that there as a reference.

13 CHAIRMAN LEMAY: Yes, but I meant for purposes of
14 making sure all the companies get your proposed amendments,
15 because it is a Basinwide proration order, if you would
16 take the General Rules and -- Do you know how we mark up
17 the Rules where you take out certain portions of it, strike
18 it or some portion, and add the other portion --

19 THE WITNESS: Yes.

20 CHAIRMAN LEMAY: -- what you want to replace it
21 with? And if that type of exhibit could be prepared, we
22 could send that out in a mailing and get any additional
23 comments that may be out there prior to the November
24 hearing, and then hold the -- bring this back in November
25 and take final action on it then.

1 THE WITNESS: Okay. And if you're -- I would
2 imagine, I guess you're sending this out with the docket.
3 If you would say, If anybody has a comment on the changes,
4 if they would contact my office, contact me with their
5 comments --

6 CHAIRMAN LEMAY: Fine.

7 THE WITNESS: -- I could get them out, then, to
8 the rest of the committee.

9 CHAIRMAN LEMAY: That would help. You know,
10 comments that we have, we can even maybe post them on the
11 Internet, which is our new form of communication. We may
12 try it out with that. That was one of the purposes of our
13 home page, was to get a bulletin board for comments. We
14 may try it out with this.

15 By leaving the record open, we can certainly make
16 all these comments available.

17 COMMISSIONER WEISS: I have a question of the
18 audience. Have any of you looked at the Oil Conservation
19 Division's home page? Pretty good, one out of five?
20 Twenty percent?

21 CHAIRMAN LEMAY: Got to start somewhere,
22 Commissioner Weiss.

23 COMMISSIONER WEISS: That's pretty good, I think.

24 CHAIRMAN LEMAY: Two?

25 Oh, yes, please?

1 MS. MCGRAW: What's the address?

2 CHAIRMAN LEMAY: The e-mail address that we have?

3 MS. MCGRAW: How do you find it?

4 CHAIRMAN LEMAY: Well, it's under the State
5 government, Energy and Minerals. We also have a direct
6 address at -- Florene has it. I don't have it memorized,
7 but it's one of those hhttp/.., you know, whatever. You go
8 on, and it ends up OCD, State of New Mexico.

9 MS. MCGRAW: Okay.

10 CHAIRMAN LEMAY: Yeah, put it in one of your
11 favorites up there where you can click, you know,
12 favorites, and then click on OCD and it comes right up.

13 And then under that there are bureaus,
14 publications. There's a step-through on that to be able to
15 find the bulletin board and new orders.

16 Anything else?

17 If not, we will continue this case to the
18 November hearing and leave the record open for comments.

19 Thank you very -- Yes, go ahead.

20 THE WITNESS: If I can collect these --

21 CHAIRMAN LEMAY: You bet.

22 THE WITNESS: -- unless you want them with the
23 material you have.

24 CHAIRMAN LEMAY: No, that will be fine. Did you
25 want to -- Considering the nature of the change and having

1 it in the record, let's make these exhibits, so they'll be
2 available in the record file for those that want to just
3 look at the file here, so they're public record.

4 THE WITNESS: Okay, I will number them and --

5 CHAIRMAN LEMAY: Okay.

6 THE WITNESS: -- give them back to you.

7 CHAIRMAN LEMAY: Fine. Without objection, the
8 exhibits entered by Mr. Chavez will be accepted into the
9 record.

10 Any other comments, suggestions?

11 If not, the case will be continued till November,
12 and the record will be left open.

13 Thank you very much.

14 (Thereupon, these proceedings were concluded at
15 9:45 a.m.)

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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 26th, 1997.


 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998