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, 1997, TO SEPTEMBER, 1997, GAS ALLOWABLES FOR THE PRORATED GAS POOLS IN NEW MEXICO

CASE NO. 11,721

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

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

February 13th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, WILLIAM J. LEMAY, Chairman, on Thursday, February 13th, 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.

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I N D E X

February 13th, 1997
Commission Hearing
CASE NO. 11,721

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E X H I B I T S

Marathon	Identified	Admitted
Exhibit 1	13	30
Exhibit 2	15	30
Exhibit 3	16	30
Exhibit 4	17	30
Exhibit 5	20	30
Exhibit 6	21	30
Exhibit 7A	23	30
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Exhibit 8	24	30
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Exhibit 10	28	30

* * *

Exxon	Identified	Admitted
Exhibit 1	36	39
Exhibit 2	37	39
Exhibit 3	38	39

* * *

Chevron

Statements (2), not identified, offered or admitted

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* * *

WHEREUPON, the following proceedings were had at 9:20 a.m.:

CHAIRMAN LEMAY: Next, we'll look at the proration hearing, I think. Is everyone available for that? Tom? Okay, you're okay? All right to start proration, Tom? Yeah?

MR. KELLAHIN: Do you want to do that before the --

CHAIRMAN LEMAY: I was going to because it was quicker, yeah, unless everyone's not here.

MR. KELLAHIN: Okay. Well, I have probably a 30-minute presentation on the Blinebry, so --

CHAIRMAN LEMAY: Right.

MR. KELLAHIN: -- do you want to hear that?

CHAIRMAN LEMAY: I would --

MR. KELLAHIN: Okay, we're ready.

CHAIRMAN LEMAY: -- if everyone's here.

Okay, we shall now call Case Number 11,721, which is the Application of the Oil Conservation Division, called on its own motion, to consider the allowables for the April, 1997, to September, 1997, gas proration period.

And I'd like to call for appearances in Case Number 11,721.

MR. KELLAHIN: Mr. Chairman, I'm Tom Kellahin of the Santa Fe law firm of Kellahin and Kellahin. This

morning I'm appearing on behalf of Marathon Oil Company in association with Mr. Tom Lowry, an attorney for that company. He resides in Midland, Texas.

We are here to request adjustments in the Blinebry Gas Pool. I have one witness to be sworn.

CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

MR. BRUCE: Mr. Chairman, Jim Bruce representing Exxon Corporation. I'm also here on the Blinebry Pool in support of Marathon's application. I have one possible witness.

CHAIRMAN LEMAY: Okay, thank you, Mr. Bruce.

MR. CARR: May it please the Commission, my name is William F. Carr with the Santa Fe law firm Campbell, Carr, Berge and Sheridan. We represent USA Production Company [*sic*], and I have two statements to read in support of the proposed allowables, one for the Eumont and one for the Indian Basin-Upper Penn Gas Pool.

CHAIRMAN LEMAY: But no witnesses, Mr. Carr?

MR. CARR: No witnesses --

CHAIRMAN LEMAY: Thank you.

MR. CARR: -- a statement.

MR. CARROLL: May it please the Commission, my name is Rand Carroll, appearing on behalf of the Oil Conservation Division. I have no witnesses.

CHAIRMAN LEMAY: Thank you, Mr. Carroll.

Additional appearances?

At the end we will take statements, and -- So any of you can still chime in at the end if you would like.

Okay just for -- Just kind of a recap, what we have done -- and the memo to the docket pretty well explains the current practice in gas proration. It's -- Rather than look at each pool, what we do is put out what amounts to the fall allowables. They generally are the allowables that have been in effect in that pool for the previous six months, with the testimony indicating in the past that there are markets for this gas.

Actually under the current system of deregulation, it's the operator who finds the markets, and the field is no longer captive to a market the pipeline company might have had in the past.

But we do open up these hearings for any new information, any requests for either increases or decreases in allowables. So those figures that were put out are merely the fall allowables. In the absence of any additional testimony or requests, those allowables will prevail.

So with that, we'll now call -- Mr. Kellahin, you may begin.

MR. KELLAHIN: Thank you, Mr. Chairman.

Mr. Chairman, I have Robert Ellis. He's a

geologist and a petroleum engineer with Marathon Oil Company. He needs to be sworn as a witness.

CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

Let's see, Jim, if you want to -- your witness wants to stand, and we'll swear them both in at this time.

(Thereupon, the witnesses were sworn.)

MR. KELLAHIN: Mr. Chairman, members of the Commission, Mr. Ellis and I are about to present to you his recommendation on behalf of Marathon Oil Company to make an adjustment in the Blinebry Gas Pool. It's easier for me to remember this in terms of adjusting the F1 factor, and so for shorthand we will talk about that issue. Mr. Ellis has made the calculations to show what you would have to do, if you agree with him, to adjust the monthly pool allowable.

His proposal will be that the default F1 factor for the pool on a monthly basis is 46,800 MCF. Marathon's requesting that that adjustment be made to 70,200 MCF a month. The basis for that change is to restore the pool allowable to the level it was in from January of 1994 through about September of 1995, and then after that there was a substantial reduction in the allowable.

Mr. Ellis will conclude for you he thinks that was an artificial downward adjustment, and he seeks the opportunity to make that correction.

In addition, Marathon has polled the operators in

the pool. They have communicated with all the operators that they were aware of in the Blinebry Gas Pool. They are aware of no opposition to this request. They have received support in the form of letters. And my co-counsel on behalf of Exxon has shown his support.

So with that introduction, I'll proceed to qualify Mr. Ellis.

ROBERT L. ELLIS,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. For the record, sir, would you please state your name and occupation?

A. Robert Ellis. I'm a reservoir engineer for Marathon Oil Company.

Q. On prior occasions, Mr. Ellis, have you testified before the Division?

A. No, I haven't.

Q. Summarize for us your degrees.

A. In 1986 I graduated from the University of Texas at Austin with a geological engineering degree. In 1988 I graduated from the University of Texas, also at Austin, with a master's in petroleum engineering.

Q. You have degrees both in geology and in petroleum

engineering?

A. Yes, geological engineering and petroleum engineering.

Q. The -- Your personal involvement in the Blinebry Gas Pool extends for what period of time, Mr. Ellis?

A. One and a half years.

Q. During that period of time, have you made yourself knowledgeable about the gas proration system in place in that pool?

A. Yes, I have.

Q. And are you aware of the rules and conditions by which gas wells are produced and operated in that pool?

A. Yes.

Q. And have you been responsible for inquiring of the other operators if they would support or oppose your request for the adjustment in the gas allowable for the Blinebry Gas Pool?

A. Yes, I have.

Q. Have you, to the best of your knowledge, information and belief, constructed what you believe to the information available by which the Commission can make a decision upon your case?

A. I have.

MR. KELLAHIN: We tender Mr. Ellis as an expert both in geology and in petroleum engineering.

CHAIRMAN LEMAY: His qualifications are acceptable.

Q. (By Mr. Kellahin) Let's turn to the first display, Mr. Ellis. Were you able to able to take available information from the Division records to determine gas sales in the pool?

A. No.

Q. What was the last published proration schedule that included the Blinebry Gas Pool that was available to you for your use?

A. The October, 1995, through March, 1996, proration period.

Q. How did you overcome the fact that the Division does not have a current published proration schedule for the Blinebry Gas Pool?

A. We analyzed all the wells in the pool through a public database and -- analyzing their GOR, and looked back at the wells that were considered gas wells in that proration period in 1995-96.

Q. To the best of your ability, then, you have duplicated what the Division was using as its proration system in place for this gas pool?

A. Yes, I have.

Q. Based upon your knowledge and information, do you believe that you have accurately tabulated the gas sales

and gas production in the pool as shown on Exhibit 1?

A. Yes.

Q. In addition, have you indicated on that display the red line that estimates the pool allowable?

A. Yes.

Q. In addition, were you able to determine, to the best of your knowledge, what should be the proper classification of wells between nonmarginal and marginal wells?

A. Yes.

Q. Okay. Describe for us what you've concluded when we look at Exhibit 1.

A. I concluded in March of 1995 that on the -- the red line on the graph, the pool allowable, was decreased substantially while gas sales were increasing, and our objective today is to raise the red allowable line back to historical trends.

Q. The recent past practice of the Commission has been very positive in increasing gas allowables in all the gas pool in New Mexico, has it not, sir?

A. Yes.

Q. What do you believe is the reason that, despite that intent by the Commission, the gas allowable in this pool dropped substantially in July-September of 1995?

A. Due to the fact that there are no -- showing no

more nonmarginal gas proration units in the pool.

Q. In fact, that's not correct?

A. As of now, it is not correct.

Q. Okay. What -- When we talk about nonmarginal wells, in order to classify a well as nonmarginal under your analysis, were you using the current F1 factor of 46,800 MCF per month?

A. Yes, sir.

Q. And based upon that classification, how many nonmarginal gas proration units have you identified in the pool?

A. We found three nonmarginal acreage factors.

Q. Okay. Now, in this pool a standard F1 acreage factor is 160 acres; is that not true?

A. That's correct.

Q. But also in this pool there are numerous gas proration units that are on less than 160 acres?

A. That's correct.

Q. Many as small as 40 acres?

A. Yes.

Q. And so to make the calculation, if you're on 40 acres, you simply get one-fourth of the F1 factor?

A. That's correct, one fourth.

Q. Based upon that analysis, who operates the nonmarginal wells at this point?

A. Marathon, Exxon, and Collins and Ware.

Q. Okay. Is -- To the best of your knowledge, is there a market for gas that would be produced if the allowable is adjusted as you request?

A. Yes.

Q. Okay. Let's look to see what you forecast to occur if the adjustment is allowed to be made, if you'll turn to Exhibit 2 for me. Have you got a green bar graph here on Exhibit 2?

A. Yes.

Q. What's that mean?

A. The green is our forecast for the next -- from September of 1996 through May of 1997.

Q. And that's the forecast of gas sales?

A. Forecast of gas sales in the Blinebry Gas Pool.

Q. Okay, what has happened to the red line?

A. The red line is -- The dashed red line is what we're proposing today.

Q. And if that's approved, what does that allow to occur?

A. It allows it to return to its historical trends of 1994 and 1995, the gas sales -- or, excuse me, the allowable.

Q. Do you have an opinion as to whether that's an appropriate adjustment?

A. I think it is.

Q. Okay, and why is that?

A. Well, it allows the operators to produce their wells in a less restricted basis.

Q. And it will allow you to return to the historic basis back in 1994 and 1995?

A. That's correct.

Q. All right, let's see how you make the calculation. If you'll turn to Exhibit 3, let's look to see how you actually make the adjustment. If you'll start with the default preliminary schedule that the Division has published and go through the analysis and show us how you would propose the Commission make the change.

A. Okay, we -- In the second box down from the top, in the preliminary from the OCD, the monthly marginal pool allowable, we pooled that off an old proration schedule, the April, 1996, through September, 1996 and we've just assumed it's carried forward into this proration period.

The monthly F1 factor for the nonmarginal pool allowable of 46,800 is added to that 335,259 to get the total pool allowable -- it's down at the bottom -- of 382,059, with zero adjustments and one nonmarginal acreage factor.

Q. Your analysis now shows that there are more than one nonmarginal acreage factors?

A. That's correct.

Q. All right. In addition, you have, in the last column, made the appropriate adjustments so that we could get a monthly pool allowable, which is the bottom row?

A. That's correct.

Q. All right. Show us how you get to the bottom row.

A. Well, we've carried over the monthly marginal pool allowable of 335,259 from the previous period, and we're proposing the F1 factor of 70,200, and from my analysis I've seen three nonmarginal acreage factors in the pool, for a total monthly nonmarginal pool allowable of 210,600. And adding the marginal pool allowable to the nonmarginal, we get the 545,859 that we're proposing for the pool today.

Q. If the Commission agrees with you and makes the adjustment, will there still be nonmarginal GPUs that are curtailed below their capacity to produce gas?

A. Yes, there will be.

Q. Okay. Let's turn to look at the Marathon GPUs that you're illustrating. If you'll start with Exhibit 4, identify for us what we're looking at on this display.

A. Okay, this is the gas proration unit encompassing Marathon's Lou Worthan Wells Number 12 and 21. It's a 160-acre standard gas proration unit.

Q. Those two wells, then, share the allowable on a 160 GPU?

A. That is correct.

Q. Okay. What else is shown?

A. And on this graph we showed the allowable, historical allowable back to 1995, in red, the historical gas sales, current gas sales in blue, the cumulative overproduction in the purple color, and the six-times overproduction limit in green.

Q. All right. When you read the display, then, if you look at the red line, that's the allowable, without your adjustment?

A. That is the allowable without the adjustment.

Q. And under the rules for prorationing, you're allowed to overproduce that allowable as much as six times, right?

A. That's correct.

Q. And that six-times line is the green line on top?

A. Yes, that's correct.

Q. Okay. When we see the -- You'll have to help me. What's that? A pink line? I don't know what your color is. What's your color code?

A. Purple.

Q. Purple?

A. Magenta.

Q. We'll call it anything you want.
A. Okay.
Q. All right.
A. Magenta.
Q. That is the actual gas production?
A. No, the blue is the actual gas production.
Q. All right, the blue is the gas production. It has increased since August of 1996?
A. That is correct.
Q. What caused that increase to occur?
A. We drilled the Lou Worthan 21 development well.
Q. Okay. So now your gas rate is above the base allowable but still within the six-times-over rule?
A. That's correct.
Q. Okay. All right, what's the conclusion?
A. The conclusion is, we have gone out through infill drilling in this pool, established production, or gas sales, greater than the allowable. We're still underneath our six-times limit. But we're here today to try to raise that F1 factor.
Q. And infill drilling is not unique; many other operators historically have infill drilled their 160 gas units, have they not?
A. They've either infill drilled or recompleted deeper wells.

Q. How old a pool is this?

A. It was established in 1953.

Q. And how many wells are currently operated and producing in the gas pool? Can you estimate for me?

A. 143.

Q. All right. Let's look at your next slide, if you'll turn to Exhibit 5. What are you showing here, and what does it mean to you?

A. This graph is presented in the same way as the previous one. It's for Marathon-operated Lou Worthan Well Number 5 and 9. It's a 160-acre gas proration unit adjacent to the previous gas proration unit.

It's set up in similar fashion, where the red line is showing the allowable for the GPU, the blue line is showing the gas sales, the magenta is showing the cumulative overproduction, and the green line is showing the six-times limit.

Q. Again, in March of 1995, on this display -- I'm sorry, it goes back earlier than that, doesn't it? It's February of 1996. Your gas production or gas sales is climbing in this GPU?

A. That's correct.

Q. What caused that to happen?

A. We deepened the Lou Worthan 5 and recompleted it in the Blinebry.

Q. You're still in the gas portion of the Blinebry Pool?

A. That's correct.

Q. The Blinebry interval, if you will, has got a gas reservoir that is separate and unique to an oil reservoir below, and they're both called the Blinebry?

A. That's correct.

Q. Okay. All right, what's your conclusion here?

A. The conclusion here is, once again we've gone out through development work, established gas sales greater than the current allowable, and we're trying to raise that allowable to produce the well.

Q. All right. And you've got a market for that gas?

A. That's correct.

Q. And when the well exceeded the six times over, then, in September, the well is shut in and substantially curtailed, do you see the gas rate drop?

A. Yes, we -- Once we noticed in September that we went over our six times limit, we shut in both of the wells in the gas proration unit, to get back underneath the limit.

Q. Okay. Let's turn to Exhibit 6, Mr. Ellis, and show the Commission how the wells are distributed in the pool. Identify the display for us.

A. This is a map of the Blinebry Pool near Eunice,

New Mexico, on a scale of one inch equals 2000 feet. The red outline that goes around the wells is the pool boundaries. The yellow acreage or the yellow portion of the map is Marathon acreage. The wells highlighted in red are wells that are classified as gas wells. And the black dots are the Blinebry oil wells, scattered throughout the pool.

Q. Do you have an opinion as an expert as to whether the gas reservoir is isolated and separate from the oil reservoir?

A. Yes, I do.

Q. And what is your opinion?

A. They are separate.

Q. So we're not dealing here with a common source of supply in an oil reservoir that's got a gas cap that you're trying to produce?

A. That's correct.

Q. That's not what's happening here?

A. That is not what is happening here.

Q. All right. You talked about two of your GPUs in Exhibits 4 and 5. Help the Commission find on the pool map where that area is.

A. Okay, it's in Section 11. It's this --

Q. Section 11 on my copy of the display.

A. Yes, that 320-acre yellow colored-in acreage.

Q. Let's use that as an identification map and go on to Exhibit 7A and 7B, Mr. Ellis. Would you identify and describe what this letter is?

A. Exhibit 7A is a letter we sent out to the 16 Blinebry Gas Pool operators, notifying them of our intent to increase the F1 factor.

And 7B is the operator address list of the companies we sent the notification to.

Q. All right. And to the best of your knowledge, there's been no objection communicated to you on behalf of any of the operators in the pool as to increasing the gas allowable?

A. That's correct.

Q. Let's turn to Exhibit 8, and I think before we talk about it, help me set the stage. What do you see as a reservoir engineer for the future opportunity in the Blinebry Gas Pool to further develop and produce that gas?

A. I see additional recompletion from existing wells and possible additional development wells in the pool.

Q. Give us a sense of how amazing this reservoir is. Have you done volumetric calculations to give us a sense of how much gas is in place in a 160-acre spacing unit?

A. I have.

Q. And how much is that?

A. Under portions of our lease it's upwards of 17

BCF.

Q. Okay, and when -- and have you done decline-curve analysis on your producing wells --

A. That's correct.

Q. -- in addition to that?

A. Yes.

Q. And does that decline-curve analysis balance or match the volumetrics that you're calculating?

A. It matches real close.

Q. Okay. Based upon those calculations, have you also made any drainage calculations?

A. Yes, I have.

Q. And based upon those calculations, are you satisfied that if the Commission increases the allowable to the level you're requesting, that on 160-acre spacing you're not going to adversely affect the correlative rights of any of the offsets with these nonmarginal wells?

A. Yes.

Q. That's true, is it not?

A. That's true.

Q. Okay. Let's look to see the investment opportunity that your company has made in the pool in order to continue to produce this gas. What's shown on Slide 8?

A. On Exhibit 8 it's a historical trend of Marathon's investment in the Blinebry Pool.

As you can see, in 1993 we had no activity at all in this pool. And in 1994 we did our first recompletion, and based on its success we followed that up in 1995 with four recompletions and one workover of an existing Blinebry well.

And after feeling comfortable with the reservoir and getting more knowledge of the reservoir, in 1996 we stepped out, did two more recompletions, did three additional workovers of existing Blinebry wells and drilled two development wells to further develop the pool.

Q. It appears from Exhibit 8 that there is a substantial opportunity for your company for workovers and recompletions?

A. That is correct.

Q. Describe for me what you mean by a workover in this pool.

A. What I mean by a workover is an existing well that's already in the Blinebry Pool, where we go out and add additional perforations or additional stimulation to that completion.

Q. And what do you mean by a recompletion in this pool?

A. Recompletion, there's a lot of deeper wells in this pool, or deeper zones in this area. And what I determine are re- -- or what I classify as a recompletion

is a plug-back coming -- changing pools into the Blinebry.

Q. Okay, let's give the Commission an illustration in a vertical sense of how the gas pool is separated from the oil pool. If you'll turn to the type log, Exhibit 9, this log is from what well, sir?

A. Lou Worthan Number 21. It's one of our development wells we drilled in 1996.

Q. All right. Give us an example of how the gas reservoir is separated from the oil reservoir?

A. From this type log, we have the Blinebry split into two portions, the upper Blinebry and the lower Blinebry.

And from our well work, we've identified the upper Blinebry as being the predominant gas portion and the lower Blinebry being the predominant oil, and the reservoir as being not in pressure communication.

Q. The production strategy of the operators in the pool historically has been to use this single wellbore and to, over time, make choices as to what portion they perforate, whether it's the gas pool, the oil pool or some combination?

A. That's correct.

Q. Is that not true?

A. That's correct.

Q. And they're permitted to do that in this pool,

are they not?

A. Yes, that is correct.

Q. And if their producing gas-oil ratio exceeds 50,000 to 1, it's reclassified as a gas well; is that not true?

A. That's correct.

Q. And if they happen to have a spacing unit that has an oil well on it, they have to exclude that 40-acre tract from the gas-well spacing unit?

A. That's correct.

Q. So the operator, by selecting where he perforates, can decide upon the classification of his well?

A. That's correct.

Q. Historically, the gas has been produced from the pool by perforating the top portion of the gas pool?

A. Yes, the upper Blinebry.

Q. Okay. And how have you chosen to continue to produce recoverable gas in the pool with these older wells?

A. We have gone back and -- We are perforating both the upper and the lower Blinebry and completing them in one interval or one completion.

Q. Do you see any reservoir problem with that strategy of production?

A. No, I don't.

Q. Seems to be an efficient and prudent way to do

this?

A. That's correct.

Q. Let's look at some of the completion strategy. If you'll turn to 10, you've summarized for us Marathon's strategy of how you're recovering additional gas out of the pool?

A. Yes, I have.

Q. Summarize that for us.

A. Basically, I've got six bullets there on things that we have done to try to enhance our production from this reservoir.

We have acidized the Blinebry in different stages to try to better open up the reservoir.

On our main stimulation, we fracture-stimulate the Blinebry all together as -- in one stage.

We have substantially increased the amount of proppant pumped, and our stimulation basically doubled what had historically been done.

To make our wells better and to enhance the productivity of the wells, we've increased our proppant size, or the frac sand that we use in our frac jobs.

We've also utilized some technology of some new gels that -- gel fluids that have come out, fracture-stimulation fluids that have come onto the market in the last year or so, to increase our flow capacity from our

wells.

Q. Does the increased allowable you're requesting provide an economic incentive to Marathon and the other operators in the pool to go ahead and continue the recompletion and workover strategy that you're describing?

A. Yes, it does.

Q. And does the current gas price market encourage that activity as well?

A. Yes, it does.

Q. Is this opportunity unique just to Marathon?

A. No, it isn't.

Q. It's available to everybody in this reservoir, is it not?

A. That's correct.

MR. KELLAHIN: Mr. Chairman, we have a letter of support from Collins and Ware which was faxed to my office yesterday evening. I've marked it as Marathon Exhibit 7B.

Q. (By Mr. Kellahin) Mr. Ellis, in conclusion, do you have an engineering and geologic opinion as to whether or not approval of the requested increase in the gas allowable for the pool will provide an opportunity to recover gas that might not otherwise be produced, and to do so in a way that does not violate correlative rights?

A. Yes, I do.

Q. And what is that opinion?

A. I believe that the increased allowable will enhance the ability to recover gas from this reservoir and will not harm correlative rights in the pool.

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

We move the introduction of his Exhibits 1 through 10.

CHAIRMAN LEMAY: Without objection, those exhibits will be entered into the record.

And how about some questions? Any questions of Mr. Ellis?

Commissioner Bailey?

EXAMINATION

BY COMMISSIONER BAILEY:

Q. We went through Exhibit 7A and 7B, the letter to Phillips, and the listing of the operators --

A. Uh-huh.

Q. -- within the pool.

Did each of the operators in 7B receive the same letter that's shown in 7A?

A. Yes, they did. We -- I just picked this one out as just an example.

Q. Right, yeah, I just --

A. Yes, all the operators received it.

Q. In the map there are certain sections that are

outlined in purple. Could you explain what those are?

A. The sections that are outlined in purple on the map are areas which are not in the Blinebry Pool.

The big purple place on the top portion of the map is -- The Blinebry is classified as the North Eunice-Blinebry Tubb Drinkard Pool, and so it's basically a hole in the pool.

Q. And just one last question.

A. Okay.

Q. You testified that your calculations do not indicate drainage of the entire 160-acre spacing for each of these proration units? What size do you calculate for drainage?

A. What I've calculated on my drainage calculations is, on our two nonmarginal gas proration units, that they are draining approximately 160 acres.

Q. And if the allowable is increased, it would not --

A. It would not harm that.

COMMISSIONER BAILEY: That's all I have.

CHAIRMAN LEMAY: Commissioner Weiss?

EXAMINATION

BY COMMISSIONER WEISS:

Q. Yeah, let's maybe talk a little bit about the -- Is the upper and lower Blinebry in pressure communication?

A. I believe they're not.

Q. What are the different pressures, static reservoir pressures?

A. On our Lou Worthan lease, where we have our nonmarginal gas proration units, we've done some zone testing where we've isolated the upper from the lower, and we believe the lower Blinebry is still near virgin reservoir pressure, 2200, 2300 pounds, where the upper Blinebry is around 400 pounds, 380 to 400 pounds.

Q. And that's in this one, the 21?

A. Yes, sir.

Q. Well, where did you isolate it? Where did you set the packer?

A. Okay, from our perforations that you see on the type log, the perforations that start around 5635, down to 5755 --

Q. Uh-huh.

A. -- that's what I'm calling the lower Blinebry. That was isolated separate and completed separate, and that has the higher reservoir pressure.

Q. Okay, have you got any information -- This tells us something about vertical differences. Have you got any areal stuff?

A. No, I do not.

COMMISSIONER WEISS: Those are my only questions.

THE WITNESS: Okay.

COMMISSIONER WEISS: Thank you.

EXAMINATION

BY CHAIRMAN LEMAY:

Q. I just looked at the map, Mr. Ellis. It looked like, if you were going to pick an average, maybe two wells per 160 is kind of average through there?

A. Yes, in a lot of areas there's four wells.

Q. There's four -- I saw that.

Do you think eventually that this will be developed basically on 40 acres, four wells per 160, to drain it effectively?

A. Eventually it could be as many as four wells per 160.

Q. A lot of the areas where there's four wells per 160 that are marginal units, that's because they're older or because they haven't utilized some of the new technology or --

A. It could be a combination of both.

Q. The only other question I have is this hole; that kind of fascinates me.

A. Okay --

Q. What's the reason for the hole in the field?

A. Okay, the large hole on the north end, Shell, in the late Eighties, created the northeast Drinkard unit,

where they were going to waterflood the Blinebry, Tubb and the Drinkard, and they wanted to operate these as an entire unit, and I believe to do that, they carved out this portion out of the Blinebry Pool and reclassified that portion as the Eunice North-Blinebry Tubb Drinkard Pool, to enhance their unit operations.

Q. It certainly looks like very little development has occurred in there compared to the outside, doesn't it?

A. Well, the wells that are inside that -- There are probably a lot of well -- spacing units on 40 acres. The wells on this map are just the wells that are classified in the Blinebry --

Q. Oh, I see.

A. -- Pool.

So those wells are now classified in another pool, so they didn't get picked up on this map.

CHAIRMAN LEMAY: Okay, that explains it. I couldn't imagine a hole like that in the middle of a rather old field.

That's the only question I had.

THE WITNESS: Okay.

CHAIRMAN LEMAY: Thank you very much, appreciate your testimony.

Thank you, Mr. Kellahin.

Mr. Bruce?

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 for the record?

A. William Thomas Duncan, Jr.

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

A. I work for Exxon Corporation in Midland, Texas, as a regulatory engineer.

Q. Have you previously testified before the Commission as an engineer?

A. Yes, I have.

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

A. Yes, they were.

Q. And are you familiar with prorationing matters pertaining to the Blinebry Pool?

A. Yes, I am.

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

CHAIRMAN LEMAY: His qualifications are acceptable.

Q. (By Mr. Bruce) Mr. Duncan, are you here today to -- in support of the proposed allowable presented by

Marathon?

A. Yes, I am.

Q. Let's discuss the reasons for that. Let's go to your Exhibit 1, and could you discuss situations that Exxon has in the Blinebry Pool which would need an extra allowable?

A. Exxon operates two nonmarginal gas proration units in the Blinebry Pool. I've included the details of those GPUs on Exhibit Number 1.

Exhibit Number 1 is the tabulation showing the lease name in the left-hand column.

The next column is the well number that is in that GPU. Neither of these are multiple-well GPUs.

The next column shows the acreage. Both of these are nonstandard units.

And the next column is the acreage factor for those GPUs.

The capability is shown in the next column. They're both capable of about 600 MCF per day.

And the initial proposed allowable is proposed in the sixth column. It would be 11,700,000 per month, with the one-quarter acreage factor.

The capability over the allowable is shown in the next column.

And then the second-to-the-last column, or

second-to-the-right column, or from-the-right column, is the increased allowable that would result from approval of the Marathon-requested increase.

That shows that both of these GPUs would still have to pass over their allowable and would still be nonmarginal.

Both of these nonmarginal GPUs are nonstandard because adjacent proration units, adjacent 40-acre tracts, have wells on them that have changed GOR and moved into oil-well classifications. Therefore, these used to be in multiple-well 160-acre GPUs that are now reduced. That's some explanation for why we only have 40 acres dedicated to each one.

Q. Okay. Why don't you move on to your Exhibits 2 and 3 -- I think they're fairly similar -- and why don't you just discuss them briefly?

A. Exhibit Number 2 is a plot showing the New Mexico "S" State Number 7 GPU with the proposed Blinebry allowable. On this plot I've shown the sales with the gray bars. The black bars are the allowable for each month. The lines connecting the closed squares on the monthly over and under for each month. The open squares are the cumulative over/under.

The axis on the left is the units for the sales and allowable. The axis on the right is the units for the

over and under status.

I've shown the period from August, 1996, through a projected -- through the projected end of September, 1997.

And what you can see from this plot is that we'll be producing considerably over the allowable for the entire period, we believe, we'll accumulate almost 50 million cubic feet of overproduction by the end of this proration period.

The second page of Exhibit Number 2 is simply a tabulation of the data that's shown on Exhibit 2, on the first page.

Exhibit Number 3 is the same depiction, but it includes the 50-percent increase that Marathon's requesting in the Blinebry allowable. If this occurs, our cumulative overproduction in September, 1997, will be a little over 10,000 MCF.

So the GPUs will still be limited, but they will be a lot less limited.

Q. Does Exxon have a market for the gas it's producing?

A. Yes, it does.

Now, I've included the Exhibits 2 and 3 for the "S" State Number 7. The "S" State Number 38 would be very similar. In fact, the plot looks identical, except for the

past performance of the well. So I didn't include those.

Q. One final thing, Mr. Duncan. You've been here on behalf of Exxon over the last few days encouraging allowable increases in other pools and now in the Blinebry pool. Has that -- Have the increases in allowable allowed Exxon to do extra work on its lease and produce extra gas?

A. Yes, they have. It's caused us to be able to do a significant amount of workover activity and, in fact, recompletion activity that would have been much more difficult otherwise.

Q. In your opinion, is the granting of the 50-percent allowable increase proposed by Marathon in the interest of conservation and the prevention of waste?

A. Yes, it is.

Q. And were Exhibits 1 through 3 prepared by you?

A. Yes, they were.

MR. BRUCE: Mr. Chairman, I would move the admission of Exxon's Exhibits 1 through 3.

CHAIRMAN LEMAY: Without objection, Exxon's 1 through 3 Exhibits will be admitted into the record.

Questions of Mr. Duncan?

Commissioner Bailey?

COMMISSIONER BAILEY: No.

CHAIRMAN LEMAY: Commissioner Weiss?

COMMISSIONER WEISS: Yes.

EXAMINATION

BY COMMISSIONER WEISS:

Q. Yes, do you have any information on the areal distribution of the pressure in new wells or in these workovers or -- you know, we still have the last exhibit where we saw a significant difference between the gas zone and the oil zone. I was wondering how this pressure varies in the gas zone if you drill a new well, as opposed to a more workover zone?

A. Exxon has essentially two leases that it works pretty hard in the Blinebry Pool. They are fairly limited in areal extent. One is a section and the other is a half section.

On those two sections we have opened a lot of additional pay, and we see differences in pressure in those vertical pay members.

But as far as areal distribution over those two small leases, we don't see any significant pattern.

COMMISSIONER WEISS: Thank you.

CHAIRMAN LEMAY: I have no questions. Thank you very much, you may be excused.

Thank you, Mr. Bruce.

Anything else in testimony concerning the Blinebry?

Are there any other fields you all would like to

present, or are we ready for the statements?

Let's go with the statements.

Mr. Carr?

MR. CARR: May it please the Commission, Chevron has asked that I present two statements.

The first one concerns the Eumont Gas Pool. Chevron is the principal operator in this pool and supports a proposed allowable which results in a monthly allocation factor of 38,000 MCF.

This year -- In fact, in the first half of this year, Chevron proposes to drill four new wells and perform recompletions or restimulations on approximately ten additional wells in this field. We believe that a lower allowable will jeopardize this development program, and therefore we are supporting and encourage the Commission to adopt the proposed monthly acreage allocation factor of 38,000 MCF.

In the Indian Basin, Chevron operates 16 producing gas wells and owns working interest in three additional non-operated properties. In this pool we're supporting the Oil Conservation Division's proposed nonmarginal well allowable rate of 200,000 MCF per month, as set forth in your recent memorandum.

We're actively pursuing opportunities to optimize development from this pool and, in fact, six of the

proration units we operate now are able to produce in excess of current allowable. And for that reason we're supporting the proposed allowable. It's consistent with the allowable set during the previous eight proration periods, and we believe maintaining allowables at this level is essential if we're to continue our efforts to develop the reserves in this pool.

And I have copies of these statements for the Commission.

CHAIRMAN LEMAY: Thank you, Mr. Carr.

Any other statements in the proration case?

Comments from Commissioners?

We shall take the case under advisement. Thank you very much.

(Thereupon, these proceedings were concluded at 10:10 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 February 15th, 1997.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998