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STATEMENT RE EUMONT GAS POOL AND EUMONT OIL PRODUCTION

Shell appreciates that the Eumont problem is now more apparent than at the time when the Commission rendered its first Eumont orders. The most significant change has occurred in the relationship of the ratio of the gas portion of the reservoir to the Eumont oil reserve which is now represented by about 230 wells presently classified as Eumont oil wells, or within the Eumont limits as presented in the Commission's exhibit at the April hearing. The uncontroverted testimony of the Commission's witnesses is to the effect that the Eumont oil and gas comprise essentially a common source of supply and therefore, if the withdrawal rate of gas is high relative to that of oil, the result would be certain inefficiencies in the operation of the reservoir mechanism with consequent decrease in ultimate oil recovery. Needless to say, we would be interested in any progress toward a solution and wholly cooperative in any program tending ultimately to reduce inefficiency. We also recognize that, due to existing large investments made by oil and gas operators and gas transmission and processing companies in the gas reserve of this area prior to the recognition of the very significant oil reserve involved, progress toward the end of allowing increased efficiencies in the operation of the oil reservoir mechanism might require a gradual and moderate approach. It appears that the best possible solution might require considerable time in attainment in order that the commission might avoid introducing inequities with respect to existing subdivisions of interest in the pool which subdivisions have formed the basis for the considerable investments already made.

Even though it is realized that imminent waste is the major concern of the Commission, at the same time because of the problem of maintaining equities of all interests involved, it does not seem fair to limit production only from gas cap wells on just those lands having a gas oil contact beneath them. If the equities of any of the operators who have drilled gas cap wells and made commitment for gas from the gas cap are to be protected to the extent of not restricting production from the gas wells, even though such production will cause some waste of oil, that protection should extend to all those who have made such investments and not only to just a part of them. Those particular operators who have completed a gas well under lands where the gas and oil are in contact have made an investment in a gas well equivalent to that invested in a gas well higher on the structure and, to the extent that any investment equity is to be considered, all investment equities should be given equality of treatment. Shell therefore recommends that no gas well allowable be charged with gas produced from oil wells located on lands within the gas well proration unit. Any action to the contrary would not significantly prevent underground waste and would not give the owners of such a well the same investment protection accorded to owners of gas wells higher on the structure.

We feel that the Commission staff has made an excellent beginning on the Eumont studies, and suggest that the Commission might wish to hire more help in order to speed the solution of the problem thus minimizing further complexities which could result from additional capital investments. To that end Shell offers complete cooperation with the Commission's efforts by offering any available data and committing itself to gather additional data as requested by the Commission. Further, we feel sure that all of the companies involved are equally interested in arriving at the ultimate solution of this problem as soon as possible, consistent with good judgement.

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PROPOSED CHANGES TO THE EUMONT POOL RULES

ORDER NO. R-520

Rule 6 (b) Add: Provided, however, the allowable assigned to a Special Gas Unit shall be computed by deducting from the scheduled monthly gas allowable, the volume of casinghead gas produced by the oil wells on said gas unit for the second preceding proration month.

Rule 6 (c) Casinghead gas produced on Special Gas Units shall be added to the monthly nominations of gas purchasers from the Eumont Gas Pool.

Definitions

Rule 14: No change

Rule 15: No change

Rule 16: A Special Gas Unit shall be defined as any gas proration unit in the Eumont Gas Pool upon which one or more oil wells are producing within the defined limits of the Eumont Gas Pool.

Rule 17: A Special Gas Well shall be defined as a gas well completed on a Special Gas Unit.

Rule 18: Same as present Rule 16.

Flare Gas Prohibited

Rule 19: Same as present Rule 17.

Gas-Oil Ratio Limit

Rule 20: Oil wells producing from the Eumont Gas Pool shall be allowed to produce a volume of gas each day not exceeding the daily normal unit oil allowable multiplied by 6,000; provided . . .

Proposed by Amerada Petroleum Corporation