

BEFORE THE
OIL CONSERVATION COMMISSION
Roswell, New Mexico
October 14, 1959

IN THE MATTER OF:

In the matter concerning purchaser prorationing by El Paso Natural Gas Products Company in the Horseshoe-Gallup Oil Pool and the Verde-Gallup Oil Pool in San Juan County, New Mexico.

Case No.
1791

BEFORE:

Honorable John Burroughs
Mr. A. L. Porter
Mr. Murray Morgan

TRANSCRIPT OF HEARING

MR. PAYNE: In the matter concerning purchaser pro-
rationing by El Paso Natural Gas Products Company in the Horse-
shoe-Gallup Oil Pool and the Verde-Gallup Oil Pool in San Juan
County, New Mexico.

MR. PORTER: Are there other appearances to be made in this case besides El Paso, Mr. Spann?

MR. SPANN: Mr. Porter, I have two witnesses, Mr. John Woodward and Mr. James Lowry.

MR. PORTER: Would you have them stand and be sworn,
please?

(Witnesses sworn.)

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MR. SPANN: My first witness will be Mr. Woodward.

JOHN A. WOODWARD

called as a witness, having been previously duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. SPANN:

Q Would you state your name for the record, please?

A John A. Woodward.

Q Would you state your occupation and employment and in what capacity?

A I am an attorney for El Paso Natural Gas Products Company in El Paso, Texas.

Q Have you previously testified before this Commission, Mr. Woodward?

A I have.

Q Now, would you just state in your own words the position of El Paso Natural Gas Products Company in connection with the Case No. 1791?

A I shall. The following statement of El Paso Natural Gas Products Company is in the nature of a progress report and a forecast with respect to pipeline proration in the Verde-Gallup and Horseshoe-Gallup Oil Pools of Northwest New Mexico.

At the statewide hearing of this Commission in September, El Paso was directed to state whether it had instituted pipeline

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prorating in these pools during the month of July, and if so, whether it had purchased ratably from all producers in those pools. El Paso appeared and testified that its purchasers were approximately 103% of actual current production during the month, but that it had experienced some mechanical difficulties in the operation of its system, which together with a late tender of frack oil, may have deprived some producers of the opportunity of producing their allowable as they might have otherwise have done.

This is not an easy matter for determination. The purchaser does not know at the time of purchase how much oil in a particular lease tank is current production and how much is frack oil or storage oil. The producer does not sell his oil on formal tenders as in some other states. He simply fills his storage and relies on the purchaser to drain it with sufficient regularity to permit full production up to the assigned allowable. Frequently the producer does not know until the end of the month whether delays in draining his storage has reduced his authorized production. Of course the purchaser is not aware of such a situation until it is so notified by the producer.

In August Petro-Atlas applied to the Commission for back allowable accruing during the month of July. At the statewide hearing in September Magnolia made a similar request. As a result of these applications the Commission authorized the production of 2,012 barrels of back allowable during the month of



October and deferred authorization for the production of the remaining 1947 barrels until a later date. At the September hearing El Paso recommended that the Commission permit the makeup of all production lost during July, August and September because of pipeline failures, provided such makeup be completed by the end of November.

By this means El Paso proposed to take all of the allowable production from these pools which could be produced. No permanent pipeline proration or loss of allowable was contemplated. Under these circumstances we saw no purpose in restricting purchases from marginal wells at all. Naturally we desired to share the burden of interim prorations as equitably as possible among the good wells.

In any event, we expected all producible underage to be made up by the end of November. On September 25, 1959 El Paso notified the Commission that due to mechanical difficulties it would be required to restrict its purchases to 88% of the allowable assigned to the Verde-Gallup and Horseshoe Canyon Pools during the month of September. This did not mean that it proposed to purchase 88% of the allowable assigned to each well. Had it done so El Paso would have purchased less than 60% of the oil it actually moved. In this connection I'm sure that the Commission is aware that assigned allowables exceed the productive capacity of many wells which should properly be considered marginal.

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As a consequence a very high percent of the allowable, sustained top allowable wells must be taken to produce a field average of 88%. Unfortunately the purchaser can not determine the exact ratable share due to that allowable well in advance unless it has accurate information as to the productive capacity of all marginal wells.

Two evils are inherent in the assignment of excessive allowables to these marginal wells in our opinion. First, it encourages overproduction of good wells into common lease storage. Second, it makes impossible the institution of an effective and equitable ratable take plan on short notice.

Returning to the situation in the Verde-Gallup and Horseshoe Pools during the month of September, El Paso actually purchased 89.7% of the total allowable compared with purchases of 85.2% of the average allowable assigned to these pools during the months of April, May and June long before there was any question of pipeline proration. Since those months of April, June, or April, May and June, the total pool allowable has greatly increased by reason of new wells. Nevertheless, El Paso took a substantially increased percentage of the higher allowable in September. This does not indicate to us that any great amount of production was shut in during September because of pipeline prorationing.

In only one instance have we received evidence that mechanical difficulties prevented the production of all allowable oil



which could have been produced during the month. Apparently Humble Navajo F and G Lease was restricted because of a shutdown required to remove air from the system. How much production they lost is a matter for Humble to establish. In any event El Paso, as a field purchaser, is in no position to compare the productive capacities of the various wells and leases in these pools with their actual production.

Certainly it would be dangerous in many cases to authorize makeup of the differences between assigned allowable and actual production. Some leases can never make up such a deficiency and others can do it only by overproducing good wells. In each case we feel the Commission should require the Applicant for back allowable to show that his production was restricted through no fault of his own as a result of some form of pipeline prorationing, and that his wells have a capacity to make up the back allowable assigned to them while producing their full current allowable.

As far as the future, we believe that we can take all production tendered to us in October, barring further pipeline failures, and that we can handle in November all properly assigned back allowables accruing during July and September.

Now, we have instituted a statistical study of each lease in the Verde-Gallup and Horseshoe Canyon Field on the basis of the information that was available to us in recent days. This statistical study contains some typographical errors. We ask leave

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to furnish the Commission with a revised or corrected data sheet. Basically this statistical study is designed to compare the percentage of the allowable which individual leases made in the month of September with the percentage of the same allowable which those leases made during this average period of April, May and June, during which there was no question of pipeline prorationing.

We aren't contending that these figures indicate that anybody is or is not entitled to any back allowable, but we think they will reveal the difficulty of instituting pipeline prorationing on a uniform percentage basis as long as many of the assigned allowables exceed the productive capacity of the wells. We also think this is an index as to productive capacity in what may be considered a normal period subject to such comments and revisions and explanations as the producers may have in showing cause why they should be permitted to make up such allowable.

That is all I have at this time.

MR. PORTER: Does anyone have a question of Mr. Woodward? Mr. Payne.

CROSS EXAMINATION

BY MR. PAYNE:

Q Do you propose, Mr. Woodward, to take all the assigned allowable during October? Now El Paso is operating under an emergency order at the present time which I believe expires at

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seven o'clock in the morning.

A No, we have never taken all of the assigned allowable. What we have done is to take all of the production available to us. The assigned allowable has consistently exceeded the productive capacity of these fields by some 11 or 12%.

Q But in your opinion then, continued pipeline prorationing will be unnecessary in October?

A We are operating our facilities at absolute maximum capacity at this time, and barring a pipeline break of any kind, we feel that we can take all of the oil that will be produced during the month of October.

MR. PORTER: You don't feel that anyone will incur underproduction because of El Paso's not taking the oil?

A We believe we can handle all that they have to tender in the way of production.

MR. PORTER: And there will be no necessity for further continuance of the order in effect?

A That's a difficult question to answer. I think that a continuance of the order to take care of a continuing situation may be a very wise move because as I pointed out, any small shutdown in this system at this time could throw us off.

Q You are running on a thin margin?

A On a very thin margin. We have another witness who will indicate to you just how thin it is.



BY MR. PAYNE:

Q As I understand your proposal, Mr. Woodward, when operators apply for back allowable, it's your thinking that they should come before the Commission and establish that this back allowable was incurred due to the failure of the purchaser to take the oil?

A That is correct. And secondly that they are wells of the capacity to produce current allowable plus a makeup of this back allowable.

MR. PORTER: One other question, Mr. Woodward.

BY MR. PORTER:

Q Do I take it that you are opposed to the Commission granting the back allowable as recommended by Mr. Captinner which has previously been incurred?

A No, we are opposed to granting any back allowable without the showing which we have mentioned. We feel that that should be the responsibility of the operator to come forward and establish that this assignment of back allowable will in fact assist him, that you are simply not freezing allowable in assigning them to wells that can not or should not make up such an allowable.

Q But are you aware that the present rules of the Commission do not contemplate such action?

A I am.

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Q That it can be granted merely upon the application?

A Now we have made no recommendation here as to the procedure. We're simply requesting that the Commission be satisfied either by hearing or by administrative action that the wells were deprived of some production that they could otherwise have made and that they have the capacity to make it up. We have no recommendation as to the procedure on that score.

Q Well, what I'm trying to do here is to establish a record so that we can properly determine what to do with the applications which we have already received about which Mr. Captinner has testified.

MR. PORTER: Mr. Nutter, I believe you have a question.

BY MR. NUTTER:

Q Mr. Woodward, now the Commission in its proration schedule for October, 1959, authorized 2,012 barrels of back allowable for production during October. I believe you stated that you will be able to take the oil that was tendered to you up to the allowable during October. Will you also be able to take the 2,012 barrels of back allowable that was authorized?

A Yes, I think barring a breakdown in the system we can also take that amount. It's a very small amount for the month.

Q Those applications for back allowable were screened and all of the applications for wells that weren't top allowable wells were eliminated, and presumably all of these wells are

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capable of producing the allowable plus an excess of the allowable, being the back allowable, and you will be able to take the 2,012 in October?

A We believe that we will.

Q During the month of November we have an additional 1947 of last month's back allowable which has to be authorized, plus we had an additional 360 barrels applied for, all of which was for top allowable wells according to the proration schedule. Will you be able to take the 1947 plus the 360 barrels during November as far as you can tell at this time?

A Assuming that the revisions in our pipeline system can be made as scheduled, there will be no question of making up such a small amount during the month of November.

MR. NUTTER: I see, thank you.

MR. PORTER: Does anyone else have a question of the witness? Mr. Woodward, you may be excused.

(Witness excused.)

MR. SPANN: I would like to call Mr. James Lowry.

JAMES LOWRY

called as a witness, having been previously duly sworn, testified as follows:

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BY MR. SPANN:

Q Would you state your name for the record, please?

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A James E. Lowry.

Q By whom are you employed and in what capacity?

A El Paso Natural Gas Products Company, Pipeline Superintendent.

Q For how long have you been so employed?

A Three years.

Q Have you previously testified before this Commission?

A I have not.

Q Would you state briefly your educational background and experience in the petroleum business?

A Well, my experience in the petroleum business goes, or in the pipeline business I should say, for twenty years. I was with the El Paso Natural Gas for going on sixteen years now. With the time with the Products Company that is, and I spent quite a bit of study in the, not so much in petroleum but in the gas business and pipeline. Petroleum production I do not know too much about.

Q Are you familiar with the pipeline facilities in the Verde-Gallup and Harseshoe Canyon Pools which are operated by El Paso Products?

A I am.

Q Do you have information as to the original capacity of this gathering system and also information as to the increase in the amount of production that the facility has been required to handle over a period of time?



A We originally built, designed this system for 7500 barrels a day.

Q When was that?

A That was in April, 1958. The present capacity of it normally, under normal operating conditions, would probably be 15,000 barrels per day.

Q How much oil were you taking into the line in May of '58 according to your records?

A May of '58 we were taking 3300 barrels a day, or the total for the month of May, 102,300 barrels.

Q How much were you handling on January 1st, of 1959?

A January the 1st we were handling 7,779 barrels per day, total for the month, 241,178.

Q And how much did you handle in September of 1959?

A September we handled 17,779 barrels per day for a total of 533,388 barrels.

Q What mechanical difficulties have you experienced during the months of July and September?

A In the month of July we experienced, heat was quite a problem due to, as I said, this sytem has a, normally would have a capacity of about 15,000, and I believe in July we ran 24 hours for the day. We experienced a lot of heat difficulty due to running these motors on red line. These motors ~~were~~ pump, we ~~ran through everything we could~~ and we were down some forty hours

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during the month on account of heat magnetor trouble, various small things that normally wouldn't make any difference, but due to running full capacity, why you have no opportunity to make up any loss that you have whether it's ten minutes or two days.

August, no appreciable time down; September, on September 5th we lost the stuffing box out of one of these pumps, which this pump was down for some 70 hours. The rest of the station total was down for about ten, and for about six hours they were down 60% percent of the capacity of the station. September the 18th we were down on account of Four Corners Pipeline Company, 23rd we were down on account of the Four Corners Pipeline Company. That's a total of about five hours. Of course in five hours that means some 3500 barrels that you have no opportunity to make up.

Q In other words, some of this inability to take the, or to operate the system, resulted from other persons other than yourselves, for example Four Corners Pipeline Company?

A Small amount of the time, yes.

Q What plans do you have for, or do you have now in operation for increasing the capacity of your system?

A Our present plans call for modification of about 100% on this system. That is the transmission part of it, that's where the bottleneck has been. We're looping the main line out to Four Corners line and adding about 50% more horsepower, which will give this system a daily pumping average of about 30,000 barrels.



That, of course, could be increased from that, but 30,000 is what we plan on.

Q What is the present status of those installations? I mean what has been done up to date?

A The pipeline is about 95% done. The reason it isn't done is lack of delivery in some of the materials, steel materials, mainly valves. The station is only about 20% completed due to the materials. Some of the materials' shipping date has been delayed until October the 26th, if there is any further delay, of course, our schedule will be a little behind. At that we are still close on our schedule for November.

Q When are you scheduled to complete this increase in facility?

A November the 15th.

Q You would expect it would be in operation at that time?

A We are. We expect it to and we're certainly hoping so.

Q What circumstances could prevent your taking from wells in those fields capable of producing all the allowable oil they are capable of producing?

A Well, it would be a number of circumstances. It could be the producer cleaning his well or overhauling it for various reasons. It could be inadequate storage on the leases. It could be inadequate storage in the gathering system or overloading the gathering systems, mechanical trouble, or in the transmission

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lines that we overload them and adequate storage, or it could be in the refineries, some cutback that they may have which would overload the transmission systems, which in turn would overload the gathering system and revert right back to these wells.

Q Well, now, when you have completed the expansion of your facilities, as you have just described them here, is it your opinion that you can take all of the oil that is produced and tendered to you in the Verde-Gallup and Horseshoe Canyon Pools?

A It is. We would have a margin of operation there that would enable us to slug this oil, and we shouldn't experience any difficulties whatsoever in moving this oil after these modifications are made.

MR. SPANN: I believe that's all.

MR. PORTER: Does anyone have a question of the witness?
The witness may be excused.

(Witness excused.)

MR. SPANN: That's all we have, Mr. Porter.

MR. PORTER: Does anyone have anything further to offer in this case, Case 1791? It's necessary that the Commission make a ruling in this case due to the fact that the present order expires today. Obviously we aren't going to have much opportunity to write an order today. It is the decision of the Commission, however, that the provisions of the present order shall remain in effect through November 18, or until the work on the system is



completed, whichever occurs first, so that the operator who may have legitimate cause for back allowable may be protected. So El Paso is hereby authorized to continue to operate until November 15, or until the work on the system is completed, whichever occurs first. If the thing has not been resolved at that time, it can be heard on the 18th, which is the date of our next regular hearing.

We'll take up next case, Southeastern Nomenclature Case 1788.

STATE OF NEW MEXICO)
 : ss
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF I have affixed my hand and notarial seal this 30TH day of October, 1959.


Notary Public - Court Reporter

My Commission expires:

June 19, 1963.

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