

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
December 2, 1970

EXAMINER HEARING

IN THE MATTER OF:

Application of El Paso Natural Gas
Company for the amendment of the
General Rules and Regulations govern-
ing the prorated gas pools of New
Mexico and the amendment of the
Special Rules and Regulations govern-
ing the Tapacito-Pictured Cliffs and
Basin-Dakota Gas Pools located in
Rio Arriba, San Juan and Sandoval
Counties, New Mexico.

Case No. 4436

BEFORE: Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

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MR. NUTTER: The Hearing will come to order, please. The first case this morning will be Case Number 4436 which is the Application of El Paso Natural Gas Company for certain amendments to our Gas Prorationing Rules. At the outset I would like to briefly recap what has happened on Case 4436. On October 14, 1970, in this same room, Mr. Morris presented Mr. Norman Woodruff who on behalf of El Paso Natural Gas Company presented their proposals for these Pool Rule Amendments. Subsequent to Mr. Woodruff's Direct testimony he was Cross Examined by Mr. Utz, Mr. Kendrick, Mr. Hinkle, Mr. Russell, Mr. Kellahin, Mr. Utz again. After this, Mr. Kellahin presented Mr. John Cameron who testified to a proposal by Chevron Oil Company and Mr. Cameron was Cross Examined by Mr. Morris, Mr. Buell, I have got Mr. Morris again and Mr. Hatch. Subsequent to this, Mr. Utz was presented by Mr. Hatch and testified to his proposal. He was cross examined by Mr. Morris and Mr. Arnold. After this, in response to the request of numerous operators who were at the Hearing, this case was continued until today. That is where we stand now. I don't know what the order of procedure should be this morning. I will ask for appearances first and then after we have got the appearances we will ask if anyone has any Direct testimony they want to

present.

MR. MORRIS: I am Richard Morris of the firm of Montgomery, Federici, Andrews, Hannahs and Morris, Santa Fe, appearing on behalf of El Paso Natural Gas Company. Mr. David Burleson of El Paso also appearing for the company. I might state just briefly that we probably will have some rebuttal testimony to present but we have nothing further as part of our Direct case to present.

MR. NUTTER: You would prefer to wait until the end of the Hearing to present your rebuttal testimony?

MR. MORRIS: Yes.

MR. KELLAHIN: Jason Kellahin, Kellahin and Fox, Santa Fe, appearing for Chevron Oil Company appearing in association with W. M. Balkovatz, a member of the Colorado Bar. I would also like to enter an appearance on behalf of Aztec Oil Gas Company in association with Quilman B. Davis, a member of the Texas Bar. Chevron Oil Company, depending on the course the Hearing takes, may also like to offer some additional testimony.

MR. NUTTER: We made a provision that Mr. Cameron would be here and would be available for Cross Examination today.

MR. KELLAHIN: Mr. Cameron is here and available.

MR. DAVIS: Aztec Oil and Gas Company does not plan to put on any Direct testimony.

MR. MILLER: Pat Miller, Atlantic Richfield in Denver. We do not plan any testimony but wish to make a statement.

MR. SMOTHERMON: Jerry Smothermon, Consolidated Oil and Gas Company. We plan no Direct testimony, however, we would like to make a statement.

MR. RUSSELL: George F. Russell, Roswell, New Mexico appearing on behalf of Texas Pacific Oil Company and we will have some Direct testimony.

MR. BUELL: For Pan American Petroleum Corporation, Guy Buell. Pan American does not plan at this time to put on any evidence or testimony.

MR. BROWN: Clyde Brown, Continental Oil Company. We don't plan to put on any testimony, Mr. Examiner, but we do plan to make a statement of our position.

MR. NUTTER: Where are you from, Mr. Brown?

MR. BROWN: Houston.

MR. HOCKER: R. L. Hocker, Amerada Hess Corporation of Tulsa, just a statement.

MR. KASTLER: Bill Kastler, appearing on behalf of Gulf Oil Corporation, a statement.

MR. HASELTINE: O. L. Haseltine, appearing for Southern Union.

MR. MITHCELL: Hugh Mitchell, appearing for Four Corners Gas Producer's Association, Inc. We may make a statement.

MR. NUTTER: If there are no further appearances at this time, I believe we will take up where we left off and does anyone have any questions they wish to ask of Mr. Cameron at this time?

I won't call Mr. Cameron to the stand then.

Does anyone have any Direct testimony they wish to offer?

MR. HATCH: If no one else, I believe Mr. Utz from the Commission Staff indicated at the last Hearing that he would like to offer additional testimony at this time.

MR. NUTTER: Take the stand please, Mr. Utz.

ELVIS A. UTZ

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. HATCH:

Q Mr. Utz, will you state your name and position for the record?

A Elvis A. Utz, Engineering Supervisor of the Gas Department, Oil Conservation Commission.

Q Are you familiar with Case 4436 and what it proposes?

A Yes, I am.

Q Have you previously testified in this case?

A Yes, I have testified. I testified in October briefly.

Q Just briefly, what did your testimony indicate at that time?

A The testimony at that time was pretty much unprepared. I just did testify that I had a recommendation which I briefly outlined and a few other statements which I don't really recall at this time without reading the record.

Q Was your testimony along the idea that you would make a proposal offering certain changes in the method of calculating pool allowables?

A That's correct.

Q And has that proposal of yours been circulated to interested persons?

A Yes, it has. I wrote a memorandum dated October 17th, 1970 to Mr. Porter, secretary --

MR. NUTTER: November 17?

A Didn't I say November 17, 1970 to Mr. Porter, Secretary-Director of the Commission outlining pretty much in detail the way we operate the pool balancing procedure, pool adjusting procedure at the present time and making my recommendation for a revision along with some advantages that I thought my recommendation had. That memorandum was circulated, I believe, to the complete mailing list.

Q It seems that the principle purpose of Case 4436 has to do with the classification of wells. What is the relevance of your proposal to that case?

A El Paso sometime in September requested and received a Hearing for their proration Rule proposal which involved namely a revision in the method of classifying wells. These changes are aimed presumably at the underage carried in a pool which in our present adjusting procedure reduces current allowables. This in turn causes difficulty in meeting market demands and balancing wells. My proposal, I believe, will solve this problem and give the producers an opportunity, and I do stress opportunity, to produce more allowable underproduction.

Q And you have some testimony now to offer in connection with your proposal that has been circulated?

A Yes. I have an opening statement to make to kind

clarify the thing and clear the air for presentation of my Exhibits.

As previously stated, the El Paso proposal is mainly one for changing the marginal well classification procedure. To pinpoint it further, a change in the manner of determining a well's producing ability or its ability to produce gas. My proposal, I believe, will solve the problem and will de-emphasize the need of changing our present definition of a well's producing ability. At the present time, and for roughly, the past twelve years we have classified wells basically by comparing the high months with the average six-month's allowable. In detail, the classification procedure at the present time is as follows:

For non-marginal wells, we determine the high months production. We determine the six-month's average allowable. We compare the six-month's average allowable versus the high months production. If the six-month's average allowable is equal to or greater than the high month the well remains non-marginal. For marginal wells we calculate the non-marginal allowable for the six-month's period. Two, we determine the six-month's production. That is for the total period. Three, we compare the six-month's total allowable to the six-month's total production. If the well has underproduced the allowable

it remains non-marginal. If the well overproduces its calculated allowable it goes back to non-marginal and the overproduction is charged to the well status and in this manner a marginal well does not produce more than a calculated non-marginal at any one time; temporarily only, maybe during a six-month period. If the well has been classified marginal for only one six-month's proration period and, of course, when it was classified all the underage was cancelled because a marginal well carries no status whatsoever. Then that underproduction is reinstated to the well's status and he gets credit for the cancelled underage less whatever was subject to the normal cancellation rules.

Now, it's been said, at least I think it has, at least I heard it had, that our present procedure or the procedure I have just outlined was probably not in the Rules, might have been illegal. I would like to contest that a moment. Rule 16A, R-1670 reads as follows: "After the production data is available for the last month of a gas proration period any well which has an underproduced status in the beginning of the preceeding gas proration period and which did not produce its allowable during at least one month of such preceeding gas proration period may be classified as a marginal well unless prior to the end of said preceeding gas

proration period the operator or other interested party presents satisfactory evidence to the Commission showing that the well should not be so classified."

Now, I think our classification procedure at the present time is more lenient than this particular Rule as far as marginal classification of wells is concerned. I feel that if I followed that particular Rule I would have fewer marginal wells than I have got now.

The last sentence of that paragraph, "However, a well which in any month of said proration period has demonstrated its ability to produce" -- I emphasize the word ability, "to produce its allowable for said proration period shall not be classified as a marginal well." Now, I think we are doing precisely what I just stated. I think the only quibble and this is a twelve-year-old quibble is that how do we define ability. I have chosen to define ability and when I say I, the Commission Staff and our attorney and secretary-director has been advised of every move I made in classifying wells and we now define it and have for many years defined a well's ability to produce as being its highest month's production for the preceeding six-month's proration period. I think it's a good definition. I think it's probably as good a definition as we could get for the very simple reason that

if a well can produce "X" amount of gas in one month out of a six-month's proration period under the like producing conditions he could darn sure do it in the six-months out of the six-month's proration period. I don't think anyone can argue too much about that. I wanted to point that out, too.

The New Mexico Statutes of 1953, Chapter 65-3-13 tells the Commission in effect to allocate gas insofar as practical to prevent drainage between tracts in a pool which is not equalized by counter-drainage. By counter-drainage we mean rectangular tracts. This to me means, as supervisor of the Gas Department that I am obligated to give each producer in a prorated gas pool a reasonable and noticeable opportunity to produce his fair share of gas under his tract.

The Commission Order R-1670 and pertinent preceding Orders established a proration formula for each pool. It also established a well balancing procedure whereby overproduced wells are curtailed after carrying overproduction through a reasonable period of time and underproduction and a well which has underproduction is carried through a reasonable period of time before it is cancelled. Underproduced wells have underproduction cancelled after carrying this underproduction for a reasonable and noticeable period of

time. This reasonable and noticeable period of time is the process of carrying underproduction on questionable wells and underproduction which is questionable as far as whether it is producible underage or not in a six-month's period and this Rule allows that. When using this procedure, the operator is given noticeable opportunity to produce his formula allowable. This is the purpose of the balancing procedure established by this Order and I think it is a good balancing procedure. The Applicant's proposed classification procedure cancels an operator's underage before the operator has the noticeable opportunity to produce his underproduction in accordance with the balancing procedures set out above. Any time you classify a well marginal, as I previously stated, the underage is cancelled completely. From that point on the only person that knows what the non-marginal allowable is for that well is the Oil Conservation Commission because we run that on our machines and as far as I know no one else gets that data.

In Northwest New Mexico we have a proration formula which gives 75 percent allowable weight to the deliverability of a non-marginal well and by way of footnote, studies made by me and other staff members in the past years indicate this relationship is near to 20 to 30 percent. This proposal

will further deviate from protecting the correlative rights by placing an even higher number of wells on a hundred percent pipeline deliverability allowable.

I have taken a stand in this case for the following reasons: One, I believe the manner in which wells are classified marginal is important to the protection of correlative rights. Two, I would like a Rule written by the Commission which tells me how to classify wells and thus eliminate this twelve-year old disagreement as to the manner we are now classifying wells. Three, I want to once and for all adequately advise the operators and the Commission of the manner by which wells are now classified and the errors of the proposed method. Four, to show and advise the interested that the deficiency in our proration procedure is not in well classification procedure but in the manner by which pool allowables are assigned and to propose at this Hearing a revised method of setting pool allowables. I believe that completes my opening statement, thank you.

MR. NUTTER: That is the opening statement.

Q (By Mr. Hatch) You have mentioned that you intend to offer testimony concerning the proposal of yours. Would you review for the Commission the present method of calculating pool allowables and continue on with your testimony and your proposal?

A Yes, sir, I refer you now to Exhibit No. 1 in this case which is the before mentioned memorandum. I will in the process, run through this memorandum, won't take more time than necessary in order to properly advise everybody and make a decent record.

Present Pool Allowable Calculation Procedure.

Each month after the gas purchasers' nominations have been reported at the allowable hearing and the gas purchasers' production reports have been received, each prorated gas pool's allowable is determined in accordance with the following illustrated procedure. Of course, these are not accurate figures. These are figures to show you how it's done. Current nominations, say, of ten million, the first month's previous and this is adjusted, I want to be adequately clear about that, this nomination is adjusted and adjusted by this formula every month, no exceptions, and adjusted by two previous months. The first previous month's nomination, say were 9,000. The first previous month's allowables, say, was 9500. We will have a negative 500 adjustment made on the premise that the pool had more allowable for that month than the nominations. The second previous month's production is available at this time. We will say the pool produced 8,000. The second previous month's beginning net allowable of 9,000. This beginning net allowable is the kicker in this whole deal. The

beginning net allowable is the amount of allowable including adjustment for supplements, any other corrections, that the pool has coming at the beginning of the producing month. If there is a considerable amount of underproduction in the pool and this beginning net allowable is low and the adjustment is severe and, in this example, the adjustment will be a negative 1,000. So, with these two adjustments, the current month's allowable would not be 10,000, it would be 8500. I might say at this point, and hope I don't repeat myself later, that this has caused us untold problems. I haven't liked this procedure personally for many years. It completes the short circuit or six-times provisions and it actually, on numerous occasions in the past years, has caused pools to have a negative allowable which is absolutely absurd. We all know that all prorated pools produce some gas and all we are trying to do is allocate that production. This apparently was done before my time in an effort to try to have some sort of a running balance on a pool but whoever did it I would like to advise them at this time it don't work.

Q Mr. Utz, do you know of any place in the present Pool Rules governing the prorated gas pools where this procedure is set out?

A I know of no place in the current Rules or can't

remember of any Rules in the past twenty years where this has been set up.

Q But it has been used?

A It's been used for many, many years. It's been used for approximately fifteen years that I can vouch for.

Q I think you have already suggested that perhaps using this system has resulted in abnormally high or abnormally low allowables at certain times?

A Yes, sir.

Q Would you like to continue through your memorandum to what you suggest to replace this method?

A Well, first, let me finish this method. I am not quite through with it. After the pool allowable of 8500 is established, we must estimate the marginal allowable. The only reason for estimating a marginal allowable is so we can determine what the current non-marginal allowable would be. The estimated marginal allowable is accomplished as follows. Each marginal well is assigned the average production for its six-month's proration period, the previous six-month's proration period. This has changed from time to time but this has been a manner in which we have done this for many years. While I am on that subject I have perused the records available to me and it appears this is not too bad an estimate, pretty close. Then, of course, the remaining 6500 is the non-marginal

pool allowable which is in accordance with the pool proration formula. The method I suggest to replace this is as follows:

Each month the sum of the purchaser's nominations for gas from a given pool for the following month would be considered the pool's current allowable for that month provided however -- I have always got to get that provided however in -- the Commission would adjust these nominations if in its opinion the nomination did not truly reflect actual expected production for that month. The adjustments, if made, would be on the basis of a pool's past production allowable, over and under production and any other current or historical data which may be a valid consideration for maintaining a balanced pool and this is the purpose for which this is made. I am trying to assign reasonable consistent allowables and to keep a balanced pool and by keeping a balanced pool it simply means allowable equals production. By keeping a balanced pool I think it gives the operators and purchasers, in particular, a much better opportunity to balance their wells.

I know I will be asked this so I think I will go ahead and get it over with now. How am I going to make these adjustments or how am I going to recommend these adjustments be made? I don't know all the answers. I tried to come up

with some but the erratic nature of production was not easy to contend with but I would use all the information available to me and I would use production history for the past year for the like period of time. I would use production history for the last preceeding month's available at the time we are setting the pool's allowable. I would use the pool status, last available pool status to determine whether an adjustment should be made to try to bring the pool in better balance and I would, if there is any doubt, I would contact the purchasers, particularly the larger purchasers, and consult with them as to what, if any changes, they thought might be required in order to assign allowables consistent with the production, their anticipated production. This can be done within ten to fifteen days of the proration month. For example, if they had a blowup in a gasoline plant or something, it certainly would affect production for a current month. There would be no particular need for assigning a whole batch of allowables that would not be produced. The next month maybe they can get their plant fixed and make it up and their anticipated production is substantially higher and if it is, the pool ought to have that allowable. I frankly would hesitate and I propose to be very chinchy, for lack of a better word, in using this adjusting provision. I would much rather

take the purchaser's nominations. I think by using the purchaser's nominations in this manner I think the quality of the purchaser's nomination very likely might improve.

Q Mr. Utz, one thing bothers me here and I don't think you have made it clear yet. Would there be testimony given at the Gas Allowable Hearing concerning each of these factors that might be considered in setting the allowable or would this be something that is investigated after the Gas Allowable Hearing but before the allowables are set? In other words, would there be testimony given at the Gas Allowable Hearing concerning past production, historical past production, for a like month?

A Mr. Hatch, any history, historical data that was available at the time of the Hearing and this Hearing is held in the middle of the month preceeding the proration month, I would give, if I give the testimony to the Commission at that time. I wouldn't necessarily, in my opinion, I wouldn't necessarily want to make recommendations for these adjustments at that time. The main reason being because I would not know what the last pool status was until we were in the process of putting up the proration schedule and that would be after the Hearing.

Q The pool status in the past that has not been part

of the testimony given in a Gas Allowable Hearing?

A No, sir.

Q But has been used through these mathematical things as it became available?

A That's right.

Q But certainly if you were going to use some of these other things they should be available before the Gas Allowable Hearing, would be available to give testimony on if they were to be considered?

A Well, I think it would be well to give testimony on them to advise the Commission or the Examiner, whoever is hearing the case, to have the situation. I wouldn't necessarily recommend that we make the recommendations for adjustments at that time. The latter data might prove it to be wrong. We are already tied in to a bad procedure. I wouldn't want to tie into another bad one.

Q Would you continue?

MR. NUTTER: Mr. Utz, at this point I would like to ask you, this provision that you could adjust these nominations if it is deemed necessary, is this something new or something already in the prorations Rules which procedure hasn't been used?

A Mr. Nutter, you know the answer to that question.

There is already in the Statutes, already in the Rules.

MR. NUTTER: Nothing new you are proposing here?

A Something we ought to start using which has laid dormant for many years. The advantages of these adjusted revisions -- one, this procedure will assign pool allowables more consistent with actual production and therefore eliminate the severe fluctuations that have been prevalent in the past.

I think this is a good time to start through the Exhibits. Exhibit No. 2 -- and as a preface before I go through these Exhibits -- I have prepared historical Exhibits for the Basin-Dakota, Blanca-Mesa Verde and South Blanco in Northwest New Mexico and Jalmat and Eumont in Southeast New Mexico.

Q That is not all of the prorated gas pools?

A It's not. The three Northwest New Mexico pools represented 92 percent of the production. However, in the month of September the two Southeast New Mexico pools represented 42 percent for the month of September so it's, I think, it's a pretty accurate cross section of what to expect and I would have, I might say, have the sample Exhibits prepared for all 23 prorated gas pools but I just didn't have the time to do it with my drawer full of proration schedules and a hand full of pencils and the Friden rotary calculator, it didn't turn out that way so I only prepared five.

Q Did you go through each of these Exhibits? On a few of them there are some corrections to be made. Would you point out the correction on each of the Exhibits that has a correction as you go through them?

A Yes, I will. I will run through all the Exhibits on the before mentioned pools.

The first Exhibit No. 2, is a graph from one-year period, one-year history, from August through July. The dots, and I might add the elusive dots in the pool allowable that has been assigned for each month. The nominations is a circle on the curves. The square is the production on the curves.

Q Will you explain to the Examiner the basis for these figures, where you got your information?

A All this data was in the proration schedule and taken out of the monthly proration schedules and is actual data.

Q Why did you select this particular period of time?

A It's the most recent two-month's proration period I had available to me.

Q No particular reason except for the --

A To make the data the most current data I had for two proration periods. You will note that the black dots

are pretty elusive, comes and goes, jumps around, the production is much more consistent. The nominations are still more consistent. You will note the nominations do rise in the high demand periods as they should. I would say that if allowables had been assigned on the basis of nominations only that there would be seven months out of this twelve on which the pool would be in better balance.

Exhibit No. 3 --

Q Before you go to Exhibit No. 3, I think it might not be significant but our nominations by about the middle of the page you have a number 4B on the Exhibit? What does that mean?

A That is a code number for me. You were not supposed to call that to anybody's attention.

Q It's on the Exhibit. Would you explain what it is?

A I just stated what it was. That 4 should be 7, seven months better by a single nominations than the way we had it.

MR. NUTTER: That is, 4B means seven months better?

A Our attorney is sharper than I am. He picked up three more.

Q (By Mr. Hatch) I have a 2 on mine. I am talking about Exhibit 2.

A I have a 2. It might be a 2. My 7's are bad.

MR. NUTTER: 4B means two better?

A I would have to count them to be sure. I won't have to count on this next Exhibit because it's pretty easy to read. This shows the actual, the black dots again, the elusive black dot which shows the actual pool status. You will recall, you operators, that were in on this meeting some months ago when all this reared its head up, that I made a proposal at that time that we allocate retroactively based a hundred percent on production and in that manner we would have a balanced pool each proration month. Well, I didn't sell that very well so this is my next best recommendation and I don't propose that we can completely balance a pool each month but I think we can come a devil of a lot closer than we have in the past. So this Exhibit shows what we have done in the past. By looking at the black dots you can see that the pool has been out of balance most of the time. Two months it was pretty close. The points on the curve -- that is a new term, a square point -- on the curve would be the balance had they used nominations entirely and you don't have to have 20-20 vision to see that the nominations would have given us a better balanced pool all the way through. There is one point that completely eluded me in the process

of reproducing these and that was the point for March which I don't think all of you have on your Exhibits. If you want to put it there, it's a plus three point nine.

Q Is there one missing for July as well?

A Yes, there is one missing or one missing that isn't on mine for July, the last point, and that would be point four, just two squares above the zero line. That was one of the few good months.

Exhibit 4, Blanco-Mesa Verde Gas Pool historical data, historical production, you will again note the black dot is pretty elusive but very substantially the production is not too bad, the nominations are still better. The two things I wanted to show on this type of Exhibit is that the nominations are more consistent throughout the last twelve months and the erratic nature of our current pool adjusting procedure.

Q By consistent, do you mean actually closer to actual production?

A Yes, sir.

Q Go ahead.

A Which, of course, means closer to actual market demand.

Q Any corrections on Exhibit 4?

A I hope not.

Q I have a seven better than a six better?

A I wish you wouldn't call that to my attention but I will go along with the seven nomination months being better.

Exhibit 5, over and underproduction status for Blanco-Mesa Verde Pool, the black dots represent actual status. I don't believe there are any corrections to be made on this Exhibit. You will again notice that had nominations been used a hundred percent setting monthly allowables we would have had about eight months for the better pool status, two months a tide.

Exhibit No. 6, South Blanco Picture Cliff Pool, I chose this pool because it was one of the larger Picture Cliff Pools in the San Juan Basin. Again you notice here the erratic nature of current allowables. By current producer by noting inconsistency of black dots, the production not bad, nominations better. As a matter of fact, the nominations would have been better in the nine months out of twelve.

Exhibit 7, Over and Under Status, South Blanco Pool. The erratic nature of pool shown by the black dots using nominations one-hundred percent the pool status would have been pretty darn good. As a matter of fact, it would

have been better ten months out of the twelve.

Southeast New Mexico, Jalmat Pool, Exhibit No. 8.

This is a mess. I don't know how the purchasers took. I don't know how they nominated, I don't know how they produced but it certainly didn't fall on any particular pattern except erratic even though the nominations were probably the least sorry of the lot.

Exhibit No. 9, the over and under status for Jalmat Pool, this looks a little better as far as nominations, over and under are concerned. You will note that almost in all cases, eight out of the twelve months the actual pool status was further away, further out of balance, further away from zero, if we had used a hundred percent nominations for pool allowables. In all due respect, I will say that the month of September and March we hit here almost on the button which is purely accidental.

Eumont Gas Pool, this also is pretty erratic but I think it shows without a doubt that the current allowables are more erratic than the nominations. You will notice the months of December and January, some of them went off the chart, those figures indicate. That figure, 6.18 for production, 6.27 for nominations, clear above the production figure, 6.97 for allowable for the month of January and it's up

above the nomination point so half the months, six out of the twelve, would have been better to use nominations.

Exhibit No. 11 is the over and under for the Eumont Gas Pool. This is a little better picture, ten months out of the twelve the nominations status would have been better than the actual status. I might point out at this point that I would hope and I think that we can improve on the nominations status in most of these instances. I don't think we can hit it a hundred percent, my gosh, if I can't sit behind that desk of mine and have better allowables assigned to pools and better status of pools than the way we do it now then I will turn it over to somebody. I may have to eat those words but I don't think so. I think that completes the Exhibits, at least all but Exhibit No. 12.

Going back to the recommendation or the memorandum, Item 2, "When pool allowables are more consistent, the so-called "six-times" overproduction rule will work more effectively. This is Rule 15 (A) for Southeast New Mexico and Rule 15 (B) for Northwest New Mexico of Order No. R-1670.". The six times Rule is designed to keep wells from becoming six times overproduced during a proration period and I think it's a good Rule. When allowables are not reasonably consistent this Rule simply does not work. As previously stated on

many occasions we have had negative allowables. When we have negative allowables every darn well in the pool is shut in under the six-times Rule because the six-times Rule compares the six times overproduction against current allowable. Maybe that's wrong, maybe we could do something better than that but I don't think we have to change that if we have some consistency to our allowables. Many times I have given administrative authority or administrative exception to these six-times Rule. That is a Rule. That is in an Order and I have no darn business giving administrative exception to a Rule in an Order but I have in order to allow producers to produce some gas for the current months in pools with extremely low allowables or negative allowables.

Q Do you recall any case in which all of the wells of the pool have actually been shut in?

A No, I don't think we have allowed at any time all wells to be shut in a pool.

MR. NUTTER: To follow the Rule, when you have a negative allowable you have to do that?

A Absolutely.

Q (By Mr. Hatch) Go ahead.

A Item 3, "When the "beginning net allowable" is not used in setting pool allowables, the underage carried on

individual wells does not affect the current pool's allowable. Therefore the cancellation of underage by classification to marginal becomes unimportant with respect to setting current pool allowables." Now, I touched on that a while ago in my pool balancing procedure and, really, I wish I could quit calling it pool balancing procedure because it doesn't balance anything. It's a pool balancing procedure. When there is a substantial amount of underage carried in a pool it affects the beginning net allowable but by making it extremely low, therefore causing an extraordinary negative adjustment to the current nominations. It's been a complaint by purchasers, particularly one purchaser, that this was the problem and it was depriving them of current allowables and they could not balance wells and I am afraid they are right. I don't know how you balance wells without any allowable. By not using this beginning net we will deprive wells of current allowable. We will not deprive the pools of current allowable and we will negate the necessity of having to be so chintzy with our pool classifications. As I see this, we would have a certain amount of backlong, underage backlog, if you please, and this underage backlog would be carried through every proration period and would do no harm whatsoever. It would do quite a bit of good in my opinion and

this is one of the principle reasons I took a stand in this case and I don't want to see this underage completely cancelled right down to the nub. This is where the operators can look at a proration schedule and see what allowable their wells have coming to them and, so help me, most of that allowable is producible allowable and has been produced in many cases in the past. If we cancel that allowable through the process of classification, then the operator won't know what his allowable is unless he figures it out for himself. I think I know operators well enough to know that many won't do this or don't do it.

Number 4, "When the cancellation of well underproduction is accomplished by the usual cancellation rules of Order No. R-1670, Rules Nos. 14 (A) and 14 (B), the operator is afforded a reasonable opportunity to produce his well's assigned allowable." I think I have touched briefly on that by saying that a certain backlog of underage is good. It advises you producers of what you have coming as far as allowable is concerned and gives the well a reasonable and noticeable period of time, six months, in order to determine whether the well needs remedial action to produce its allowable or whether there is anything at all that an operator can do about getting that underage produced. I think it's

good advise to the operators and I think it does protect correlative rights. After all, we assign the allowables to these wells based on the formula and that formula is supposed to protect correlative rights. Whether it does or not, it's another question but the Commission has ruled it does and that's what I assign to the wells and any time the wells have underage, that is part of the allowable it has and has it coming and I think it should have the opportunity to produce them.

Number 5, "The purpose of the present balancing, cancellation and redistribution procedure is to allow certain wells in a pool to produce allowable which cannot be produced by certain other wells in the pool. This is done to help the pool meet its market demand. The overproduced wells are then balanced by the redistribution of the underproduction in accordance with the pool formula. This process however should be an internal pool with the pool formula. This process however should be an internal pool process and should not affect the assigned pool allowable. By permitting underproduction to be redistributed directly to the non-marginal wells and not to be considered in determining current pool allowable (current pool allowable would be based on nominations only, as adjusted) the recommended method of assigning pool allowables should

give our balancing procedures an opportunity to better accomplish their purpose."

I think I have said before that in my opinion a well should be given a reasonable opportunity and a reasonable time to produce its underproduction. Under this Rule it's six-months. If it carries underage and is not made up by overproduction during that six-month period then it's cancelled but I don't, of course -- this Rule actually in fact circumvents the formula. I am not objecting to the Rule but I do think we should not circumvent the formula any more than necessary. Then when the underage is carried through a six-month period then it's cancelled. For example, if we have a million, say, cubic feet of production that has been carried through a six-month's period that million cubic feet is subject to cancellation in practically all instances is cancelled. Now, that underproduction is allowable which some wells in the pool presumably have had to produce in order to meet the market demand. Those are the wells that received that cancelled underage and it's redistributed by the proration formula. If a well is overproduced it receives more allowable. It either balances or comes closer to being balanced. This is what I mean by being an internal process. In the past we have been a little lax in administering

this cancellation and redistribution procedure particularly during the changeover time when we were trying to get out of the old machines and into the new ones. Instead of putting out a redistribution schedule without affecting pool allowables we threw all this cancelled underage into the beginning net which made a whale of a net allowable for that month and I don't think this is proper. I think we ought to quit. I don't think this cancelled underage should have been the current pool allowable in any way but should go to the remaining non-marginal wells in order to balance the wells and I think with a little effort on the part of the purchasers by using this Rule they can balance their wells in pretty fair shape.

Now, I don't want to belabor this point too much but I suggest at this time that the proposed method, or my proposed method, since there are two here, will not prematurely cancel underproductions for these, I would like to call them twilight wells or questionable wells, that may produce this underage on a monthly basis. If a well is marginal he gets that cancelled monthly whether you realize it or not. That is exactly what happens to him because he does not receive a non-marginal allowable. He receives only his production and his status is zero.

Number 6, "When assigning allowables in this manner, the necessity for classifying wells to marginal so closely to the well's "probable ability to produce" is not necessary. Thus, wells will not fluctuate from marginal to non-marginal as often and less administrative and supplemental paperwork on everyone's part is involved."

The determination of a well's ability cannot be done accurately and is at best an estimate, I don't care whose you use, and is all based on past performance. Any attempt to classify wells so very close to the average calculated non-marginal allowable will cause wells to fluctuate from marginal to non-marginal and vice versa. This causes more accounting corrections on the part of the operators, on the part of the purchasers, on the part of the Oil Commission as well as supplemental paperwork to reinstate allowables. Properly, we should reinstate allowables and issue supplements on all wells which change classification. On those that go up we don't, on those that go up I am afraid we should. We didn't this last time because there were 270 wells that went up and overproduced during the last proration period and we had some machine errors in the status, 270 supplements are not too easy to issue and I didn't want to issue them and I did not issue them until the machine

corrections were made so that when I did issue them I could issue a correct status but those supplements should be issued in order to advise the purchaser, the producer and other interested parties of the correct status of these wells. This will also cause, any time a well changes classification, to manually calculate quite a number of allowables. It even causes us to do substantially more auditing of the E.D.P. records and we do audit the E.D.P. records because they are wrong sometimes. So to boil it down in a nutshell, by not reclassifying these wells we eliminate a whole batch of administrative problems. We go along carrying this underage which does not affect current pool allowables. It advises operators of where they stand and it causes us no administrative problems whatsoever. One of the advantages of E.D.P. machines is that they calculate a million figures about as easily as they calculate a thousand and heaven knows it's a whole lot easier to calculate these numbers there in a proration where everybody can see them than for us to issue paperwork to reinstate them. From here on out we will have a lot of changes in classification because the pools are getting down to the nitty-gritty.

Number 7, "By placing more emphasis on consistent pool allowables and six-month balancing and cancellation procedures, the administrative load for purchaser, producer, and

the Commission is reduced."

I will point out that the El Paso proposal will cause the following things:

A. All purchasers to make additional semi-annual reports on a well's ability to produce. There will be no data available except in the purchaser's records, as far as I know, to audit this figure and I am particularly thinking of the days on line.

B. -- and I might say at this time, too, in connection with that that this data I understand now in the new proposal of El Paso's will be furnished to the operators, too, so they will be advised of this figure late in the proration period. Whether it's early enough for them to do anything about it, I am not absolutely sure about that.

B. Will cause the Commission more card punching. We have to punch these data on the cards in order to put them in the machines. This is about 8,000 cards every six months and I don't think this is necessary. I think we have got data in the machines. The machines can pick up.

C. Cause the Commission more problems in gathering this data from some purchasers every six months. Nobody knows better than I some of the problems in gathering production data. The monthly reports of C-111's from the

purchasers. About the 17th or 18th of the month I usually spend about a half day on the phone to try to get production datas so that we can close out in the E.D.P. room and start calculating the next proration schedule. I don't particularly like to do this. Some of the purchasers object, too.

MR. NUTTER: Tell them what that guy told you the other day.

A Because I call them collect.

MR. NUTTER: What did that guy tell you the other day, Elvis?

A He thought I was nitty picking because I wanted the records.

D. Cause the producers to calculate allowables which the Commission does now on the E.D.P. and puts in the proration schedule. Also causes operators to request reinstatements of allowables which is not necessary.

E. I think I practically covered this one a while ago, too, but E is to the affect that E.D.P. makes all these calculations very easily and is a very definite advantage. I am not an E.D.P. man and this is quite a statement for me but it does make these calculations quite easily and prints them out on a proration schedule with little or no effort on the part of anybody and is a very definite advantage in

notifying the Commission and operators and any other interested parties of what the well statuses are and what the allowables are and what the underproductions are and, I think, the El Paso proposal takes away this advantage.

Number 8, "The proposal is consistent with the Commission's obligation to protect the correlative rights of the gas producers and is the proper first step toward improving our gas proration procedures."

As per the Statutes, the Commission's duty is to give all producers a reasonable opportunity to produce their fair share of the pool allowables. I contend this is the Commission's obligations. I believe the Commission has also gone far enough in the business of blessing pipeline takes by assigning allowables equal to these takes. I think that completes going through Exhibit 1, Mr. Hatch.

Q Mr. Utz, you reviewed the present method of classifying wells and I don't think you touched on Exhibit 12?

A No, I did not.

Q Would you go back to Exhibit 12 and explain what that shows and the statement about the present method of classifying wells?

A Yes, I will. I had intended to cover this Exhibit when I was on the subject of well classification. This is a four year history from April 1966 to October 1970 and someone

I am sure will want to know why I used April and October. I used them because it's a month later than we have this data available and during the changeover procedure we were a month late on a few occasions of getting this data available to us in ordering classifying wells so the data is just as accurate and reflects the following:

In April 1966 in Northwest New Mexico we were using a thirty percent cushion or seventy percent of the average well's allowable comparing it to high month. Now, this thirty percent was no accident. I did it intentionally, and I recommended we do it intentionally for the purpose of protecting correlative rights and giving the purchasers an opportunity, the operators an opportunity, to carry a little more underage which may be producable and which they should have the opportunity to produce if they can. The seventy percent was questioned by one purchaser.

Q Mr. Utz, is this percentage used in both the Northwest and Southeast?

A Yes, it is.

Q Go ahead.

A So on April 1967 we changed to ninety percent of the average allowable compared to high month. You will note the substantial increase in marginal wells at that time in Northwest New Mexico. It didn't make too much idfference in

Southeast New Mexico. We used ninety percent then over to April of 1970 at which time for the same reason we relinquished and went to a hundred percent of the average allowable compared to high month so at the present time the only cushion, is you want to call it that, we have is as far as carrying underage on questionable marginal wells is concerned is the difference between the average allowable and the highest month's production. Sometimes this isn't much. You will notice that the percentage of marginal wells from April 1966 went from about twenty-four percent up to in April 1970 of sixty-seven percent in the Northwest and twenty-five percent in the Southeast. You will note that in Southeast New Mexico from April to October 1970 this year we had a ten percent increase in marginal wells and I can't explain it except that I have checked the figures and I know it's so. I would have to go back to the detailed classification data and try to analyze and see what happened. I did look at the allowables and the allowables looked to be pretty consistent and I don't believe it's an increase in allowable that did it.

You will also note at the same time we lost three percent of marginal wells in San Juan Basin. I think a large part of this three percent was due to El Paso putting

compressors in the field. I think a large part of the 270 wells that went from marginal to non-marginal was due to the same thing and I think this is the majority of the three percent.

I contend therefore that had these wells carried this underage we wouldn't have had to issue supplements to reinstate it. It could have been sitting right there ready for them to produce. There would have been no reclassification necessary.

I think that takes care of Exhibit No. 12, Mr. Hatch.

Q I gathered you did not think it is very easy a job to exactly classify the producing ability of a well and has been one of the reasons for using some of these percentages in past years, is that true?

A Yes, that's true.

Q And if I understood your testimony correctly, you have gone over the present method of classifying wells. I am not sure I have understood you as saying one way or the other way whether it is your recommendation that the present method be continued?

A I have some closing recommendations which I will make at this time if you care for me to?

Q Yes?

A I am opposed to any change in the classification procedure at this time. I think we should write a Rule clarifying our present classification procedure and I also think that this Rule should retain the current provision for operators to apply administratively near the end of the probation period for a non-classification where an operator sees his well is liable to be classified marginal and the underage cancelled and he thinks and he has reason to believe he can show that this underage could be produced, I think it ought to be left there and I think he ought to have an opportunity to produce it. As a matter of fact, I will be just a little more severe with that recommendation. I will say that any time a producer has underage that can be produced he ought to have the opportunity to produce it.

I urge consideration of my proposal in setting pool allowables. However, if the Commission through its Examiner does see fit for a change in the classification procedure, then I strongly urge that with the data which is already in the machine system rather than creating something new, something new and unknown to all but the purchasers. Now, I probably shouldn't have said that because under the new provisions the purchasers will be advised even though

it's quite late or maybe too late to do anything about it and this new procedure, proposed procedure, of El Paso's is difficult to administer.

The use of production history for a previous proration period would be easier, more practical and more equitable. This figure would be available to everyone in the industry including the producers and the figure I am talking about would be the production data for the past proration period either by using an average or some part of it. Now the reason I urge this strongly is to eliminate all of this extra paperwork. Heaven knows between the federal government and the Oil Commission you people are burdened now with enough paperwork. I know I am because I have to contend with it. There isn't any way I can see of administering the El Paso proposal without burdening us with more paperwork which I am trying my best to eliminate paperwork and this data that I recommend that we would use is already in the machine system. All we have to do is program it to pick it up. That is all I have.

Q We went over Exhibit 12 and you have gone over the present method. Would Exhibit 12 in your testimony there indicate that there has been a change there in the method of classifying wells by recommending the retention of the present method or system? You do not intend to go back

using any of these percentages?

A No.

Q But it would be entirely on a hundred percent?

A A hundred percent average allowable as compared to the highest month.

Q I am not quite clear. You say if the Commission through the Examiner decides to make some change in the classification procedure you would suggest using figures that are already in the machine but I am not quite sure -- I did not understand exactly what figures you would use, you are recommending that they use, in arriving at the classification of a well?

A Wells high month in a machine.

Q You would continue to use high month?

A If they want to deviate from the high month, I would suggest they use some set of production figures along with the high month, say a six-month's average.

Q Six-month's average production?

A Six-month's average production versus six-month's average allowable.

MR. NUTTER: You would use production and allowable figures which are in the machine?

A Right, instead of creating new data. Now, I am

not saying here that this will give the operators a better break as far as producing some of the producable underage because I don't think it will but if we are going to change classification procedure then I am saying let's use something we have already got in the machine instead of creating new data.

Q (By Mr. Hatch) Mr. Utz, were Exhibits 1 through 12 prepared by you?

A Yes, they were prepared by me.

MR. HATCH: I would like to introduce Exhibits 1 through 12 at this time. I believe they are marked Utz Exhibits.

MR. NUTTER: Utz Exhibits 1 through 12 will be admitted in evidence.

A They are not marked that way. They are marked OCC Exhibits. If you want to change this, you may.

MR. NUTTER: OCC Exhibits offered by Utz, 1 through 12, will be admitted in evidence.

Q (By Mr. Hatch) Do you have anything further?

A I have nothing further unless you have some clarifying questions.

MR. NUTTER: We will recess the Hearing until 11:00 o'clock at which time Mr. Utz will be available for

Cross Examination.

(Whereupon, a 15 minute recess
was held.)

MR. NUTTER: The hearing will come to order, please.
Mr. Hatch, do you have any more on Direct Examination of Mr.
Utz?

Q (By Mr. Hatch) I don't think you made it clear
whether your proposal in your testimony would apply to North-
west New Mexico and Southeast New Mexico?

A I think what is good for Northwest is good for
Southeast and if it is good for proration in one area it
is good for proration in both areas.

Q We are talking about calculating pool allowables?

A Yes, sir.

Q And what about your recommendations to retaining
the present method of classifying wells? Is your recommen-
dation the same for both Northwest and Southeast?

A Yes.

MR. NUTTER: Any other questions of Mr. Utz?

CROSS EXAMINATION

BY MR. MORRIS:

Q Mr. Utz, I have a couple of questions. First,
does the present procedure for determining pool allowables

work to correct those allowables to actual production?

A That was the intent of it but it doesn't do it.

Q Are you saying that the Rules themselves don't do it or that the present practice doesn't do it or --

A Well, I presume, Mr. Morris, you are referring to the pool adjusting procedure.

Q Yes?

A That I testified here on Exhibit 1. There is no Rule for this. It is a practice and a policy procedure that I inherited and I have been doing it ever since. I think it goes without my saying it that my opinion of it is not good.

Q You have reviewed El Paso's proposal that was presented at the original Hearing in this matter?

A Yes, been sometime though.

Q Is it your statement that El Paso's proposal, if adopted, would work to deny marginal wells the right to produce the allowable, that would deny them the right that they have under the present practice and procedure?

A Mr. Morris, it would deny and I think definitely it would deny the operator the opportunity to produce and it would deny him the information that he has on non-marginal wells. That is the status and the allowable he would have

coming to him and I think the information, by leaving the well non-marginal, would be beneficial toward getting some of that underage produced.

MR. MORRIS: Those are all the questions I have.

MR. NUTTER: Any other questions of Mr. Utz? He may be excused.

Mr. Morris, would you like to call your witness and present your case?

MR. MORRIS: Mr. Examiner, at the outset I said our testimony would be rebuttal testimony. That might have been an incorrect characterization. Actually what we have is in the nature of supplemental Direct testimony and if the Examiner will allow some latitude we might get over into some area of rebuttal in an attempt to shorten the Hearing and the testimony that we present. Our witness will be Mr. Norman Woodruff who testified in a previous case and I ask that he be sworn.

(Witness sworn.)

NORMAN WOODRUFF

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. MORRIS:

Q Mr. Woodruff, please state your name, where you reside, by whom you are employed and in what capacity?

A I am F. Norman Woodruff, work with El Paso Natural Gas Company, residing in El Paso, Texas. I am the Company's manager of gas prorations' operations.

Q And you have testified previously in this case at the Hearing held on October 14, 1970?

A Yes, I have.

Q Were you present throughout the Hearing on October 14 and throughout the Hearing that has been held on this case today?

A Yes, sir, I have and have been.

Q Do you recall the evidence that was presented at the Hearing on October 14th by Mr. Cameron, the witness for Chevron Oil Company and have you studied the proposals that he made at that time?

A Yes.

Q Would you comment concerning Chevron Oil Company's proposals and give El Paso's position with respect to that?

A Mr. Cameron pointed out in his testimony that there were circumstances in the Indian Basin Gas Pool in Southeast New Mexico where wells are choked when they are produced many times that would prevent the procedure which

we had recommended for the Northwest Gas Pools from giving accurate results. We recognize that to be correct and in order to cure this problem we will recommend some revisions to our Rules to provide for a procedure for testing the wells to permit the operator to show that they are capable of producing their allowables under those circumstances.

Q Now, Mr. Cameron made some suggested Rule changes on behalf of Chevron Oil Company. Would you comment on those proposed Rule changes?

A Mr. Cameron proposed in the last sentence of his proposed Rule 16A and I will quote, "Each well's monthly producing ability will be assumed to be the lesser of, one, the maximum production during any month of the preceeding gas proration period or, two, the most recent test deliverability multiplied by 30.4 days."

I believe that it is fair to say that Mr. Cameron's lack of familiarity with the San Juan Basin deliverability figures cause him to believe this was a figure indicative of a well's ability to produce into the existing pipeline where actually that deliverability is a figure calculated for proration purposes giving a theoretical deliverability which obviates variations in manner of completion of a well and the differences in pipeline pressure.

His objective, though, we think is good, that he wanted to provide an actual test of deliverability to substitute in instances where the figures which would be furnished by the purchaser may be in error and, as I say, our suggested Rules will recognize this point.

Now, his suggestion that, and I will repeat the number one feature that the "maximum production during any month of the preceeding gas proration period be used" is essentially the existing procedure. A continuation of that does not give us the benefits which we believe are necessary to make proration work in the San Juan Basin.

I think it may be well for me to state at this time to reiterate a statement I made at the original Hearing so that particularly those who are primarily interested in the Southwest will be aware --

Q You mean Southeast?

A I mean Southeast, will be aware that proration as we have known it historically has not been working in the Northwest. It has not been working to the extent that there have been periods where we have known that we would not be able to meet market demand because of the many overproduced wells that we were unable to balance and would have to shut in in accordance with existing Rules. We are now operating

under the second exception granted for a year's period of time permitting us to bring wells back into the balance so that we will have fields in order enabling us to meet our market demand for the coming winter period. This has been a situation existing now for about several years at any rate. What we are trying to accomplish and the Rules that we initially recommended and essentially the same objections will be reflected in our revisions as to accomplish what improvement is possible in the existing mechanism of proration to try to make proration as we know it work for as long as possible. I reiterate that it has not been working because we have had to have two exceptions. Consequently, any improvements that can be made in the procedure and at the same time give full protection to correlative rights should be made so as to make the proration Rules more workable.

Q Do you have your proposed Rule changes prepared in the form of an Exhibit including the revisions that you have just referred to?

A Yes, I do and I would identify as Exhibit No. 5-R. I don't know that we have this Exhibit before the Examiner.

MR. MORRIS: May I ask the Reporter to mark a copy of that?

(Whereupon, El Paso's Exhibit
No. 5-R was marked for identification.)

MR. MORRIS: May I state for the record that the original Rule changes were marked as Exhibit 5 at the Hearing of October 14th. This Exhibit is marked as Exhibit is marked as 5-R to show that it is the revised proposed Rules.

Q (By Mr. Morris) Do you have a copy of that Exhibit before you, Mr. Woodruff?

A Yes, I do.

Q Would you explain the revisions that you are recommending and review this Exhibit?

A Yes, I will and I would like to state in the beginning that there have been several suggestions presented, both those of Mr. Cameron, those of Mr. Utz, written suggestions furnished to all parties by Pan American which we have had advantage of and have adopted those which we thought were meaningful corrections or improvements in our Rules and our changes are largely to accomodate the problems and needs that others pointed to us. I believe that each party has in his hands a copy of Exhibit 5-R.

I don't believe it will be necessary for me to go through each of the Rules. For your ready understanding,

however, I would like to explain that for each Rule we have stricken through that portion of the original Rule that was replaced. We have shown in capital-lettered words the recommendations that we made in the previous Hearing on this matter. We have shown in capital-lettered words underlined the changes that we are proposing today.

You will find that there are no changes on the first page. On the second page at the top you will note that we have inserted a proviso and I should start with the sentence at the bottom of the first page that "This capability shall be determined by comparing the average monthly allowable for the preceeding gas proration period with the average monthly producing ability for the third, fourth, and fifth month of the current gas proration period, unless a productivity test is taken in accordance with Rule 16B below."

An explanation we previously provided for the three most recent months of production to be those which would be analyzed, there was a problem apparently from the statements of some that this three most recent months might not be the same for all purchasers. This suggestion, that it be the third, fourth, and fifth month was made in the Pan American's suggested Rule which we think was a good suggestion and we have included in here.

Now, going to Rule 16B you will find corrections, or I say corrections, I would like to say they are changes, so that it reads now, "Each gas purchaser shall furnish to the Commission and to the operator ..." I would like to stop and say this too was a suggestion so that the operator would be fully aware of what the purchaser furnished to the Commission. "Prior to the 20th day of the last month of each proration period, the actual average daily producing ability for the third, fourth and fifth months of the current gas proration period (this shall be the total production for these months divided by the actual number of days produced during the same three months) of each gas well to which it is connected;"

I would like to stop there. These are a lot of words. I trust that the meaning is clear but to explain in case it's necessary, that we are providing here that the purchaser who had furnished to the Commission this data for the third, fourth and fifth month furnished this data to the Commission and to the operators by the 20th day of the sixth month of the proration period. In other words, that would be ten days before the balancing date, beginning of the next proration period.

Now, if I may continue, "Provided, however, if the

well is mechanically restricted, the operator may conduct a flow test on the well during the last month of the proration period consisting of not less than three days (72 hours) nor more than eight days (192 hours) of flow into purchasers pipeline at a rate sufficient to show that the wells should not be classified marginal, and submit the results of such tests, converted to average daily producing ability to the Commission prior to the 15th day of the month following the last month of each proration period; the producing ability indicated by such tests will be used in lieu of the average producing ability submitted by the purchaser. (This test shall be taken and submitted in a manner acceptable to the Commission) Upon receipt of this information from the gas purchaser or producer the Commission will calculate the average monthly producing ability by multiplying the daily average producing ability by 30.4, which is the average number of days in a month for the entire room."

What I have read to you encompasses all of the changes recommended by El Paso to the Rules offered at the time of our last Hearing. It may be well for me to briefly explain this last portion that I have discussed with you permitting the operator to submit a test under circumstances where there are mechanical restrictions to provide both the

time and the mechanism to the operator to present to the Commission data which shows that the well should not be classified marginal. Under circumstances, for instance, such as those testified to by Mr. Cameron applicable to the Indian Basin Pool where wells are choked and do not produce their full producing capacity, a purchaser, in making the report which we propose to the Commission, would make it through a machine procedure which would take the total volume produced and divide it by the total days that the well was turned on to the line. Now, this would give what we believe is needed, and improved reflection of delivery capacity in pools of Northwest New Mexico and other pools where there is no choking. As I say, it is a machine procedure though and if a well is choked the machine is going to automatically report what is in the record. Under those circumstances, the operator would be privileged to take a test and that would supersede what the purchaser had submitted.

I believe that completes my presentation of our revised recommendations.

Q In the original Hearing on October 14 Mr. Cameron expressed a great deal of concern over having one of Chevron's wells classified as marginal, expressed a general fear of adverse results that would flow to the reclassification of

any well as a marginal well. Would you comment and respond to that testimony?

A I believe that a clear understanding of the Rules that we proposed and, proposed at that time, since the intent is the same as explained in my previous testimony, will clearly reflect that the intention and recommendation of El Paso is to permit a marginal well to produce all the gas that it would have been permitted to produce had it been non-marginal. To say it another way, had it never been classified marginal. It is our intent. We do believe that our recommendation will result in that. We did recommend that any well which had a marginal classification and which was found to have a changed circumstance which caused it to become non-marginal would have its allowable reinstated to the full extent that it would have had had it never been marginal.

We have no desire, and our recommendation is not to deny a marginal well one cubic feet of production less than it would have been privileged to produce as a prorated well.

Q Would El Paso's proposal as now presented deny marginal wells any right to produce allowable which they now have?

A They would not.

Q Mr. Cameron also testified --

A If I might say in my testimony relative to our Rules, and in accordance with what I have just said, if there is any question in which the existing Rules do it and the procedure which is utilized, we would want it clarified to assure that there is no penalty.

Q Mr. Cameron testified that he thought a marginal classification would be about the worst thing that could happen from an operator's standpoint. Would you care to comment further upon that testimony?

A El Paso is the owner of interest in and the operator of 3,484 wells in the San Juan Basin and we are the owner of interest and operator of 54 other wells throughout the State of New Mexico in prorated pools so that we -- would you strike in prorated pools? I cannot say that all of those wells are in prorated pools because there are a number of pools that are not prorated. We have every interest as a producer to insure that our wells received the full opportunity to produce their full allowable without denial whatsoever. We believe there is absolutely no justification of his concern that there is some stigma to the classification to a well as marginal. We do not have that concern

under the Rules as we propose, administered as we propose.

During his testimony he also said that they thought it might be possible for a purchaser to take advantage under his contract of the circumstance where the Commission classifies a well as marginal. Now, El Paso purchases from the two Chevron wells in the Eumont Pool. We have reviewed that contract. We are familiar with the contract that we use in the various pools throughout the State of New Mexico for the purchase of gas from others and I can state without concern that we have no right under our contract to take advantage or to reduce our contractual obligations because the Commission classifies a well as marginal. That concern, so far as El Paso's contracts are concerned, is unfounded.

Q Turning now, Mr. Woodruff, to Mr. Utz' memorandum of November 17 and to his testimony concerning that proposal that he has given in this Hearing today, have you studied the proposal by Mr. Utz and have you been hear at this Hearing today and heard his testimony?

A Yes, I have.

Q Would you comment upon that proposal and state El Paso's position with respect to it?

A We have studied Mr. Utz' proposal and listened to

his testimony today which reflects that his proposal is directed towards changing the procedure for determining a pool's current allowable. Our application and our testimony has been direct toward the mechanism which would be used, which we recommend be used, when a well in a pool is no longer capable of producing its allowable and probably should have a marginal classification.

The Rules proposed by Mr. Utz, in my opinion, in no way corrects or cures the problem which has caused us concern and to which we have testified to in the San Juan Basin, the problem of having allowable accumulated to wells which are physically incapable of producing them. We do not believe that his recommendation is responsive to the need that we are concerned with, the need which as I have reminded the group today has been reflected in the necessity of coming before the Commission on two prior occasions and asking for a year's extension to the balancing provisions because we were unable to meet the market demand out of San Juan Basin Pools under the existing procedure that was in use.

I would say that Mr. Utz indicated that some one, or a purchaser or somebody had come in from time to time and urged adjustments. It was El Paso that came in and urged

these adjustments from time to time in order to try to effectuate improvements in the procedure being used, realizing that the circumstances that I have testified to were upon us and that some improvement or every improvement should be made if it was reasonable and continued to protect correlative rights so as to try to make proration as we know it work.

I think it is clear to us and I hope clear to others that we either try to improve our Rules and the procedure used in administering them so that we can live under the Rules or else we are faced with living under exceptions. The future is not going to be better than the past. What we are doing as honestly and as conscientiously as we know how is to try to analyze where improvements in existing Rules and administration of them can be made without violating correlative rights so as to try to make proration work as long as it is possible. That is our objective. That is the aim of our Rules and that is what we believe will result from the application of them.

Q Have you studied the Exhibit that was presented by Mr. Utz at the previous Hearing?

A Yes, I have.

Q What did that study show?

A The Exhibit that you have reference to I believe

was, I am not sure how it was identified. Mr. Utz, it was your Exhibit in which you graphically showed the comparison between nominations, production and allowable for the period during 1969 and 1970. I believe it may be Exhibit 2. Do you recall the number of that Exhibit?

MR. UTZ: What pool?

A Blanco-Mesa Verde. You had one graphic representation.

MR. UTZ: The nominations, production and allowable, Exhibit 1.

A Exhibit 1. Yes, I have studied Mr. Utz' Exhibit No. 1.

MR. NUTTER: One with three lines on it?

A Which has the three lines. The graphic representation of nominations production and allowable for the Blanco-Mesa Verde Pool for 1969 and 1970, portion of 1970 in which he sought to show that the current allowable procedure was resulting in the assignment of unusual anomalous allowables. I would particularly refer to those who have the Exhibit in hand to take note of the month of March 1970 in which he showed a very significant increase in allowable which appears to have not been justified by either nominations or production. I have prepared and there is currently being

handed out an Exhibit which we would like to offer an Exhibit No. 11.

MR. MORRIS: May I ask the Reporter to mark that at this time?

(Whereupon, El Paso's Exhibit No. 11 was marked for identification.)

A Which excerpts from Mr. Utz' graphic representation the allowables assigned for the period December 1969 through June 1970. This graph, Exhibit No. 11, was prepared to show why that anomalous allowable occurred. I find in Mr. Utz' testimony today that he gave recognition to this also and I think that my testimony will essentially be the same as his in terms of both the problem which caused it and the way of correcting it.

Back in January of 1970 on the balancing date when wells are analyzed to determine whether they should be classified as marginal from a non-marginal status a group of wells were reclassified. These wells had an allowable accumulated of 7.8 billion cubic feet of gas. The Commission took this 7.8 billion cubic feet of gas and in fact threw it out. This was 7.8 billion cubic feet of underproduction which was cancelled. This 7.8 billion cubic feet of production

that is cancelled from a pool, a pool that has a pool status as of a date. When you take away 7.8 billion of underage, it reflects 7.8 billion more overage or in effect would indicate for that month that there had been 7.8 billion more production than there had been allowable.

Now, the procedure utilized in calculating allowables today and which has historically been used causes two months later for this correction to be made in subsequent allowables so we find that in March this 7.8 billion was returned to the pool in the form of additional allowables. The nominations didn't reflect it but it was a correction for what had occurred in January.

Now, mathematically there is nothing wrong with doing it this way. It gets the allowable back into the pool to the wells that are still prorated, whether they are overproduced or underproduced. This procedure has been utilized by the Commission during this period of exception and while it's given some anomalous results it really has not inaccurately assigned allowables to wells.

Prior to the exception, the Commission did as Mr. Utz indicated I believe, that he thinks should be done in the future, they took this 7.8 billion cubic feet of underage and they allocated to all of the prorated wells in accordance

with the allocation formula for the pool. Had they done that rather than following the procedure they had, the allowable for the month of March would have been as shown by the dotted line on this Exhibit so the anomalous condition was due to the process utilized in getting this allowable back to the prorated wells. The interesting thing that you should note is that for April, May and June the allowables by either method are the same. There is no dotted line but such is the case. This to me is an indication and a proof that the existing mechanism for calculating a pool allowable does, without question, correct the allowables to actual production. That is the purpose for the mechanism. It is mathematically perfect. It does that and is a circumstance where regardless of which procedure is followed it brings it right back to the exact figure.

Now, Mr. Utz said that he inherited this and there is nobody that has been in the gas business as long as he has but I was around at the time that this was developed. It was not my procedure but I analyzed it very carefully because I wanted to understand that it accomplished that very thing and I proved beyond a question that mathematically it does adjust pool allowables to actual production. It further corrects any circumstance where allowables are

significantly at variance with actual production and that's clearly shown in this Exhibit where we had an allowable in March that was way high compared to production but this mechanism of calculating allowables brought it into line again. That is the reason for this mechanism that's used. That was the purpose for instituting it.

Now, had we based our allowables solely on nominations and had once caused this anomalous condition to occur, we would have found that allowables in the future would have been up and down and up and down which is hard perhaps for the Transcript to reflect in terms of meaning but those of us who have worked with proration through the years know that in the early years of proration when an error occurred this did result. You had severe fluctuations in allowables caused by an error and it never worked itself out. Consequently, this mechanism that is used was developed to level out the allowables to minimize fluctuations and still assure that allowables were equal to production. It's the most effective mechanism for allocating production, for allocating -- correction again, for determining a pool allowable and keeping it in line that I am aware of anywhere in any prorated pool that we do business in.

We do not find that the suggestion of Mr. Utz

improves upon that and we recommend that we continue the procedure we have historically used as being the most effective and most accurate of which we are aware. It further has a major feature in it. It removes from the judgement of anyone the necessity of correcting allowables to actual production. It does it automatically. No one has to make the decision that it's to be done. It's done automatically. No purchaser can ficticiously nominate either higher or lower than he is going to actually take without finding the adjustment two months later on. It removes from anybody's control the determination of a pool allowable. We think that is a basic ingredient of any meaningful proration procedure. We think it should be continued.

Q Mr. Woodruff, if I understand you correctly, and I have used layman terms here, you do not see any need for a change in the method of assigning pool allowables. You think that that is correct. The problem to which you have addressed yourself and which the Commission should address itself is preventing the underage, so much underage to accrue in the first place, is that a fair statement?

A That is a fair statement with an elaboration. We have no desire nor do we recommend nor is it our intent to cause underage to be cancelled for any well that is physically

capable producing that underage but to the extent that this is done and it has been done in the past and we are attempting to minimize this in the future, it does result in indicated overproduction of the wells it had to produce that market demands in amounts that have made it impossible in the San Juan Basin to balance wells. We are seeking an improvement so as to minimize this circumstance.

Q Have you compared how your proposed method would work with the present method being followed for classifying and reclassifying wells from marginal to non-marginal status?

A Yes, we have made a study and the results of this study is reflected in Exhibit No. 12 which is being passed out.

MR. MORRIS: May I ask that the Reporter mark Exhibit No. 12?

(Whereupon, El Paso's Exhibit No. 12 was marked for identification.)

A Exhibit No. 12 is a comparison of the present method with the proposed method for classifying wells marginal for the proration period ending July 31, 1970. You will find for each of the prorated gas pools in Northwest New Mexico a listing of the number of wells and the volumes of the gas cancelled, that volumes of underproduction cancelled, for

those wells by the Commission under their current procedure for classifying wells marginal. El Paso undertook a study of those wells that were marginal into its system. May I clarify that. El Paso undertook a study of the wells tied into its system which were under produced and in order to determine under our proposed procedure how many wells would be classified marginal and how much under production would be cancelled for redistribution to the remaining prorated wells in the pool. The procedure used is reflected in the notes and assumptions on this Exhibit. We used a procedure which we believe assured us that every well that was a potential marginal well was included in our study. There was something like 1200 underproduced wells tied into our system. Our study analyzed 706. There is a column showing this 706 and how it was broken down by pools. We feel confident that the 110 wells which the Commission reclassified as marginal would be included within the 706. To be sure there is no misunderstanding, this 110 wells are marginal wells tied into our system, not marginal wells for the entire San Juan Basin. Our study showed that there would have been 248 wells classified marginal and that there would have been 7.6 billion cubic feet of underage cancelled and redistributed to the remaining non-marginal wells. This compares with

approximately five billion cubic feet which would have been cancelled and redistributed or which was cancelled and in effect redistributed by the Commission under the current procedure. This is a difference in volume of about 2.7, I believe, billion cubic feet of gas. To some this may be large to others small and to some important and to others possibly unimportant. I think it is important and has to be analyzed in terms of its comparison with the amount of overproduction accumulated to wells because the status would be changed for wells by giving them more allowable which in turn increased their overproduction. As of the latest date for which information is available to us, which is the end of October, there was cumulatively accumulated to marginal wells in all of the prorated pools of Northwest New Mexico 11.3 billion cubic feet of underage. So this 2.7 billion improvement and the reassignment of allowable is a significant amount in terms of the total overproduction.

Q You said marginal wells but you mean accrual to non-marginal wells?

A I believe I will attempt to explain it again so that there will be no question about what I am saying. I fear that I may have said overproduced when I should have said underproduced or something different.

The 11.3 billion that I referred to was the accumulative overproduction as of October 31, 1970. Now, to the extent that the additional 2.7 billion of underage accumulated to marginal wells was cancelled and redistributed to the remaining prorated wells, it would have reduced this overproduced status of the prorated wells resulting in less overproduction to be made up making it easier to balance. This is an immediate benefit. There is a further benefit from month to month with this additional 138 wells classified as marginal. They will not in subsequent months receive a full allowable which they are incapable of producing it so on a current basis there will be no more accurate allowables assigned to the remaining prorated wells. So we think that this is a very effective and meaningful way of resulting in more accurate allowables on a current basis; again, not denying any well its fair and full equitable share of the market demand. We picture no violation of correlative rights as a result of this. In effect, the protection may be improved under our proposal. No marginal well will be denied any allowable it would have received had it been non-marginal at all times.

Q Mr. Woodruff, do you have anything further with respect to Exhibit No. 12?

A No, sir.

Q In summary of El Paso's recommendations in this case, would you briefly outline El Paso's position at this point with respect to its recommendations to the Commission?

A El Paso's recommendations are that the change in the procedures which we have presented in Exhibit 5-R be adopted for the Northwest New Mexico Prorated Gas Pools and we recommend that no further changes be made in the proration procedure at this time.

We would recommend, should the Commission consider that the change in the Rules in Southeast New Mexico must be made consistent with Northwest, that these Rules also be applied to Southeast New Mexico. I certainly concur with Mr. Utz in saying that if a Rule is a good Rule, it's equally good for any pool that is prorated and we believe that that is what we have recommended here, a good and improved Rule.

Q Your recommendation, however, is that the changes that you have outlined be adopted at this time for Northwest New Mexico only, is that correct?

A I am recommending that they be adopted for Northwest New Mexico. I feel that it is incumbent upon us, however, since we do operate wells in prorated pools of Southeast New Mexico to request that should these be applied in Northwest

New Mexico prorated pools that the same revisions be adopted in Southeast New Mexico. The problem to which we have testified and the problem which we are trying to correct currently exists only in the Northwest New Mexico and that is why we have concentrated our studies and testimony to where the problem exists.

Q Were Exhibits 5-R, 11 and 12 prepared by you or under your direction?

A They were.

MR. MORRIS: We offer Exhibits 5-R, 11 and 12 again.

MR. NUTTER: El Paso's Exhibits 5-R, 11 and 12 will be admitted in evidence.

(Whereupon, El Paso's Exhibits
5-R, 11 and 12 were admitted
in evidence.)

MR. MORRIS: That is all I have on Direct Examination.

MR. NUTTER: We will recess the Hearing until 1:30 at which time Mr. Woodruff will be available for Cross Examination.

(Whereupon, the Hearing was
recessed until 1:30 P.M.)

MR. NUTTER: The Hearing will come to order. Were

you through with your Direct Examination of Mr. Woodruff?

MR. MORRIS: Yes.

MR. NUTTER: Mr. Woodruff is available. Does anyone have any questions they wish to ask him?

MR. BUELL: I have one.

CROSS EXAMINATION

BY MR. BUELL:

Q Mr. Woodruff, would you turn to your Exhibit 5-R please?

A Yes, I have it before me.

Q We are having a little bit of trouble with the first phrase, balancing of production, Rule 15B. Does it make complete sense to you the way it is currently written and I use my word "currently" on purpose?

A This is a damned if you do and damned if you don't situation. Would you care to point out to me the portion that is questionable and let me explain what the intent of it is and let me see if we can clarify it.

Q I will read it the way I am recommending and the way I am hopeful you will except. "If at any time a well is overproduced in an amount equalling six times its average monthly allowable for the last six months it shall be shut in during that month and each succeeding month until it is

overproduced less than six times its average monthly allowable for the preceeding proration period".

A That is what I said.

Q You have no objection to making that change?

A I can see no objection to that change of phraseology.

MR. NUTTER: You would eliminate the word "current" twice and add "For the preceeding proration period" at the end of the sentence?

MR. BUELL: In lieu of the last six months, preceeding proration period is more readily identifiable and I would add average monthly allowable for the preceeding proration period.

MR. NUTTER: Now I don't follow you. Read it again.

MR. BUELL: "If at any time a well is overproduced in an amount equalling six times its average monthly allowable for the preceeding proration period it shall be shut in during that month and each succeeding month until it is overproduced less than six times its average monthly allowable for the preceeding proration period".

A That accomplishes the same thing, Mr. Examiner. I consider the proposal that we made did.

MR. NUTTER: Thank you, Mr. Buell. Is that all?

MR. BUELL: Yes.

MR. NUTTER: Are there any further questions of Mr. Woodruff? If not, he may be excused. Mr. Russell, you have a witness you wish to call?

MR. RUSSELL: Yes, sir. John F. Russell, appearing on behalf of Texas Pacific Oil Company. I have one witness.

R. B. FREELS

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. RUSSELL:

Q Will you please state your name, name of your employer and the capacity in which you are employed?

A My name is Ron Freels, I work for Texas Pacific Oil Company, Incorporated. I am manager of oil and gas sales and regulations.

Q You have previously qualified to testify before this Examiner, have you not?

A Yes, I have.

Q Are you familiar with the original position or proposal of El Paso Natural Gas Company as outlined or proposed in the October 14 Hearing?

A Yes.

Q Now, in view of their proposal, have you examined the records of some of your wells to determine what effect the adoption of their proposal would have on these wells?

A Yes, I have.

Q And in that connection, have you prepared an Exhibit?

A Yes.

Q In fact, it is numbered Exhibits 1, 2, 3 and 4, is that correct?

A That's correct.

Q In as much as we do not have copies for everyone will you explain what you have done insofar as the Exhibit is concerned and go into as much detail as necessary so these people will understand your figures?

A I went back beginning with the month of the first period of 1969 and reviewed our wells that are connected to the El Paso system to determine the effect that the El Paso Rules would have on classifying our wells as marginal and I have selected four wells which I think demonstrate a potential problem with the proposed El Paso Rules.

The first Exhibit, Exhibit No. 1, is Texas Pacific Oil Company Danglade No. 2 in the Blinebry Pool, Lea County,

New Mexico. On this well I have tabulated the allowable, the production, the underproduction, the cumulative underproduction, for each month, January through June 1969. This well, under the El Paso proposal, would be reclassified as a marginal well. It is underproduced going into the proration period. It was still underproduced at the close of the proration period. It's average monthly production as determined by the last three months of the period which are the days on production divided or the total production divided by the days on production times the average number of days in the month. This figure is less than the average allowable. This well would have been reclassified as a marginal well by the El Paso proposal and the 15,894 MCF at the end of the period would have been cancelled. Current deliverability tests shows it capable of producing in excess of 32,000 MCF per month. The New Mexico Oil Conservation Commission method presently in use did not classify this well as marginal.

Q For the benefit of the people present, would you give the cumulative underproduction figure going into the period and at the end of the period and the average monthly allowable?

A Yes, the well was 2,085 MCF underproduced at the

beginning of the period. At the conclusion, 15,895 MCF underproduced. The average monthly allowable was 12,216. The average monthly production as determined by the last three months, 10,324 MCF per month. This is as a comparison. The well is capable of 32,000 MCF per month.

Q Go to Exhibit 2.

A Exhibit 2 is a similar comparison of our data at the Owens Number 1 Blinebry Pool, Lea County, New Mexico. This well entered the proration period 24,930 MCF underproduced. At the conclusion of the proration period it was 50,062 MCF underproduced. The average monthly allowable for the well during that period was 16,288 MCF. The average monthly production based on the last three months was 15,289 MCF. Under the El Paso proposal this well would be classified as marginal and all the 50,062 MCF underproduction would have been cancelled. Subsequently, the well has demonstrated a capability of producing an excess of 44,000 MCF per month and has made up most of the underage. The New Mexico Oil Conservation Commission method presently in use did not classify this well marginal.

Exhibit 3 is a similar comparison for Texas Pacific State "A" account one well 27 in the Jalmat Pool, Lea County, New Mexico. This well entered the period, the

proration period at 13,243 MCF underproduced. It closed the period 32,513 MCF underproduced. The average monthly allowable for that period was 8,549 MCF. The average monthly production based on the last three months was 8,022 MCF. This well would have been classified marginal under the El Paso proposal and the 32,513 MCF underage would have been cancelled. Current deliverability tests show this well capable of producing in excess of 32,000 MCF per month. The New Mexico Oil Conservation Commission method presently in use did not classify this well marginal.

The final Exhibit, No. 4, is Texas Pacific's State "A" account one well 21 in Jalmat Pool. The same comparison of data was made on this well. It entered the proration period 3,663 MCF underproduced. At the conclusion of the period the well was 22,068 MCF underproduced. Let me point out a few additional comments on this thing. As it turned out the first month, January, at the beginning of the period the well actually overproduced its allowable 13,130 MCF. The following month it overproduced its allowable 7,730 MCF. Subsequent four months it was underproduced. In fact, the last three months the well was shut in no production whatsoever. So again this well would have fit the El Paso classification, would have been classified marginal

and 22,068 underage would have been cancelled. Current deliverability tests show this well capable of producing 33,000 MCF per month. The New Mexico Oil Conservation Commission method presently in use did not classify this well marginal.

Q For the three months there was no production was that due to mechanical difficulties?

A No, this well was shut in. The gas was not needed.

Q Have you made any computations and what the difference in procedure would mean to you company in dollars and cents?

A I have only for those four wells. There were other wells that would have been classified. I felt these were the best examples. For these four wells the total underage cancelled was something in the order of 120,000 MCF, worth to Texas Pacific about \$20,000.

Q Now, you have heard the proposal by Mr. Utz of the Commission as to his recommendations on this matter, have you not?

A Yes, I have.

Q And of the two, which position does your company support?

A We wholeheartedly support Mr. Utz in his proposal.

We think it will work and one other thing which concerns all of us also is that the method that is being proposed by El Paso would put a considerable additional on the operator or the producer, ourselves, and I am sure on Mr. Utz. I am especially concerned about the burden placed on the producer. I don't think it should be necessary to have to audit our individual wells every six months just to be sure a well wasn't classified marginal erroneously.

Q Were Exhibits 1 through 4 prepared by you?

A Yes, they were.

MR. RUSSELL: Mr. Examiner, at this time I move the introduction of Texas Pacific's Exhibits 1 through 4.

MR. NUTTER: Texas Pacific's Exhibits 1 through 4 will be admitted in evidence.

(Whereupon, Texas Pacific's Exhibits
1 through 4 were admitted in
evidence.)

MR. RUSSELL: I have no further questions of this witness.

CROSS EXAMINATION

BY MR. MORRIS:

Q Mr. Freels, on your Danglade Well No. 2, the first Exhibit, why was the actual production during the last three

months so much at variance with the capability, producing capability, of the well?

A I can answer this in a manner that I would assume because El Paso did not need the gas. They generally tell us when they want the gas from these wells.

Q Did this well or any of the other wells covered by your Exhibits, were they producing under choke?

A I don't recall that they were producing under choke but you can see by the number of days on the Exhibit that they were not on production the full time. The Danglade was on production 62.6 days out of the 90 days. I say on production, too. I want to clarify this one point. This was the days that production was recorded from these wells and I don't know for sure whether they were on that the rest of the time and they did not produce. I assume they were shutin.

Q Do you know whether or not these wells were actually producing under choke or not?

A No, I don't. I really doubt that they were. I think El Paso generally operates these wells. They tell us when and where they want it produced and we comply as best we can.

Q In order to cause the variance between your producing

capability and your actual production the wells had to be --

A Restricted.

Q -- restricted in some manner?

A That's right, and it's very obvious that they were restricted at least on the number of days they were on production. I don't know because I am not going to answer your question. I don't know if a choke arrangement or not.

Q Have you had time to study the revised Rule changes proposed by El Paso at this Hearing?

A I have had the opportunity to study while we have been in the Hearing and if anything, I would be more opposed to this new set of Rules than the ones you had before and the primary reason being what I think would be an unnecessary requirement to take additional deliverability tests on a well just to define whether it should be marginal or not. That is my only real objection.

Q Are any deliverability tests required of you now?

A Yes, in fact, we conduct a deliverability test anytime El Paso asks for it.

Q If that be the case, this wouldn't be an additional burden?

A It would be if I had to ask for it. El Paso has

the liberty of potentialing our wells at any time they wish. We require they potential them in a manner we think is right.

Q Would you agree that if you avail yourself of the testing as contemplated by Rule 16B of the Revised Rules, that the cancellation that you have forecast for these wells would not occur? In other words, you could come and take a test showing your producing capability and the wells would not be classified marginal and the result that you state would occur under our proposal would not occur?

A Kind of lost it. Let me see if I can answer your question. The additional requirement to test a well would, I think, avoid the cancellation of underage. We could avoid that anyway. The Rules you have proposed leaves that the only alternative we have to avoid it. We have to go test the well as I read your Rule and that is an additional burden on us as a producer.

Q Mr. Freels, do you operate any wells in Northwest New Mexico?

A I think we own an interest in quite a large number of wells, none of which we operate. Most of them are in units operated by others and a large number by El Paso.

Q Have you studied the effect of El Paso's proposal

upon any of your wells in which you have an interest in Northwest New Mexico?

A No, I have not.

Q Do you know whether you would have the same situation that you have presented by these Exhibits occurring with respect to any well in which you have an interest in Northwest New Mexico?

A I think it would be pretty obvious if I haven't studied the Northwest I couldn't answer your question.

Q Mr. Freels, some of these wells that you have in your Exhibits here are actually in balance, is that correct?

A What do you mean?

Q Are balanced during the proration period?

A You mean did they balance out during the proration period?

Q Yes?

A One or two of them actually overproduced.

Q Yes?

A At the beginning of the period. In fact, Exhibit No. 4 is a very good example of that. It entered the period underproduced and the following month it became overproduced in its status and it was overproduced in the next subsequent month and then underproduced because it was shutin.

Q If the Rules took into account, let's say, it could be stated, for example, to their application to wells in balance, would that alleviate the objection that you have?

A If it would alleviate the necessity for me to continually monitor our wells. As I read the Rules now, I am going to be required at the end of each six-month's period to review each of my wells to see whether it is overproduced at the beginning of the period, overproduced at the end of the period, which is a rather time consuming operation for me and that is one of my biggest objections. What I am saying is, we have a system now that is working for me in Southeast New Mexico. It's causing me personally very little effort to follow it to make sure I am maintaining my position and the proposal you have will not improve my position but it will require additional work of me and that is one of my primary reasons for being opposed to this.

Q Do you or someone in your company keep track of whether your wells are making your allowable, I assume?

A We do not specifically watch that on a month-to-month basis. With the proposal facing us now, we would have to do it two times a year. Now we do it at the convenience and opportunity, when it arises. We do it with the staff

we have now by being flexible.

Q Does your company have any objection to the proposed Rules being adopted in Northwest New Mexico if they are not adopted in the prorated pools of Southeast New Mexico?

A I don't think I have the authority to answer that. I haven't been given that specific authority.

Q You have not studied it?

A I have not looked at the Northwest.

MR. MORRIS: Thank you. That's all the questions I have.

MR. NUTTER: Any further questions of Mr. Freels?

REDIRECT EXAMINATION

BY MR. RUSSELL:

Q Mr. Freels, is it your understanding that Rule 16B, as proposed, sets up a flow test to determine the ability of the well only if the production was mechanically restricted?

A That is the way I read it, yes.

Q So that in the examples on your Exhibits, if the restriction was other than from a mechanical point of view, this would offer you no help, would it, this 16B?

A No, I don't believe it would.

MR. RUSSELL: I have no further questions.

CROSS EXAMINATION

BY MR. HATCH:

Q Mr. Freels, you said you were in favor of Mr. Utz' proposal. I am not sure if you mean his proposal concerned with the pool classifications?

A I have no objection.

Q Or his proposal to leave the well classification as it is?

A Well, my concurrence is primarily to leave the well classification manner as it is now. I have no objection to how it wishes to allocate the allowable to the fields. I do not object to that at all.

MR. HATCH: That's all.

MR. NUTTER: Any further questions?

RECROSS EXAMINATION

BY MR. MORRIS:

Q Mr. Freels, on our Rule 16B, where we have used the word mechanically restricted, if that provided that if the well is restricted for any reason, took out the word mechanical, would that alleviate the problem somewhat?

A That would potentially. It is still the only alternative as I read it. The only way I could avoid a marginal well classification would be through going out and conducting a test of the well which in itself is an expensive item, too.

MR. NUTTER: You are talking about restricted by pipeline pressure, Mr. Morris?

A That's what I thought you meant. That is one of the primary restrictions we face, is the pipeline pressure.

MR. NUTTER: Any further questions of Mr. Freels? You may be excused. Does anyone have any other testimony they wish to offer in this case? Mr. Kellahin.

MR. KELLAHIN: If the Examiner please, Jason Kellahin, appearing for Chevron Oil Company. I would like to call Mr. John Cameron who has testified here before.

JOHN CAMERON

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A John T. Cameron.

Q Mr. Cameron, by whom are you employed and in what position?

A Chevron Oil Company. I am supervising proration engineer.

Q And did you testify in the case presently before the Commission, the Examiner Case 4436 at the Hearing in

October?

A Yes, sir.

Q At the time of your testimony you made a proposal to the Commission as to how you felt the proration situation should be handled. Do you still advocate that proposal?

A No, sir, we do not advocate the proposed Rules that we submitted as our Exhibit No. 2.

Q Have you made some changes then in your proposal, is that what you are saying?

A We would like to withdraw that proposal that was submitted as our Exhibit No. 2. As Mr. Woodruff suggested, we have come to realize that deliverability tests that are taken in Northwest New Mexico do not really serve and would not really serve a useful purpose in the classification of wells from non-marginal to marginal. We made a study of the effect of those, the use of those deliverability tests in the Basin-Dakota Pool and we determined that the first balancing period of this year had our proposal been in operation only an additional five wells would have been reclassified from non-marginal to marginal if deliverability had been used in addition to the high month's production and in most of those wells the high month production was more indicative of the well's capacity than the deliverability was.

Q Then you subscribe to El Paso Natural Gas Company's proposal?

A We do not object to El Paso's modified proposal if it were applied only to the Northwest New Mexico Pools.

Q Now, how about the application of El Paso Natural's proposal to Southeastern New Mexico?

A We still object and still urge that the El Paso proposal not be applied to Southeast New Mexico Pools. We disagree with Mr. Woodruff's earlier comment that a good proposal for one pool ought to be good for another. I don't believe that is necessarily so. The pools of Southeast New Mexico are commonly restricted by choke and this seems to be a basic point of difference in the way the pools are operated in Southeast New Mexico as compared to Northwest New Mexico.

Even the modification that El Paso has added to their original proposal would not alleviate all the problems that we visualize in the El Paso proposal in Southeast New Mexico. For example, in the Indian Basin Pool we talked about earlier, during the same 1969 period that we examined our own wells and tested them concerning those wells in October we also have examined the effect of the El Paso proposal on the other wells in that pool and during the first period of 1969, there were 54 total wells in the Indian Basin Pool.

Of those 54, seven were marginal. Of the remaining 47 non-marginal wells under El Paso's proposal 43 would have been reclassified from non-marginal to marginal at the end of the first proration period.

Now, assuming that El Paso modified proposal had been in effect at that time, that is to say the operator would then be given an opportunity to have tested the well to prove that its capability to produce was greater than its last three-months' production then those 43 wells that would have been reclassified would have to be retested by the operator during the 25-day period as I calculated from the time the operator received the purchaser's report until the 15th of the following month when it was due at the Commission. So the operator of those 43 wells would have had to first determine that his wells would have been erroneously classified. He would then have to conduct a three-day deliverability test at least and these are wells most of which will produce ten million feet a day at their capacity. I don't believe there is any way to get those volumes of gas through the plant facilities there and I don't think all 43 of those wells could physically have been tested in that 25-day period. Furthermore, the existing system is working quite well in that field. All of the problems that would have been created

in that pool would have been for nothing because the existing system is working very well for everyone, the operators, the purchasers and so forth.

In addition, in that pool, as well as others, I understand, the purchaser of gas who is required to make the reports would be required by El Paso's proposal, the purchaser of that gas often purchases at a central point and he does in fact in the Indian Basin. I don't believe that the purchaser even knows the days that these individual wells are on the stream and he would have to set up some sort of procedure with the operator of the wells to advise him whether they are actually being produced.

There are a great number of problems that seem to be to me would prohibit the use of El Paso's Rules in Southeast New Mexico and, as I said before, we have no objection to El Paso's Rules if they are restricted to the Northwest Pools.

Q Your testimony has been directed toward the Indian Basin using that material by way of illustration or is it different from the other pools?

A I think there are other pools perhaps not quite as drastic in their difference from Northwest Pools but are Southeast Pools where chokes are commonly used in the Atoka-

Penn Pool. One of the pools we operate in we do in fact use a choke in one of our wells, two non-marginal wells, and it is commonly operated on a 1764 choke and wellhead pressure at 600PSI in excess of the purchaser's line pressure. The well's average production has no meaning whatever as to the well's capability to produce.

Q You heard the testimony of Mr. Utz and his proposal. How do you stand in regard to that?

A I am not in favor of Mr. Utz' proposal where it had to do with the setting of pool allowables. In the first place, I don't think that the setting of pool allowables has caused the problem which El Paso has had in the past in Northwest New Mexico. I think that the problem is not in the magnitude of the pool allowables but in the distribution of the net allowables to wells in the pools and particularly in the recognition of wells that are incapable of producing allowables and more particularly in recognition of the wells whose purchaser does not have a need for the gas. I think one of the largest problems in Northwest New Mexico has been the multi-purchaser situation in several of the fields in which one purchaser has a market for a volume of gas in excess of the allowable of the wells to which it is connected and the other purchaser has a market that is less than its allocated

share. For this reason, the wells that are connected to one purchaser become overproduced, the wells connected to another become underproduced.

The classification system is supposed to eventually cancel underproduction and redistribute it to the wells which are capable of producing it but there is a time lag that has caused the problem. I think actually that the problem is on its way to solution if it hasn't already been solved. One of the things that has helped is El Paso's taking of gas from Southern Union which I understand they started in August. I would like to think that would go a long way in solving their problem.

The current system, while it is slow in classifying wells and cancelling production, I think it has worked in the Basin-Dakota in early '68 when El Paso first brought this problem to the Commission's attention, and there were 993 marginal wells in the Basin-Dakota Pool. That was about 55 percent of the wells in the pool and in November of this year that number had increased to about more than 500 marginal wells so that there are now 74 percent of the Basin-Dakota wells which are now marginal. This was simply the current system working in reclassifying wells from non-marginal to marginal. I really think that the existing system of

classifying wells will eventually work in Northwest New Mexico also.

Back to your question about Mr. Utz' proposal to the setting of pool allowables. I would hate very much to see the existing system changed. This is a system that has been tried in at least three states for many many years. It has been successful in setting pool allowables equal in the long run to production. There is a lag and it takes time for it to work but eventually allowable is set equal to production. Since production is demand then it is accomplishing the purpose of setting the pool allowable equal to the demand. The use of nominations on the other hand without adjusting them to past production I don't believe would work. Unrealistic nominations on the part of purchasers -- they can't always predict in advance what their demands are going to be. I have a feeling that the system would get completely out of hand because of erroneous nominations if they are not adjusted for past production.

Q Now, you heard some testimony today to the effect that the same system should be used Statewide for handling proration problems. If that is the case, which system do you recommend?

A I am not sure why it's necessary to have the same

system but if it is deemed necessary by the Commission to use the same system both in Northwest and Southeast we urge the existing system continue in effect. It has worked in Southeast with a minimum of problems and I think it is going to work in Northwest New Mexico also. I would urge the current system continue in effect for a period of time to determine whether El Paso's recent purchases of gas will solve the problem.

Q Do you have any other recommendation?

A I don't have any recommendations. I would like to make a comment I have. The damage or lack of it that might accrue to an operator because of a well being placed in a marginal status. I still believe that an erroneous classification of a well from non-marginal to marginal is very damaging and potentially very damaging to an operator.

First, obviously, marginal allowable is less than his allocated allowable so it's therefore less than his fair share of the pool. Now, if in every case while the man is in marginal classification the well is produced wide open that would remove that stigma from the marginal classification. As to its effect on contracts, this is not idle speculation, the marginal classification has jeopardized contracts of ours in other states and it has also been used

in pools in which we operate in New Mexico and a purchaser has claimed release of take-or-pay obligations. In fact, in the Indian Basin Pool the purchaser was deficient on takes of his contract takes, in the year 1967. He recognized those deficiencies and he was willing to pay the shortage of gas that he had failed to take. However, as I said, the purchaser takes at a central point there to allocate the deficiency back to the individual wells in the pool. The procedure that the purchaser took was to pay no deficiencies to any marginal well that was marginal at the first, on the first day of 1967. In other words, any well that was in a marginal classification on the first day of 1967 in that field there was no way he could accrue a deficiency of a take-or-pay contract. This is not the only field, incidently, in which the contract could be placed in jeopardy by marginal classifications. Our own contracts in the Atoka Field set out a daily contract quantity which is equal to 20,000,000 cubic feet a day multiplied by a fraction, the numerator of which is our own New Mexico Commission allowable, the denominator which is the total field allowable. The marginal well allowable is less than a non-marginal well allowable so that our allowable over a period of time would be less and our DCQ would therefore

be reduced. This is not the same if we were in a marginal classification that we would be damaged to any extent but the problem comes when you are erroneously classified to marginal. You can be damaged by it.

Q Do you have anything to add, Mr. Cameron?

A I believe not.

MR. KELLAHIN: That completes the examination of the witness.

MR. NUTTER: Any questions of Mr. Cameron? He may be excused. Does anyone else have any direct testimony to offer? Are there any statements to be made?

MR. BUELL: If it please the Examiner, for Pan American Petroleum Corporation, we are in an unusual situation here today and usually before we come to a Hearing we are aware of the problem and have analyzed it. Here, until Mr. Utz and El Paso had educated us, we didn't realize the tremendous problem that does exist. We were aware, of course, that there were wells that should be classified as marginal that weren't. We had no idea of the magnitude of those wells in that category until we have seen the evidence here. We also knew there was overproduction and underproduction but again we did not visualize the degree until Mr. Utz and El Paso had presented it.

Actually, as far as we can tell, none of these problems were particularly giving Pan American problems. We have been unable to evaluate El Paso's proposal as it will effect Pan American's operations and, of course, Mr. Uts' proposal we cannot evaluate them because of the judgement factor involved in his recommendations. We do know this is a basic truth. It's impossible to have a successful gas proration system if you have a significant number of wells classified as capable and assigned an allowable that they are actually incapable of producing, it's just impossible. We have read and studied the El Paso proposal and it appears to us that it will rapidly and at least somewhat accurately classify those wells as marginal that should be so classified.

We have one concern about the recommendations of Mr. Utz and that concern is the judgement factor. I don't want that to indicate a lack of confidence in Mr. Utz. If we had some assurance that he would be here forever applying the judgement factor our concern would probably fade away but, unfortunately, Mr. Utz will not be here making the judgement factor. We have had experience in states where judgement adjustment has been used. Our experience has been good and bad. Good, when someone of Mr. Utz' background

and experience and knowledge was making the adjustment. Bad, when someone did not have that degree of knowledge and understanding was making the adjustment.

In view of this, it's Pan American's recommendation that the Commission adopt the El Paso proposal. Let's see if it will bring our problem to a manageable proportion. It could well be that the wells presented by Cameron for Chevron and Freels for Texas Pacific will not be the rare exception but will be the rule. If that is the case, we have to come to you with a recommendation for a change but as an interim measure adopt the El Paso proposal. If it doesn't work properly, if it doesn't bring the problem to a manageable level, let's consider our other alternatives, including the recommendations of Mr. Utz which I feel have merit and our only reservation is the fact that we do not know how long Mr. Utz will be making the judgement.

MR. NUTTER: Thank you, Mr. Buell.

MR. MILLER: Pat Miller, Atlantic Richfield, Denver. Atlantic Richfield has interest in both Northwest and Southeast so I think our comments will apply to those. We would also like to precis our remarks by saying we have no objection to the present system. We are in the same category as Chevron and the only reason we'd be here today

on one side or the other is because it looks like we might change the system.

We would protest El Paso's Application for the same reasons as were brought out by Mr. Utz in his earlier testimony. In addition, we have two other problems which were not brought up by Mr. Utz. One is we think that this essentially gives the purchaser the right to determine the marginal and non-marginal wells. I think this has been illustrated by Texas Pacific's testimony on their wells. I think we can determine from the testimony of Chevron and Texas Pacific that there is a problem. In having these classified as marginal wells and that this classification if it's to be made should be a Commission function and not of the gas purchaser.

The second problem seems to me it has not been discussed except maybe inferentially in El Paso's Application is the problem that has been discussed by this Commission many times and by this Examiner many times in the Northwest Region and this is a 100 percent deliverability on wells in the Northwest. We talked about this before. This has been rejected by the Commission as not a good Rule. It seems to me that a classification of marginal and non-marginal based upon the purchaser's right to determine this could

eventually lead you in the Northwest to a 100 percent deliverability factor which we rejected on numerous occasions before this Commission. It seems to me in connection with what Mr. Utz has said, the El Paso proposal will increase the reclassification of marginal and non-marginal wells and will in that area increase the paperwork of both the Commission and the purchaser and producer.

We have said, El Paso has said at least, that the formula currently in effect has worked. They have also said it has not worked. There are underproduction problems and obviously it has not worked because they have asked for exemptions from the current formula. It seems to me it can't both work and not work. If it does not work I suggest that we adopt Mr. Utz' proposal at least for an extended period of time. I would suggest that his proposal be adopted by an administrative change in the Commission and to calculate the full allowables on a basis that he has suggested and if this does not solve the problems of El Paso in their Northwest and Southeast areas then they can come in again at a later date and have some redetermination of this problem.

It seems to me that Mr. Utz' solution will probably work. I think El Paso's problem which, which was under

production can be solved because Mr. Utz says the two advantages to his plan are enumerated in his Exhibit No. 1, his Plan 3 and 5, in which he says the beginning net allowable is not used when the beginning net allowable, the underage does not affect the pool allowable and then in 5 he discusses the purpose of the balancing system, thinks his proposal will give balancing a better chance to work. I would suggest that we give Mr. Utz' proposal a chance to work before we adopt any formal Rules other than the allocation of the pool allowables.

Let me say when I say we recommend Mr. Utz' proposal we recommend both portions of his proposals, that is the calculations of the pool allowable and also the marginal well status Rule being construed as it is. That is, of course, provided the Commission feels the change is needed. We are perfectly willing to operate under the Rule as it is.

MR. HOCKER: R. L. Hocker for Amarada Hess Corporation. Primarily, Amarada opposes the adoption of El Paso's proposed Rules for gas wells in Southeast New Mexico. We have wells connected with Northern Natural in the Southeast that are produced using chokes lasting their maximum producing ability part of the time even though the revised

plan of El Paso's we should be attempting to run production tests on choked wells during the last ten days of the balancing period. At the very same time other operators would be trying to do the same.

Basically, there have been three adjustment systems discussed. The present method now in use had the new method based on nominations and classifications on the high months producing ability and El Paso's system designed to cure problems in Northwest New Mexico area. Our preference would be the use of two systems if possible. If we could utilize two systems we would prefer the present system now in use be maintained for the Southeast New Mexico area and either the new method based on nominations by Mr. Utz or the revised El Paso proposal could be adopted for the Northwest New Mexico area only. However, if only the one system has to be used, we would prefer the new method suggested by Mr. Utz today at least on a trial basis for one or two years.

As I began, we are opposed to the El Paso proposal as it applies to the Southeast New Mexico area only.

MR. NUTTER: Thank you.

MR. KELLAHIN: Jason Kellahin. I think Chevron would probably have to take somewhat the same position as

Pan American in regard to the proposal made by Mr. Utz because of the judgement factor. Certainly we would agree that as long as Mr. Utz is supplying the judgement that would be quite satisfactory. We have to look at a long range program and we do propose provisions which leaves an open-end situation such as has been suggested. Now, in regard to the proposal that has been made by El Paso Natural, in the first place it has not been demonstrated that there is any problem in Southeastern New Mexico. I haven't heard any testimony by El Paso or anybody else raising the question about the situation as has been shown to exist in Northwestern New Mexico. In fact, the only application of El Paso was confined to Northwestern New Mexico and we feel if any action is taken at all it should be confined to Northwestern New Mexico on the basis of testimony that has been offered. Mr. Woodruff in his testimony said that the current system is not working in Northwestern New Mexico. I think perhaps there has been a misinterpretation of what the current system is supposed to be doing. The Statutes under which this Commission operates confines its authority to preventing waste and in preventing waste it has to correct correlative rights.

The brunt of Mr. Woodruff's testimony is to the effect that El Paso can't meet its market demand out of the

Northwest New Mexico Pools under the present system, that, in fact, they have had ask for two extensions of the balancing period in order to alleviate the situation and on that basis the system is not working. This is the same argument that was presented in the Jalmat case with the theory that the ability or need to meet the market demand was a factor to be considered by this Commission adopting proration Rules was rejected by the New Mexico Supreme Court in the Continental Oil Case and we think it forms no basis for the adoption of Pool Rules here today.

The purpose of this Commission, first of all, we are not arguing whether they should or should not adopt proration regulations. They have already done so predicated on the prevention of waste. The only thing we are looking at is protection of correlative rights and I think that is the essential fact that must be considered in considering El Paso's proposal. We feel, and I will not reiterate the testimony offered by Mr. Cameron, we feel that the proposal made by El Paso will not protect correlative rights and in fact will cause some impairment of correlative rights as has been demonstrated by Mr. Cameron's testimony and the testimony offered by Texas Pacific. El Paso apparently takes the position that there be no impairment of contract rights

under the take-or-pay provisions, I think we must bear in mind there are a number of different purchasers and a number of different contracts and if you are adopting statewide Rules they have to be adopted to fit all those contracts and all purchasers. Perhaps El Paso's contracts would not be affected, I don't know, I expect in some cases they would and in some cases they wouldn't but, in any event, I feel we have demonstrated that contract rights would be affected by their proposal and that is a valid reason for rejecting it.

MR. SMOTHERMON: Jerry Smothermon, Consolidated Oil and Gas, Denver, Colorado. Consolidated operates gas wells in prorated pools in Northwest New Mexico and that is our primary concern. We at this time oppose El Paso Natural Gas' recommended change to existing Rules and Regulations. I won't elaborate. We particularly take exception to El Paso Natural Gas' interpretation of days produced. This was touched on at the October 14 Hearing and it appears between pages 51 and 56 of the transcript of that Hearing.

As I interpret it, they contend that days produced is synonymous with valve-open time and I think all the operators sitting here in this room are quite aware that line pressure goes up 50 pounds and backs up if it isn't produced for 10 days. We don't interpret those 10 days as produced time as

not passing gas through the meter. Under their proposal they put a lot of weight on days produced. We can't accept their interpretation of it. We do support Mr. Utz' recommendation and I will reiterate what was mentioned earlier that both recommendations that we continue to use the present system for well reclassification and with Mr. Utz' interpretation of well's ability being the highest month's production in the six month's proration period versus the six-months average allowable and also we think it is to the advantage of Consolidated at least that we try Mr. Utz' proposal for the balancing of the pool as he has outlined in his testimony. Thanks. That's all I have, thank you.

MR. NUTTER: Thank you.

MR. BROWN: Clyde Brown, Continental Oil Company. We have studied the proposal of El Paso Natural Gas Company and the proposal of Chevron and the proposed procedures suggested by Mr. Utz and the various modifications suggested. The proposal that concerns most here today is that set forth by El Paso Natural Gas Company. For instance, in one area in Northwestern New Mexico our engineers have investigated and found that 37 out of 86 wells would be classified as marginal under the El Paso proposal whereas they would not be reclassified under the existing procedure. This results even

though these wells are capable of producing five hundred to a thousand MCF of gas per day. This would, of course, result in the cancellation of a significant amount of underproduction.

We have found it difficult to evaluate El Paso's proposal without knowing the status of every gas well in the State of New Mexico. However, we believe that the El Paso proposal does contain possible pitfalls and that it would not be a good regulation and it would tend to result in a reclassification of more and more wells to marginal status and such a procedure would signal the early end of gas prorationing and the protection of correlative rights by this Commission.

Some of the suggested modifications would tend to improve the El Paso proposal in our judgement but we are afraid the basic shortcomings remain. For instance, El Paso is both a producer and purchaser and in reclassification of wells to marginal could conceivably arise in circumstances aside from the well's ability to produce such as compressor capacity, location and line pressure and according to the November 1970 proration schedule of the Northwest area, approximately 64 percent of the wells in that area are already classified as marginal and this means, as we see it, as being a matter of 64 percent of the wells are not prorated

now and the El Paso proposal, if adopted, would go on this trend. We feel this trend would tend to negate some of the take-or-pay provisions of our gas contracts. We believe that the procedural changes suggested by Mr. Utz suggestions represents retention of the better features of the existing system. Mr. Utz' proposal should provide sufficient flexibility to allow gas purchasers to supply their gas market and retain in the Commission the ability to protect correlative rights.

Adoption of El Paso's proposal gives far too much control to the purchaser, so much so it might be an advocacy of the Commission's ability to control gas production in a manner to protect correlative rights. We urge the Commission to adopt Mr. Utz' procedure and operate this for a period of one year in the Northwest and see how it works. This would be much more practical and far reaching than the untried El Paso proposal and we recommend Mr. Utz' suggestion for a period of one year.

MR. HOOVER: John Hoover, Gulf. The majority of our wells in the State have reached the point that the producing rate is very sensitive to line pressure and as a result of that, in order to keep our allowable up, the purchaser in order to comply with contract which specifies

a certain line pressure is in the process of lowering his entire system but due to a delay in obtaining an approval from the federal offices, probably be the latter part of next year before line pressure is down to contract pressure. In the meantime, in order to keep things going and produce our allowable, they are moving compressors around in some cases from well to well so that is a variation of the production and you might not have a compressor on a well during the test period and we would be on the defensive in keeping a proper classification and when the contract pressure is down to line pressure we could be in better shape.

Gulf's position at the original Hearing, we opposed El Paso's proposal and we suggested that the existing system be continued. Our position has not changed because we feel that the existing system best protects the correlative rights of producers. If a change has to be made, we have no objection to using the Commission's proposal as explained by Mr. Utz to place it in effect for a period of time to see how it works.

MR. DAVIS: Quilman Davis representing Aztec Oil and Gas Company. We have studied all of the proposals that have been made and modifications submitted here today. We have had a lot of difficulty, as stated by Mr. Buell, in

evaluating what the net results of these changes will be. We have had no comparative figures, we have been unable to develop those figures ourselves. We really don't know what will happen under any of the proposals that have been suggested. We feel that the intent and the purpose of prorationing as established here probably will start working under the present Rules as a result of the addition of deliveries of gas to El Paso through the Southern Union Gas Company or Southern Union Gas Company in their connection. However, our main interest is permitting the delivery of gas from the Basin because that's where our funds come from and in view of that we have no objection to the adoption of the Rules as proposed by El Paso.

MR. NUTTER: Anyone else? If no further statements I do have a telegram here from Humble Oil and Refining Company. "New Mexico Oil Conservation Commission, State Land Office Building, Santa Fe, New Mexico. Attention; A. L. Porter: In RE Case #4436. Application of El Paso Natural Gas Company for the amendment of the General Rules and Regulations governing prorated gas fields Humble Oil and Refining Company prefers the current statewide Rules with the suggested revisions of pool allowable calculation procedure as proposed in the November 17, 1970 memorandum of the New Mexico

Oil Conservation Commission. We see no problems with the current New Mexico gas proration procedures concerning the classification of gas wells between marginal and prorated status. We do recognize several improvements in the procedure outlined in the Commissions memorandum that should improve balancing of over and underproduction. We feel the proposed administrative change in the method of calculation of allowable should be given a fair trial to eliminate Northwestern New Mexico gas proration problems that have precipitated this Hearing. The changes as recommended by El Paso Natural Gas at the October 14, 1970 Hearing should not be adopted at this time for the following reasons:

1. It would be a very drastic change from the present Rules.
2. The purchaser would gain considerable control over the settling or allowables for individual wells.
3. Take-or-pay provisions in many gas contracts between producers and purchasers would be materially affected.
4. A large number of wells would unnecessarily be made marginal.
5. Administrative work load of all concerned would be increased.

Therefore, Humble Oil and Refining Company respectfully recommends no change in the general gas proration Rules

and the adoption of the proposed administrative changes in allowable calculations as proposed by the Commission staff. L. H. Byrd, Humble Oil and Refining Company, Midland, Texas."

I have a letter from Pan American, Guy, I guess your statement takes care of that. Thank you. Does anyone else have anything they wish to offer in this case? If there is nothing further, we will take the case under advisement and take a 15 minute recess.

STATE OF NEW MEXICO)
)
 COUNTY OF BERNALILLO)

I, SOVEIDA GONZALES, Court Reporter in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me and that the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.


 COURT REPORTER

I do hereby certify that the
 a true and correct record of the
 the New Mexico Oil Conservation
 heard by me on the _____

 New Mexico Oil Conservation Commission

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date DECEMBER 2, 1970 TIME: 9:00 A.M.

NAME	REPRESENTING	LOCATION
<i>USE 4056</i> JERRY D. SMOTHERS	Consolidated Oil & Gas	Denver
RL Hocker	Anacardo Hess Corp.	Texas
RE McCleskey	Pan American	Ft Worth, Tex
A.P. BEER	ATLANTIC RICHFIELD CO.	FARMINGTON
J.P. MILLER	"	DENVER
R.B. Freels	Texas Pacific Oil Co.	Dallas, Texas
G. Ronald Platt	Chevron Oil Co.	Denver, Col.
William & Marie	Ag.
Charles L. HASELTINE	SOUTHERN UNION	DALLAS
JOHN T. CANNON	CHEVRON OIL CO.	DENVER
W.M. BALKOUNTZ	" " "	"
C.J. Rouse	Pan American	Denver
V.T. Lyon	Continental Oil Co.	Hobbs
Prentice White	Artec Oil & Gas Co.	Dallas
R.E. Anderson	Anadarko Production Co.	Ft. Worth
WV KESTLER	GULF OIL CORP	ROSWELL, NM
JH Hoover	"	"

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date DECEMBER 2, 1970 TIME: 9 A.M.

NAME	REPRESENTING	LOCATION
Bill D. Baker	H. L. Brown Jr	Midland
H. L. GASTON, JR.	H. L. Brown, Jr	MIDLAND
Clayde Brown	Continental Oil Co	Houston
Jim MAZEA	Continental Oil Co.	Casper
Chas. Tamm	"	"
C. W. STUMHOFFER	ANADARKO PROD. CO.	FT. WORTH
Jason Kellahin	Kellahin & Son	Santa Fe
Guy BUECL	PAN AM	FT. WORTH
ROGER LAPHAM	SUN OIL CO.	DALLAS
JIM COLLINS	CITIES SERVICE	BARTLESVILLE
Hugh Mitchell	Four Corners Gas Producers, Inc	OKLA
E. R. Manning	El Paso Natural Gas	Farmington, New Mex
Richard S. Morris	Montgomery et al	Y. D. Box 1525
Ed Kendrick	CCC	El Paso, Tex
Foster Morrell	Independent	Santa Fe
J. C. Minnons	Jenneco	Ayala
H. E. BARRETT	NORTHERN NATURAL	Reswell
		Denver
		OMAHA

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date DECEMBER 2, 1970 TIME: 9 A.M.

NAME	REPRESENTING	LOCATION
<i>Nina L. DuBois</i>	<i>Pat Byrum</i>	<i>Santa Fe</i>
<div>ILLEGIBLE</div>		