

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF EL PASO NATURAL GAS	)	
COMPANY FOR AN AMENDMENT OF ORDER	)	
R-1670 TO PERMIT THE DRILLING AND	)	
PRODUCTION OF ADDITIONAL WELL ON	)	Case No. 5264
PRORATION UNITS IN THE BLANCO	)	
MESAVERDE GAS POOL, SAN JUAN, RIO	)	
ARRIBA AND SANDOVAL COUNTIES.	)	
	)	

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REQUESTED FINDINGS OF FACT OF  
AZTEC OIL & GAS COMPANY

This case was heard by the Commission on August 13, 1974 upon the application of El Paso Natural Gas Company for the amendment of Order R-1670 relating to the Blanco Mesaverde Pool, San Juan, Rio Arriba and Sandoval Counties, New Mexico. Applicant seeks to amend the pool rules promulgated by Order R-1670 as amended to authorize the Secretary-Director of the Commission to approve the drilling of a second well on an existing proration unit without notice and hearing, provided that the second well would be drilled in the quarter section of the unit which does not contain a well and provided further that in calculating the allowable for a proration unit containing two wells, the deliverability of both wells would be combined for determining the unit's "AD factor" and a unit allowable could be produced from either or both wells.

The Commission having considered the testimony and exhibits admitted in evidence at said hearing and being fully advised in the premises finds:

1. That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter hereof.

2. Order R-1670, as amended, and the applicable rules provide for 320 acre spacing and proration units in the Blanco Mesaverde Pool

and, with the exception of a few non-standard units, there are approximately 2,055 producing wells on 320 acre proration units at the present time.

3. That El Paso Natural Gas Company (hereinafter referred to as "El Paso") owns or operates approximately 1,100 of the wells in the Blanco Mesaverde Pool (hereinafter referred to as "Pool") or in excess of 50% of the wells in the Pool.

4. El Paso, in addition to being the owner and operator of the majority of the wells in the pool, is the owner and operator of a gathering system, natural gas pipeline distribution system and is the purchaser or transporter of all of the gas from wells to which its lines are connected, which constitutes approximately \_\_\_\_% of all the wells in the Pool. All gas produced and purchased by El Paso enters its interstate pipeline system and most of the gas is delivered at either the California-Arizona or Arizona-Nevada boundaries for consumption in those states.

5. Southern Union Gas Company and its wholly owned subsidiary own and operate a gas pipeline gathering system and a gas transportation system and purchase gas from approximately \_\_\_\_% of the wells in the Pool. All gas purchased and transported by Southern Union Gas Company is transported in intrastate commerce for in-state use and consumption except in such cases where gas is purchased or delivered to Southern Union Gas Company in excess of its market demand the excess has been delivered to El Paso for transportation in interstate commerce.

6. El Paso desires to increase its out of state deliverability and Southern Union Gas Company's existing connections are such that no additional gas is needed to meet its intrastate demand. There is no ratable take between the respective pipelines as to gas being produced from the Pool, and most of the gas purchase contracts of Southern Union Gas Company extend throughout the life of the leases on which the wells are located from which gas is being purchased and the owners

of such gas do not have the option to sell or otherwise dispose of gas which Southern Union is unable to purchase or transport in its pipeline.

7. Southern Union Production Company is the operator of approximately 70 wells located mostly in the northwest portion of the Pool. All of these wells are connected to the pipeline system of Southern Union Gas Company and its subsidiary.

8. Aztec Oil & Gas Company has an interest in some 500 wells in the Pool and is operator of 130 wells; 107 of which are connected to Southern Union Gas Company's system and 23 to the El Paso system. Almost all of the wells which Aztec operates are located in the northwest portion of the Pool.

9. The first producing well in the Pool was completed in 1953 and consequently there has been a production history of over 20 years and the information with respect thereto is shown by the Commission records. There is also available accurate information as to bottom hole pressures which have shown a gradual decline over the entire Pool, which is indicative of the fact that there has been communication between wells and that the wells are in fact draining gas from the respective 320 acre proration units.

10. Because of the variations in sand content and producing intervals in the various wells in the Pool, the wells can be classified as falling within four different categories; i.e. (1) the wells which have a deliverability in excess of one million cubic feet per day; (2) the wells which have a deliverability of five hundred thousand to one million cubic feet per day; (3) wells which have a deliverability of two hundred thousand to five hundred thousand cubic feet per day; and (4) those which have a deliverability of less than two hundred thousand cubic feet per day. There are approximately 150 wells in the first category, approximately 170 wells in the second category,

approximately 550 wells in the third category and approximately 1190 wells in the fourth category. The wells in the first two categories are all located in the central portion of the Pool. El Paso is running and purchasing the gas from practically all of the wells in the first two categories, which constitute some 420 wells having the greatest deliverability in the Pool.

11. El Paso proposes to drill additional wells at the rate of 100 or more per year and these wells would most logically be located on the units upon which wells are located having the greatest deliverability. These wells would undoubtedly in many instances offset units upon which are located wells of relatively low deliverability and would require immediate drilling of offset wells regardless of the economics that might be involved. The drilling of additional wells by other operators to meet offset obligations would cause a chain reaction which could require the drilling of an additional 2,055 wells over a relatively short period of time.

12. The gathering facilities and interstate pipeline of El Paso has additional capacity to handle the transportation of increased production from the Pool. The gathering system and pipeline facilities of Southern Union Gas Company has very little, if any, additional capacity for the handling of gas from the Pool. There is a differential in pressure between the two systems of approximately 100 pounds per square inch and the delivery of additional gas to the respective systems will result in increased line pressures. The additional wells which operators would be forced to drill to meet offset obligations in the outlying areas of the Pool may not, in many instances, be able to produce at a pressure so that their gas can be delivered into the pipelines without going to the additional expense of compression facilities which necessarily must be considered in determining the economics involved in the drilling of many of the wells in the outlying

areas. Furthermore, the rapid drilling of wells in the area having the highest deliverability would result in production beyond the capacity of both pipelines.

13. Due to the widespread national program for the drilling of wells because of the energy shortage, tubular goods and drilling rigs are in short supply and cannot be readily obtained without long delays. El Paso has shown that it is in a position to drill 100 or more wells within the next year, but other operators, because of inability to obtain necessary tubular goods and drilling rigs and because of their commitments to drill wells in other areas, will be unable to carry on additional drilling operations at a rate which would permit them to meet offset obligations which would be the result of the drilling program contemplated by El Paso.

14. Immediate drilling by El Paso of a large number of wells in the areas having the greatest potential for deliverability in the Pool will cause drainage in the outlying areas having less potential for deliverability, which coupled with the inability of operators to obtain the tubular goods and drilling rigs necessary to meet offset obligations will cause a violation of correlative rights.

15. Because of the characteristics of the producing formation in the Pool and low porosity and permeability in some areas, complete economical drainage of the entire Pool by the existing wells will necessarily be over a long period of time and the drilling of infill wells may add from 2 to 23% to existing reserves, particularly in the outlying areas. On this account existing reserves can be made more readily available over the next several years by the drilling of infill wells. However, waste will not be committed nor correlative rights violated by deferring drilling of infill wells for a reasonable period of time until tubular goods and drilling rigs can be obtained without undue delay.

16. There are a large number of proven or semi-proven undrilled locations in the Blanco Mesaverde Pool which should be drilled before operators are forced to drill a second well on existing 320 acre proration units. The evidence clearly shows that there is no particular urgency on the part of any operator to drill additional wells except in the case of El Paso, which is for the purpose of meeting its deliverability problems because of out of state demand.

#### REQUESTED CONCLUSIONS

Based upon the foregoing Findings of Fact, the Commission concludes:

1. That there is no substantial evidence that the present spacing pattern and proration formula in the Blanco Mesaverde Pool fail to prevent waste or protect correlative rights and the approval of the application would result in the drilling of unnecessary wells.

2. That the drilling of infill wells in the Pool may be desirable in order to make available within a shorter period of time the remaining producible gas within the Pool and to recover some additional gas which might not be recovered through the existing wells. However, the correlative rights of all owners and operators in the Pool cannot be adequately protected by proceeding with an unlimited and uncontrolled drilling program which might result from the immediate approval of the subject application because of the following:

(a) The Commission recognizes that there is a critical national shortage of tubular goods necessary for the drilling of oil and gas wells and that drilling rigs are not readily available and therefore it would not be possible for all operators to promptly meet offset obligations caused by an unlimited and uncontrolled drilling program and thereby protect correlative rights.

(b) The prompt drilling by El Paso of a large number of wells in the areas of the Pool having the highest deliverability

would result in drainage of outlying areas before many of the operators could meet offset obligations and thereby protect correlative rights.

(c) The rapid drilling of wells in the areas having the highest deliverability would also make gas available beyond the capacity of the pipelines to transport the same.

3. The Commission having considered all facts and circumstances further concludes that the most equitable and ideal way to protect the correlative rights of all parties concerned and to prevent waste would be through fieldwide unitization of the Blanco Mesaverde Pool. The Commission has no jurisdiction to force unitization, but recommends that such a course be voluntarily pursued by all operators involved and an earnest effort made to effect unitization if possible to do so within a reasonable period of time.

4. That the Commission retain jurisdiction of this cause and that a supplemental hearing be held in July 1975 for the purpose of determining at that time whether or not conditions are such that the approval of the subject application would be in the interest of prevention of waste and the protection of correlative rights.

Respectfully submitted,

HINKLE, BONDURANT, COX & EATON

By   
Attorneys for Aztec Oil & Gas  
Company

P.O. Box 10  
Roswell, New Mexico 88201

Case 5264

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PHONE  
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July 8, 1974

Mr. A.L. Porter, Jr.  
New Mexico Oil Conservation Commission  
Box 2088  
Santa Fe, New Mexico 87501

Re: El Paso's Application - Case No. 5264

Dear Pete:

Attached to this letter is a copy of a Motion For Postponement which Mr. Clarence Hinkle will file with your Commission July 8th or 9th. As you can see, the basis for Mesa Petroleum Co.'s request for a postponement is that until we ascertain for certain what effect the Federal Power Commission's recently issued National Rate Order, Docket R389-B, would have upon the granting of El Paso's application it is impossible for Mesa to determine what it's position would be respecting the application. I presume that the other producers in the field will be similarly situated.

Mesa has no desire to unduly delay the determination of El Paso's application and if the Commission should decide that it should proceed with the hearing of El Paso's evidence on August 13th, reserving until a later date the presentation of the evidence by Mesa and other similarly situated producers, we would certainly not object.

Realizing the difficulty and the time involved for a producer or gas purchaser to obtain a ruling or order from the Federal Power Commission, it might expedite these proceedings if your Commission, working with the interested parties, would request a formal opinion from the Federal Power Commission as to the applicability of Opinion 699 to the particular circumstances facing your Commission as a result of El Paso's application. I would be willing to assist your staff, as I am sure the attorneys for the other interested parties would be, in framing a request to the Federal Power Commission for an interpretation of their Opinion 699. From my past experience I am sure the Federal Power Commission would act more expeditiously on a request from your State Commission than they would from a



Mr. A.L. Porter, Jr.

-2-

July 8, 1974

request by a producer or purchaser.

If I can be of any assistance to you or your staff in obtaining a Federal Power Commission interpretation, please let me know.

Yours very truly,

A handwritten signature in cursive script, reading "Richard C. Byrd".

Richard C. Byrd  
Attorney for Mesa Petroleum Co.

RCB:ara

cc: Don D. Dent  
Clarence E. Hinkle  
Jim Upchurch  
Mesa Petroleum Co.

Richard S. Morris  
William R. Federici  
Attorneys for El Paso

Jack M. Campbell  
Attorney for Southern Union Producing Co.

Clarence E. Hinkle  
Attorney for Aztec

Case 5264

CLARENCE E. HINKLE  
W. E. BONDURANT, JR.  
LEWIS C. COX, JR.  
PAUL W. EATON, JR.  
CONRAD E. COFFIELD  
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TELEPHONE (505) 622-6510

MIDLAND, TEXAS OFFICE  
521 MIDLAND TOWER  
(915) 683-4691

July 9, 1974

Oil Conservation Commission  
State Land Office Building  
Santa Fe, New Mexico 87501

Re: Case No. 5264-Application of  
El Paso Natural Gas Company for  
an Amendment of Order No. R-1670-  
Blanco Mesaverde Gas Pool, San  
Juan, Rio Arriba and Sandoval  
Counties, New Mexico

Gentlemen:

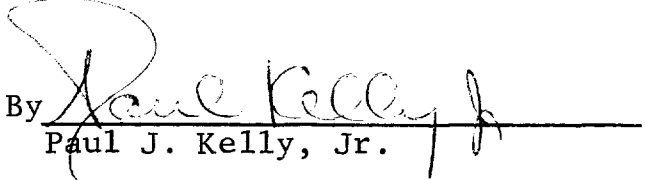
Enclosed herewith for filing is a Motion for Postponement  
on behalf of Mesa Petroleum Co.

In the event that the Commission desires a hearing on this  
Motion we would respectfully request that such a hearing be held  
prior to August 13, 1974.

Very truly yours,

HINKLE, BONDURANT, COX & EATON

By

  
Paul J. Kelly, Jr.

cc: W.R. Federici, Esq.  
Montgomery, Federici, Andrews, Hannahs & Buell

D.D. Dent  
Mesa Petroleum Co.

R.C. Byrd, Esq.  
Anderson, Byrd and Richeson

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF EL PASO NATURAL GAS  
COMPANY FOR AN AMENDMENT OF ORDER  
NO. R-1670 TO PERMIT THE OPTIONAL  
DRILLING AND PRODUCTION OF AN  
ADDITIONAL WELL ON PRORATION UNITS  
SAN JUAN, RIO ARRIBA AND SANDOVAL  
COUNTIES, NEW MEXICO, AND TO PROVIDE  
FOR THE ASSIGNMENT OF ALLOWABLES FOR  
SUCH ADDITIONAL WELLS AND PRORATION  
UNITS.

CASE NO. 5264

MOTION FOR POSTPONEMENT

TO THE HONORABLE OIL CONSERVATION COMMISSION OF NEW MEXICO:

Comes now Mesa Petroleum Co. of Amarillo, Texas, hereinafter referred to as Mesa, acting by and through the undersigned attorneys, and enters its appearance in this cause and requests that the hearing set for August 13, 1974 be postponed, and as grounds for this motion would respectfully show:

1. Mesa owns an interest in more than 450 wells and is the operator of 28 wells in the Blanco Mesaverde Gas Pool, San Juan, Rio Arriba and Sandoval Counties of the State of New Mexico. The granting of El Paso's application could require that Mesa drill approximately 36 additional net wells.

2. The rule changes proposed by El Paso applicable to the Blanco Mesaverde Gas Pool as provided in Order No. R-1670 will authorize the drilling of a second well on an existing proration unit and the unit allowable be produced from either or both wells.

On June 21, 1974, the Federal Power Commission issued its Opinion and Order prescribing a uniform national rate for sales of natural gas produced from wells commenced on or after January 1, 1973, Opinion 699, Docket No. R-389-B. It cannot be determined from such opinion what the pricing policies and procedures may be to determine prices of gas produced from additional wells commenced on or after January 1, 1973, particularly to be applied in connection with any order which the Oil Conservation Commission may issue in this hearing. Until such time as the Federal Power

Commission issues an opinion clarifying the effect of its Opinion and Order of June 21, 1974 on the sale of gas produced from the additional wells drilled on existing proration units, it is impossible for Mesa to determine its position with respect to El Paso's application in this cause.

3. The granting of Mesa's Motion for Continuance will neither cause waste nor violate the correlative rights of the owners of interests in the oil and gas reserves underlying the Blanco Mesaverde Gas Pool.

WHEREFORE, Mesa respectfully requests that the hearing on the subject application of El Paso be postponed until such time as the Federal Power Commission issues its order and opinion clarifying the effect of its Opinion and Order of June 21, 1974 (Opinion 699, Docket No. R-389-B) on the sales of gas produced from the additional wells drilled on existing proration units, as provided for in the proposed rule changes in the subject application. In the event the Commission desires a hearing on this motion, it is further requested that such hearing be held on a date convenient to the Commission prior to August 13, 1974.

Respectfully submitted,

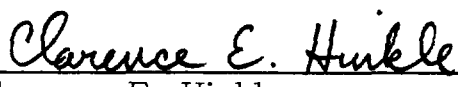
MESA PETROLEUM CO.

  
D. D. Dent

P. O. Box 2009  
Amarillo, Texas 79105

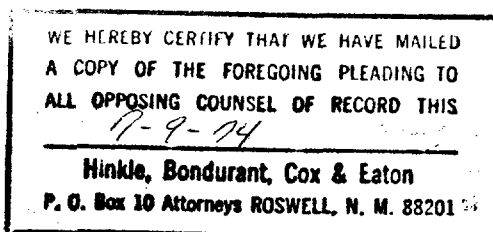
  
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Attorneys for MESA PETROLEUM CO.



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HARRY L. BIGBEE  
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G. STANLEY CROUT  
PAUL D. GERBER

KIMBALL R. UDALL  
ANDREW M. IVES, JR.  
LEILA ANDREWS

August 2, 1974

New Mexico Oil Conservation Commission  
Post Office Box 2088  
Santa Fe, New Mexico 87501

Re: Application of El Paso Natural Gas  
Company for an Amendment of  
Order No. R-1670, Case No. 5264.

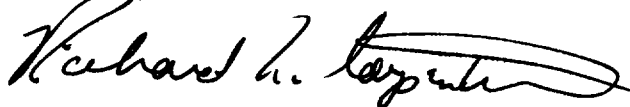
Gentlemen:

Pursuant to Rule 1208 of the Commission, Southern Union Gas Company, by and through this firm and A. S. Grenier and Jack Hertz of Dallas, enters its appearance as an interested party in the above entitled and numbered proceeding and, accordingly, we enclose herewith, in triplicate, our Entry of Appearance as a Party and Participant for filing therein.

A copy of this letter and enclosed pleading are being sent to the attorneys for El Paso Natural Gas Company. If there are any other interested parties upon whom we should serve a copy of our appearance, please advise.

Thank you.

Very truly yours,



Richard N. Carpenter

RNC:ycs  
Enclosures

cc: Montgomery, Federici, Andrews, Hannahs & Buell w/encl.

Richard S. Morris, Esq., EPNG, El Paso, Texas 79978 w/encl.

Mr. W. D. James w/encl.

1           BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

2  
3       APPLICATION OF EL PASO NATURAL GAS  
4       COMPANY FOR AN AMENDMENT OF  
5       ORDER NO. R-1670 TO PERMIT THE  
6       OPTIONAL DRILLING AND PRODUCTION  
7       OF AN ADDITIONAL WELL ON PRORATION  
8       UNITS IN THE BLANCO MESAVERDE GAS  
9       POOL OF SAN JUAN, RIO ARRIBA AND  
10       SANDOVAL COUNTIES, NEW MEXICO, AND  
11       TO PROVIDE FOR THE ASSIGNMENT OF  
12       ALLOWABLES FOR SUCH ADDITIONAL WELLS  
13       AND PRORATION UNITS.

Case No. 5264

14                               ENTRY OF APPEARANCE  
15                               AS A PARTY AND PARTICIPANT

16               Comes now Southern Union Gas Company, by and through its  
17       attorneys, Bigbee, Byrd, Carpenter & Crout and A. S. Grenier and Jack  
18       Hertz, and, as a person either directly or through its wholly owned subsidiary  
19       engaged in purchasing from producers natural gas produced from gas wells  
20       within the Blanco Mesaverde and other San Juan Basin gas pools which are used  
21       in fulfilling its statutory and franchise duties of providing public utility gas  
22       service within New Mexico, as an owner of gas transportation facilities serving  
23       gas wells therein and as a public utility seeking to furnish thousands of con-  
24       sumers within New Mexico with adequate, efficient and reasonable gas service  
25       at just and reasonable rates, thus having a vital stake and interest in the  
26       subject matter of this proceeding and being affected by any disposition  
27       thereof, hereby enters its appearance as a party in this proceeding and, as  
28       an interested party, is entitled and hereby requests a reasonable opportunity  
29       to submit oral and documentary evidence, to submit rebuttal evidence and  
30       to conduct such cross-examination as may be required for a full and true  
31       disclosure of the facts.

32                               A. S. GRENIER  
                              JACK HERTZ  
                              Fidelity Union Tower  
                              Dallas, Texas 75201

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BIGBEE, BYRD, CARPENTER & CROUT

By Richard H. Carpenter

Post Office Box 669  
Santa Fe, New Mexico 87501  
Attorneys for Southern Union Gas Company

**BIGBEE, BYRD, CARPENTER & CROUT**

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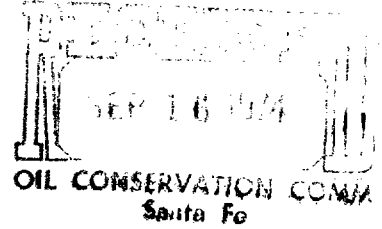
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KIMBALL R. UDALL  
ANDREW M. IVES, JR.  
LEILA ANDREWS

September 16, 1974



Oil Conservation Commission  
Post Office Box 2088  
Santa Fe, New Mexico 87501

Re: N.M.O.C. C. Case No. 5264,  
Application of EPNG for an  
Amendment of Order No. R-1670

Gentlemen:

Enclosed herewith in triplicate, please find Suggested Findings  
of Fact Submitted by Southern Union Gas Company. Thank you.

Very truly yours,

Richard N. Carpenter

RNC:cd

Enclosures

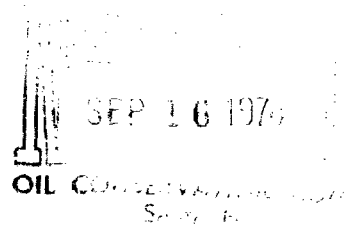
cc: Richard C. Byrd, Esq.  
Clarence E. Hinkle, Esq.  
Jack M. Campbell, Esq.  
Jason W. Kellahin, Esq.  
William R. Federici, Esq.  
Richard S. Morris, Esq.  
Jack Hertz, Esq.



*Jim Egan*

BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

APPLICATION OF EL PASO NATURAL  
GAS COMPANY FOR AN AMENDMENT OF  
ORDER NO. R-1670 TO PERMIT THE  
OPTIONAL DRILLING AND PRODUCTION  
OF AN ADDITIONAL WELL ON PRORATION  
UNITS IN THE BLANCO MESAVERDE GAS  
POOL OF SAN JUAN, RIO ARriba AND  
SANDOVAL COUNTIES, NEW MEXICO,  
AND TO PROVIDE FOR THE ASSIGNMENT  
OF ALLOWABLES FOR SUCH ADDITIONAL  
WELLS AND PRORATION UNITS.



CASE NO. 5264

SUGGESTED FINDINGS OF FACT  
SUBMITTED BY SOUTHERN UNION GAS COMPANY

Comes now Southern Union Gas Company, a participant in and party  
to this proceeding, and respectfully submits its suggested and requested Find-  
ings of Fact as follows:

1. The Commission has jurisdiction of this cause and the subject  
matter hereof.
2. The public has a vital interest in the conservation of natural gas  
and other resources in the State of New Mexico.
3. This proceeding was commenced by the application of El Paso  
Natural Gas Company (EPNG) to amend Order No. R-1670 to permit double  
drilling on existing proration units within the Blanco-Mesaverde Gas Pool and  
to change the allowable formula to include the deliverability of the double  
drilled well additive to that of the first well.
4. The basic statutes (NMSA 1953) governing the approval or dis-  
approval of the EPNG application are: §§65-3-2, prohibiting waste; 65-3-3,  
defining waste; 65-3-5, concerning the Commission's powers and duties;  
65-3-10, referring to this Commission's duty to prevent waste and protect  
correlative rights; 65-3-1-13(c), relating to the formulation of an allowable  
formula; 65-3-14, relating to the equitable allocation of allowable production

1 and spacing; 65-3-15(c), concerning purchases by common purchasers; and  
2 65-3-29(h), defining correlative rights. >

3           5. The Blanco Mesaverde Pool presently has some 2,058 producing  
4 gas wells, each located on a 320-acre spacing and proration unit. The total  
5 production allowable for the pool is divided among the wells under a rather  
6 complex allowable formula which considers both the acreage dedicated to the  
7 well and the well's pipeline deliverability. The spacing rules for this pool and  
8 the allowable formula have been in effect for approximately 23 years and 20  
9 years, respectively.  
10

11           6. By its application, EPNG is seeking to increase deliverability  
12 from the pool by the double-drilling of additional wells on existing 320-acre  
13 proration units. However, rather than petitioning the Commission to change  
14 the spacing for the pool from 320 acres to 160 acres, EPNG seeks an order per-  
15 mitting the drilling of a second well on any 320-acre unit and amending the  
16 prorating formula so that the acreage factor for the wells would not be affected  
17 but the deliverability of the two wells would be additive. Normally under New  
18 Mexico practice, the drilling of a second well would require the formation of  
19 two non-standard 160-acre proration units, each with an acreage factor of  
20 0.5 to be applied to the allowable formula which tends to reduce the allowable  
21 for the well because of its shortage of acreage. A double-drilled proration  
22 unit would receive a larger allowable than a proration unit the operator of which  
23 would not or could not drill the additional well.  
24  
25

26           7. Under such a rule, there is a very real likelihood of drainage of  
27 gas underlying units with one well to units with two wells. Other operators in  
28 the pool, therefore, realize that if the rule is adopted, they will be obligated  
29 under their leases to drill additional wells to prevent such drainage even  
30 though the pool spacing rules would not require additional drilling.  
31

32           8. The Commission must assume that the existing allowable formula

1 is valid until it is successfully attacked.

2           9. There has been a lack of substantial evidence presented in the  
3 record of this case to support the basic findings in the language of Continental  
4 Oil Co. v. Oil Conservation Com'n., 70 N.M. 310, 373 P.2d 809, or their  
5 equivalents, which findings or their equivalents are necessary to and upon  
6 which jurisdiction of this Commission to approve the EPNG application depends.  
7

8           10. The existing allowable formula currently adequately prevents  
9 waste and protects correlative rights. Waste would not be more prevented nor  
10 would correlative rights be better protected under the proposed new formula,  
11 at the current time.

12           11. At this stage of field and office study of the relationship between  
13 double drilling in the pool and any increased reserves in the pool, there is no  
14 substantial evidence that approval of the EPNG application will substantially  
15 increase recoverable reserves in the Blanco Mesaverde Gas Pool. The results  
16 of existing studies are speculative and conjectural.

17           12. Approval of EPNG's application would result in the production  
18 of natural gas from the Blanco Mesaverde Gas Pool in excess of the demand for  
19 natural gas for reasonable current requirements, for current consumption and  
20 for use within or outside the state, together with the demand for such amounts  
21 as are necessary for building up or maintaining reasonable storage reserves.  
22

23           13. Approval of the EPNG proposal would not provide for the  
24 allocation of the allowable production among gas wells in the Blanco Mesaverde  
25 Gas Pool delivering to a gas transportation facility upon a reasonable basis and  
26 recognizing correlative rights throughout the pool..  
27

28           14. Approval of EPNG's application would not, insofar as is prac-  
29 tible, prevent drainage between producing tracts in the Blanco Mesaverde Gas  
30 Pool which is not equalized by counter-drainage.  
31  
32

15. The Commission must assume that the existing spacing is valid until it is successfully attacked.

16. At this stage of field and office investigation of the drainage of gas wells in the pool, there is no substantial evidence that the existing proration units in the Blanco Mesaverde Gas Pool containing one gas well do not efficiently and economically drain and develop the area within such existing proration units. The results of existing studies are speculative and conjectural.

17. There is no substantial evidence that consideration of the economic loss caused by the drilling of unnecessary wells, the protection of correlative rights, including those of royalty owners, the prevention of waste, the avoidance of the augmentation of risks arising from drilling of an excessive number of wells and the prevention of reduced recovery which might result from the drilling of too few wells, supports the proposed change in spacing, at the current time.

18. The existing spacing currently adequately prevents waste and protects correlative rights. Waste would not be more prevented nor would correlative rights be better protected under EPNG's proposed new spacing, at the current time.

19. EPNG, as producer and purchaser, is in a markedly different and more favorable position than other producers in the pool, in relation to economically justifying double-drilling now, in terms of having pipe and other drilling and completion materials and services available now and in terms of the siting of acreage within the pool currently owned or controlled.

20. Due to current shortages in drilling and completion goods, equipment and services, the differential pricing to different producers and ambiguity over the applicability of the new uniform national rate for sales of natural gas to interstate commerce to the double-drilled well and/or total or proportion of the gas produced from the double-drilled proration unit, not all

1 owners of property in the Blanco Mesaverde Gas Pool would have practical  
2 opportunity to produce without waste his just and equitable share of the gas in  
3 the pool, if the EPNG application were approved at the present time.

4 21. Funds available to operators required to double drill, and also  
5 tubular good allocations, would have to be diverted from other exploratory and  
6 developmental programs. It is in the public interest to encourage the explor-  
7 ation for and development of new reserves of natural gas outside of already  
8 defined pools.  
9

10 22. Delay in approving the EPNG plan would more closely correlate  
11 supply and reasonable market demand, both within and outside New Mexico.  
12

13 23. Southern Union Gas Company has a vital stake and interest in  
14 the outcome of this proceeding arising from separate but interdependent cir-  
15 cumstances, to-wit, as a purchaser of natural gas from producers within this  
16 and other San Juan Basin pools; as an owner of gas transportation facilities  
17 serving gas wells therein; and as a public utility in New Mexico seeking to  
18 furnish New Mexico consumers with adequate, efficient and reasonable gas  
19 service at just and reasonable rates. Gas from this and other San Juan Basin  
20 pools purchased by Southern Union Gas Company is the exclusive source of  
21 supply for approximately 500,000 New Mexicans in Albuquerque, Santa Fe and  
22 other areas of Southern Union Gas Company's Northwestern and Albuquerque  
23 service divisions. This is no current market demand for these New Mexico  
24 consumers for the additional gas to be produced under the EPNG application.  
25 The New Mexico Public Service Commission, charged by law with the super-  
26 vision and regulation of public utilities' gas service, shares the concerns  
27 expressed by Southern Union Gas Company.  
28  
29

30 24. If substantial additional reserves could be developed by double-  
31 drilling in this pool, such would be accomplished even if the approval of double-  
32 drilling were to be deferred until a later date. The likelihood of double-drilling

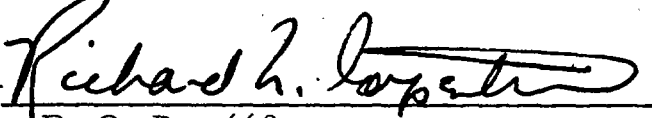
1 under more equal opportunities for all operators in the pool is subserved by not  
2 approving the EPNG application at the present time.

3 25. At the present time, the application of EPNG in this case should,  
4 and must, be disapproved and denied.

5 Respectfully submitted,

6 A. S. GRENIER  
7 JACK HERTZ  
8 Fidelity Union Tower  
9 Dallas, Texas 75201

10 BIGBEE, BYRD, CARPENTER & CROUT

11 By   
12

13 P. O. Box 669  
14 Santa Fe, New Mexico 87501

15 Attorneys for Southern Union Gas Company  
16  
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CLARENCE E. HINKLE  
W. E. BONDURANT, JR.  
LEWIS C. COX, JR.  
PAUL W. EATON, JR.  
CONRAD E. COFFIELD  
HAROLD L. HENSLEY, JR.  
STUART D. SHANOR  
C. D. MARTIN  
PAUL J. KELLY, JR.

LAW OFFICES  
**HINKLE, BONDURANT, COX & EATON**  
600 HINKLE BUILDING  
POST OFFICE BOX 10  
**ROSWELL, NEW MEXICO 88201**

28  
TELEPHONE (505) 622-6510

MIDLAND, TEXAS OFFICE  
521 MIDLAND TOWER  
(915) 683-4691

July 9, 1974

Oil Conservation Commission  
State Land Office Building  
Santa Fe, New Mexico 87501

Re: Case No. 5264 - Application of  
El Paso Natural Gas Company for  
an Amendment of Order No. R-1670-  
Blanco Mesaverde Gas Pool, San  
Juan, Rio Arriba and Sandoval  
Counties, New Mexico

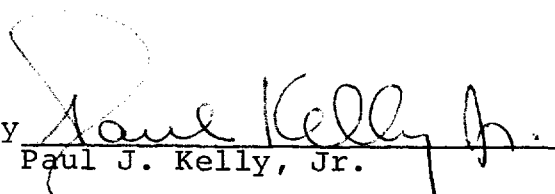
Gentlemen:

Enclosed herewith for filing is a Motion for Continuance  
on behalf of Aztec Oil & Gas Company.

In the event that the Commission desires a hearing on this  
Motion we would respectfully request that such a hearing be held  
prior to August 13, 1974.

Very truly yours,

HINKLE, BONDURANT, COX & EATON

By   
Paul J. Kelly, Jr.

cc: W. R. Federici, Esq.  
Montgomery, Federici, Andrews, Hannahs & Buell

Kenneth Swanson  
Aztec Oil & Gas Company

11

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF EL PASO NATURAL GAS  
COMPANY FOR AN AMENDMENT OF ORDER  
NO. R-1670 TO PERMIT THE OPTIONAL  
DRILLING AND PRODUCTION OF AN  
ADDITIONAL WELL ON PRORATION UNITS  
IN THE BLANCO MESAVERDE GAS POOL OF  
SAN JUAN, RIO ARRIBA AND SANDOVAL  
COUNTIES, NEW MEXICO, AND TO PROVIDE  
FOR THE ASSIGNMENT OF ALLOWABLES FOR  
SUCH ADDITIONAL WELLS AND PRORATION  
UNITS.

Case No. 5264

MOTION FOR CONTINUANCE

Comes Aztec Oil & Gas Company of Dallas, Texas, acting by  
and through the undersigned attorneys, and enters its appearance in  
this cause and respectfully moves that the hearing of this case set  
for August 13, 1974 be continued for a period of at least six months  
and as grounds for such motion petitioner respectfully shows:

1. Petitioner is the owner of interests in more than 500 wells  
and is the operator of 130 wells which are completed in the Blanco  
Mesaverde Gas Pool, San Juan and Rio Arriba Counties.

2. Petitioner estimates that there are some 2,000 wells pro-  
ducing from the Blanco Mesaverde Gas Pool and that the approval  
of the application of El Paso Natural Gas Company in this case would  
entail the drilling of approximately 2,000 additional wells. It is  
a matter of common knowledge that there is a critical shortage of  
tubular goods and because thereof and due to the present demand on  
account of increased drilling activity nationwide, the quantity of  
steel necessary to drill the proposed infill wells could not be obtained  
in the foreseeable future. Furthermore, supply companies are allocating  
tubular goods to customers in proportion to their purchases during 1973.  
Petitioner was not active in drilling wells in 1973 awaiting more  
favorable gas prices and consequently would be unable to obtain



the necessary tubular goods to drill and equip anything like the number of wells which Aztec might be required to drill in the event of the approval of the application of El Paso. On the other hand, Petitioner is informed that El Paso drilled more than 200 wells in the San Juan Basin during 1973 and would probably be able to obtain tubular goods at a faster rate than applicant and could therefore institute drilling operations in connection with infill wells at a far more rapid rate than Aztec, and perhaps many other operators in the pool. This situation would necessarily result in the inability of operators to meet offset obligations and thereby protect correlative rights.

3. The Federal Power Commission has recently issued an order setting a single initial national rate of 42¢ per MCF for gas involved in interstate sales from wells commenced on or after January 1, 1973. Applicant is informed that the Federal Power Commission now has under consideration the issuance of an order which would increase the price of gas being produced from wells commenced prior to January 1, 1973. Under the proposed amendment to Order R-1670 the unit allowable would be produced from either or both wells on the unit. Until the Federal Power Commission determines the rate which may be paid for gas produced from wells commenced prior to January 1, 1973 and being sold in interstate commerce, it is impossible to estimate the proceeds which will become available upon the completion of infill wells and to determine whether it is economically feasible to drill such wells.

4. Even after the Federal Power Commission issues its new order establishing a price for gas produced from wells which were commenced prior to January 1, 1973, it will still be necessary to determine whether or not it will be necessary to market the gas from the old wells and the new wells separately, under different prices, although under the proposed amendment to Order R-1670 the gas would

be commingled and produced in any portion from both wells for proration purposes. If there is a marked difference between the price to be paid for the gas in these two categories, it could lead to a situation where all or most of the gas would be produced from the new wells because of the higher price and this could well defeat the purpose of the drilling of the new wells, i.e. to increase the volume of gas available for market purposes.

WHEREFORE, Petitioner respectfully requests that the hearing on the subject application be continued for a period of 6 months from August 13, 1974, during which time it is anticipated that there will be a clarification through orders issued by the Federal Power Commission of the price which may be paid for gas produced from wells commenced prior to January 1, 1973 and from proration units which involve wells commenced both before and after January 1, 1973. It is further anticipated that by that time the delivery of tubular goods required to drill the large number of wells involved in the event the application is approved will be more current.

Respectfully submitted,

AZTES OIL & GAS COMPANY

By 

HINKLE, BONDURANT, COX & EATON  
Attorneys for Petitioner  
P. O. Box 10  
Roswell, New Mexico 88201

**OIL CONSERVATION COMMISSION**

P. O. BOX 2088

SANTA FE, NEW MEXICO 87501

July 16, 1974

C  
O  
P  
Y

Mr. Paul J. Kelly, Jr.  
Hinkle, Bonbrant, Cox & Eaton  
Attorneys at Law  
Post Office Box 10  
Roswell, New Mexico 88201

Dear Mr. Kelly:

A quorum of the Commission met this morning and considered the applications of Mesa Petroleum Company and Astec Oil & Gas Company for a continuance of Case No. 5264 which has been advertised for hearing August 13.

It is the Commission's decision that arguments on the motions for continuance will be heard at the beginning of the hearing on August 13. Arguments by each participant will be limited to 15 minutes. All parties who propose to present testimony in the case should be prepared to do so on August 13.

Very truly yours,

A. L. PORTER, Jr.  
Secretary-Director

ALP/ir

cc: Honorable Jack M. Campbell for Southern Union  
Production Company  
Mr. Richard S. Morris for El Paso Natural Gas Company  
Mr. Richard C. Byrd for Mesa Petroleum Company

ATWOOD, MALONE, MANN & COOTER  
LAWYERS

JEFF D. ATWOOD [1883-1960]

P. O. DRAWER 700  
SECURITY NATIONAL BANK BUILDING  
ROSWELL, NEW MEXICO 88201  
[505] 622-6221

CHARLES F. MALONE  
RUSSELL D. MANN  
PAUL A. COOTER  
BOB F. TURNER  
ROBERT A. JOHNSON  
JOHN W. BASSETT  
ROBERT E. SABIN  
RUFUS E. THOMPSON  
RALPH D. SHAMAS

August 9, 1974

Mr. A. L. Porter, Jr.  
Oil Conservation Commission  
State Land Office Building  
Santa Fe, New Mexico

RE: Examiner Hearing August 13, 1974  
Case No. 5264

Dear Mr. Porter:

Please file the enclosed Entry of Appearance in the above captioned case. The presentation will be handled by Oscar Swan of Amoco Production Company's Houston office.

Appreciating your courtesy, and with our kind regards, I am,

Very truly yours,



Paul Cooter

PC:sas

cc: Mr. Oscar Swan  
Mr. R. B. Giles

4:20  
P.M.

IPMFEKA SANA  
1-036664A226 08/14/74  
ICS IPMFEKA SANA  
01031 SANTAFE NM 132 08-14 201P MDT  
PMS NEW MEXICO OIL CONSERVATION COMMISSION,DLR  
ATTN MR A L PORTER JR  
PO BOX 2088 SANTA FE NM 87501  
STATEMENT FOR HEARING  
CASE 5264, AUGUST 13, 1974  
BLANCO-MESAVERDE GAS POOL

MOBILE OIL CORPORATION, AS AN OPERATOR IN THE BLANCO-MESAVERDE GAS POOL, RECOMMENDS THAT THE AMENDMENTS TO THE RULES AND REGULATIONS OF THE BLANCO-MESAVERDE GAS POOL, AS PROPOSED IN CASE 5264, BE DISAPPROVED BY THE COMMISSION.

MOBILE DOES NOT BELIEVE THAT THERE WOULD BE A SUFFICIENT INCREASE IN THE RECOVERABLE RESERVES BY THE DRILLING OF SECOND WELLS ON THE PRORATION UNITS TO JUSTIFY THE ADDITIONAL DRILLING. FURTHERMORE, WE BELIEVE THAT THE GRANTING OF SECOND WELLS ON UNITS COULD FORCE INVOLUNTARY DRILLING OF MANY UNPROFITABLE WELLS IN ORDER TO PROTECT CORRELATIVE RIGHTS.

WE BELIEVE THAT THE CAPITAL INVESTMENT REPRESENTED BY THE PROPOSED DRILLING OF SECOND WELLS IN THIS POOL COULD BE BETTER UTILIZED TO FIND AND DEVELOP NEW GAS RESERVES.

MOBILE OIL CORPORATION MIDLAND PRODUCING AREA

1717 EDT

**IPMFEKA SANA**



# MARATHON OIL COMPANY

PRODUCTION - UNITED STATES AND CANADA

CASPER DIVISION

P. O. Box 2659  
Casper, Wyoming 82601

August 9, 1974

Mr. A. L. Porter  
Executive Director  
New Mexico Oil and Gas Conservation Commission  
Santa Fe, New Mexico 87501

Re: Application of El Paso Natural Gas Company  
to Amend Order No. R-1670 to Permit Infill  
Drilling on Gas Proration Units in the  
Blanco Mesaverde Gas Pool of San Juan, Rio  
Arriba and Sandoval Counties, New Mexico

---

Dear Mr. Porter:

Marathon has reviewed the above application of El Paso Natural Gas Company to permit infill drilling on gas proration units for the Blanco Mesaverde Gas Pool.

Our Company is the sole working interest owner of three wells and proration units in this pool which will be affected by this application and is a substantial working interest owner in two other such wells and proration units for a total of five wells and units.

We believe that the granting of this application would detrimentally affect Marathon's leases and interests in the Blanco Mesaverde pool as well as those of other owners. We therefore wish to oppose the application for the following reasons:

1. We do not believe that the drilling of infill wells in this pool will significantly add to the ultimate recovery of gas from the pool. There has been no substantial change of knowledge of conditions concerning the pool since the proration units were established that would indicate that reserves can be substantially increased by infill drilling. The consequence, therefore, of such infill drilling as proposed, will be economic loss by the drilling of unnecessary wells.

August 9, 1974

2. Shortages of casing, drilling rigs, and other materials and equipment can and will lead to sporadic infill drilling, resulting in uncompensated drainage from leases and areas of low well density to leases and areas of high well density, thus violating the correlative rights of the owners involved.

We respectfully ask that the Commission consider Marathon's opposition to the granting of El Paso's application in this matter.

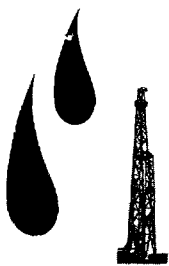
Respectfully yours,

MARATHON OIL COMPANY

By Carl M Morris  
Carl M. Morris  
District Operations Manager

CMM/MGG: dp

cy: El Paso Natural Gas Company  
Mr. W. C. Sylvester  
Mr. M. G. Gray



## CLINTON OIL COMPANY

217 NORTH WATER / WICHITA, KANSAS 67202 / 316 262-8231  
TWX 910 741-6940 and 6966 Cable Address: CLINTOIL  
P. O. BOX 1201 / WICHITA, KANSAS 67201

August 23, 1974

New Mexico Oil Conservation Commission  
P.O. Box 2088  
Santa Fe, New Mexico 87501

Attention: A.L. Porter Jr.

Re: Docket No. 18-74, Case 5264  
Blanco Mesaverde Pool  
San Juan and Rio Arriba Counties,  
New Mexico

Gentlemen:

Clinton Oil Company operates two wells in the Blanco Mesaverde Pool and has an interest in three wells operated by El Paso Natural Gas Company. Clinton Oil Company has recently supported applications for increases in drilling density where there has been an indication that the present well density was not efficiently and economically draining the reservoir. We have supported these applications only where there have been adequate measures taken for the protection of correlative rights. Clinton Oil Company is opposed to the application of El Paso for a rule allowing an additional well on each 320 acre spacing unit in the Blanco Mesaverde Pool because the rules proposed by El Paso have no provisions insuring the protection of correlative rights which have been established during the 20-25 year producing life of this reservoir. Clinton Oil Company would support this application if the proposed rules contained adequate provision for the protection of correlative rights.

The present 320 acre spacing will drain the Blanco Mesaverde Reservoir. This is confirmed by El Paso Exhibit 16 which shows that the average bottom hole pressure measured in the three strat tests is declining at essentially the same rate as the bottom hole pressures calculated from the seven day shut in pressures.

The present 320 acre well density is not providing efficient and economic drainage. The "poor" wells in the field have a remaining producing life of approximately 40 years and the "good" wells in the field have a remaining producing life of approximately 100 years. These remaining producing lives approach or exceed the life expectancy of the physical equipment. Additional drilling can be economically justified now, while deliverabilities are good and surface facilities are adequate. Re-drilling 40 to 100 years from now to correct mechanical failures would be questionable because of lower deliverability and deteriorated surface equipment and pipelines. If infill drilling is not permitted now, then at some time in the future a critical decision point will be reached. Either the field will have to be redeveloped with replacement of deteriorated surface facilities and pipeline, or the field will have to be abandoned with considerable reserves remaining in the reservoir. Although the 320 acre well density will eventually drain the reservoir, the additional wells are required to efficiently and economically drain this reservoir.



A spacing pattern which extends depletion over a 60 to 120 year period is not providing efficient and economical drainage.

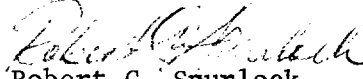
We do not mean to imply that we suspect El Paso of having a scheme or plan. We are aware, however, that whenever rules and regulations are adopted, each employee for each party will strive to achieve the maximum legal benefit for that party. If the rules proposed by El Paso are adopted, we can visualize a series of events which would have a very serious impact on correlative rights. This concern for the protection of correlative rights arises because most of the acreage in the "fairway", (i.e., the "good" wells) is owned by El Paso, operated by El Paso, and the gas is purchased by El Paso. The "poor" wells are presently having difficulty delivering into the El Paso pipeline which is operated at 250 psi. The initial infill wells would probably be drilled in the "fairway", and if they are given the allowable status requested by El Paso, they could increase the line pressure and shut out the "poor" wells. If additional development is allowed under the rules proposed by El Paso, correlative rights may be violated by virtue of new wells (El Paso) being produced at the expense of old wells (other operators).

We believe that rules can be devised which will protect correlative rights. The Additional Wells on each unit could be assigned a non-transferrable allowable in accordance with the field formula. The purchasers could be allowed to take gas from these additional wells only when demand exceeds the total allowable of all regular unit wells.

In addition, the purchaser could be prohibited from taking gas from the Additional Wells at any time that the purchaser's line pressure is in excess of some stated level. The purchasers may argue that the Commission does not have the authority to tell them what the line pressure will be. Proper wording of the rule can avoid this argument. The purchaser is not told that he must operate his line at a certain pressure, he is told under what conditions he may take gas from a certain class of wells.

In conclusion, Clinton Oil Company believes that additional drilling in the Blanco Mesaverde Pool is necessary to provide more efficient and economic depletion. We urge the New Mexico Oil Conservation Commission to develop and implement a gas proration system which will permit the development of the important reserves in the Blanco Mesaverde Pool and at the same time insure the protection of correlative rights.

Very truly yours,

  
Robert C. Spurlock  
Operations Attorney

RCS:mp

OIL CONSERVATION COMMISSION

P. O. BOX 2088

SANTA FE, NEW MEXICO 87501

Case 5264

Core file

June 17, 1974

C  
O  
P  
Y  
  
Mr. W. P. Carr  
6700 Forest Lane  
Dallas, Texas 75230

Dear Mr. Carr:

Receipt is hereby acknowledged of your letter of June 10 which refers to an application of El Paso Natural Gas Company to amend Order No. R-1670.

This case has been formerly advertised for public hearing on Tuesday August 13, 1974 at 9 o'clock a.m., Morgan Hall, State Land Office Building, Santa Fe, New Mexico. At the hearing any interested party who desires to present sworn testimony will be heard and the decision will be based upon the record made at the hearing.

Very truly yours,

A. L. PORTER, Jr.  
Secretary-Director

ALP/ir

cc: Mr. Richards S. Morris

# *El Paso Natural Gas Company*

*El Paso, Texas* 79978

RICHARD S. MORRIS  
ASSISTANT GENERAL COUNSEL

June 14, 1974

Mr. A. L. Porter, Jr.  
Secretary-Director  
New Mexico Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Dear Mr. Porter:

We have received a copy of Mr. W. P. Carr's letter to you of June 10, 1974, concerning El Paso's application to amend the Commission's Order No. R-1670 to enable infill drilling in the Blanco Mesaverde Gas Pool. We do not agree with the assertions made by Mr. Carr in his letter to the effect that El Paso's proposal will adversely affect the interests of the State of New Mexico and the small producers in the Blanco Mesaverde Gas Pool. To the contrary, we believe the evidence to be presented at the hearing on this application will show that waste will be prevented and correlative rights protected by the proposed amendment.

We do not believe it would be appropriate to make a detailed response to Mr. Carr's letter at this time, but we certainly intend to respond to the general questions raised by his letter in the course of the hearing upon this application.

Very truly yours,



ep

cc: Mr. William Plack Carr

WILLIAM PLACK CARR

6700 FOREST LANE  
DALLAS, TEXAS 75230

June 10, 1974

Mr. A. L. Porter  
Executive Director  
New Mexico Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Dear Mr. Porter:

I wish to intervene as an interested party in the hearing for the renewed application of El Paso Natural Gas Company to amend Order No. R-1670 to enable infill drilling in the Blanco Mesa Verde Gas Pool.

I am more strongly opposed to this amendment than I can ever recall being opposed to anything.

I am a small independent operator managing a family business which has a very small amount of Mesa Verde Gas Production. I have spent what was to me a very considerable sum of money to develop this production. In spending this money I assumed that the existing rules and regulations governing the development and production of these properties would be in existence for the life of the properties. I do not feel that this Commission will permit changes in these regulations which would cause grave financial losses to gas producers and to the State.

I have had what I felt was an excellent relationship with El Paso. I feel that at the price bargaining table they always treated the small operators exactly as they treated the most powerful companies. They have been most helpful in guiding my contacts with the Federal Power Commission, and I hope they will continue to do so. For these past favors I am most grateful, but this proposal will be financially disastrous for the small operator and for the State of New Mexico, and will, I feel, be of no ultimate benefit to El Paso.

El Paso will make high sounding, conservation oriented, relieve the energy shortage claims and allegations, but I feel their only interest in the adoption of this amendment is simply more profit quicker for El Paso.

The reason I am opposed to the amendment is that the increased rate of revenue to El Paso will result in an overall decreased revenue and profit for me. Since the State receives a portion of the selling price for gas, I feel its interest should certainly be with that of the producer. Conversely, if this accelerated program of production is denied, it will not mean less profit to El Paso as they will be able to pass on their eventually higher gas costs to the consumer and make an even larger unit profit, even though it comes at a later date.

El Paso's current contracts provide for new gas payments at a basic price of 28¢/MCF. This price is considerably less than one-half of the price at which El Paso could contract a volume of gas equal to that which they will obtain if this amendment is granted. It is locked in gas dedicated to El Paso, and there is no way I know of that drillers of the new wells could entertain an offer from a different purchaser. Since the existing wells cannot deplete the reservoir within the life of their present contracts, El Paso is proposing this amendment as a certain method of insuring them the entire reserves of the reservoir at the present, miserable, price-controlled prices. I do not feel that this Commission will seriously consider allowing this financial loss to either the State of New Mexico, or the small producer.

If we have learned anything from the Federal Power Commission it is that higher prices bring forth greater gas reserves. This negates all the arguments El Paso can use as to how greater drilling densities can result in somewhat greater recoveries. Increased recoveries are much more certain to occur at the higher prices which are certain to prevail in the future than they are at the depressed prices which could be obtained under El Paso's contracts at the present time, because producers will be able to develop lower quality reserves at the higher prices.

At the present low prices the producers will only be able to develop their better reserves, and they will be forced to develop their better reserves or have them drained away by El Paso because of the more than doubled allowables, which would exist on the units with two wells. At the present time this amendment would almost certainly cause some losses of reserves to smaller operators due to their inability to drill the necessary forced protection wells because of their inability to secure financing on today's tight money market, or to obtain steel due to their lower status with supply companies.

If this application is granted, it will force each producer to operate under a changed set of rules, or forfeit part of his reserves for the enrichment of El Paso, or possibly both. This is the unpleasant prospect which this amendment seems to me to offer the small producer.

I realize that the prospect of increased tax revenues at no increase in taxes is indeed a golden carrot to dangle before any governmental agency, but I know that this Commission will insist on viewing the longer term implications of this proposal. These are that gas which would be recoverable later at higher prices and higher tax revenues will be produced sooner at lower prices and lower tax revenues resulting in lower ultimate revenues to the State of New Mexico, and to the gas producer. The accelerated production will be mainly utilized in other states, and will not be available to future tax-paying industries which might be attracted to locating within New Mexico, because of the availability of these reserves.

And finally, since I feel that I am pleading for my economic life in that I consider my Mesa Verde Gas reserves my most valuable economic asset, should the Commission decide, for reasons which I cannot see to grant this application, could you not please grant it on the condition that El Paso would release the infill drilled units from their contracts in order that the large volume of gas that could then be available would be free to seek a market that more nearly reflects today's conditions? I presume that this would require that the Federal Power Commission agrees to this release. If this is not possible, let El Paso come up with a plan which would prevent such financial losses. They are a large company with smart lawyers, and surely anyone who could think up a plan such as this to get gas at a cheap price, can think of one to get it at a fair price. The fairest price of all will come at the expiration of their present contracts.

Thank you for considering this request.

Yours very truly,



W. P. Carr

WPC/b

cc: Mr. Richard S. Morris  
El Paso Natural Gas Company  
P. O. Box 1492  
El Paso, Texas 79978

Four Corners Gas Producers Association, Inc.  
P. O. Box 556  
Farmington, New Mexico 87401



August 5, 1974

Oil Conservation Commission of  
The State of New Mexico  
P.O. Box 2088  
Santa Fe, New Mexico 87501

Re: Case No. 5264  
Statement of Tenneco Oil Company  
to proposal to amend Order R-1670.

Gentlemen:

Tenneco Oil Company hereby submits a statement to the New Mexico Oil Conservation Commission concerning the amendment to Order No. R0-1670 as proposed by the applicant, El Paso Natural Gas Company. Tenneco owns very substantial leasehold and royalty interests in the Blanco Mesaverde Pool. We request that serious consideration be given to some of the undesirable results of such an amendment as proposed by El Paso.

Our objections to the infill drilling proposal involve interrelated legal, contractual and economic problems. The first general category, while including economic implications, concerns primarily the following contractual, correlative rights and legal complications:

- (1) The proposed amendment does allow a second well to be drilled on an existing 320 acre spacing unit rather than establishing a standard 160 acre spacing system. However, operators will still face lessor demands for infill drilling or compensatory royalties on locations that the operator deems uneconomic. With loss of the original 320-acre "developed" status an operator might even lose through litigation a 160-acre tract which, if later drilled, would drain its existing well.
- (2) Applicant El Paso, as a public utility, can increase profits by increasing investment. El Paso could therefore drill additional wells profitably in locations where a non-utility producer could not. Could not El Paso's additional wells and production in such a situation result in drainage from offset leases of non-utility producers? Again the offset operator would be faced with legal demands for infill drilling or compensatory royalties for unprofitable locations.
- (3) It is probable that the second well drilled on a 320 acre proration unit would deliver production into interstate commerce at a higher price than the first well. The applicant's proposed amendment gives no assurance that either well would be produced ratably with respect to the other. In fact the proposed amendment would allow allocated allowable production to be taken from either or both of the wells at a ratio left to the operator's discretion. Should there be a substantial sales price differential between the two wells, the ratios of production might easily be manipulated to a pipeline-producing operator's advantage with resulting complaints from royalty and working interest owners in the proration unit.

Oil Conservation Commission of  
The State of New Mexico

August 5, 1974

In summary, Tenneco does not recognize El Paso's market demand problems as complete justification for additional infill drilling in the Blanco Mesaverde gas pool. El Paso's proposed amendment is self-serving by shifting too much of the cost burden to the operators in the pool. The proposed changes to Order No. R-1670 can result in a continuing series of complicated and expensive legal problems and force undue hardships on other operators who may not have available the capital funding necessary to protect their interests. Tenneco is therefore opposed to the amendments as proposed by the applicant.

Yours very truly,

TENNECO OIL COMPANY

By: L. L. Parish  
L. L. Parish  
Division General Manager.

LLP/MFC:mt



August 14, 1974

New Mexico Oil Conservation Commission  
Santa Fe, New Mexico

Re: Case No. 5264

Mr. Chairman:

By way of introduction and as a reason for being here to make a statement for this record, I submit that I have been involved professionally with the gas problems of the San Juan Basin probably longer than almost everyone present here today. Certainly longer than El Paso Natural Gas Company, since they were introduced to the area by a company I represented.

Now, as an independent producer having an economic interest in approximately 524 wells in the New Mexico part of the San Juan Basin, a good many of which are Mesa Verde wells, I have a keen interest in the decision which will ultimately be rendered by the Commission.

It is my belief that the evidence presented at this hearing clearly shows:

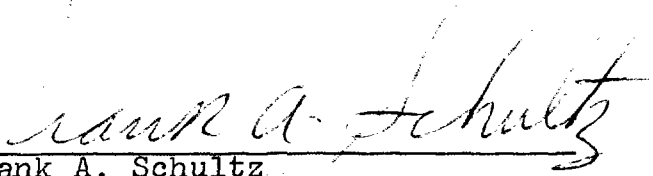
1. That substantial new quantities of gas will be recovered and produced within a more meaningful economic time period with ~~infill~~ <sup>infield</sup> drilling.
2. That this gas may never be recovered without the ~~infill~~ <sup>infield</sup> drilling by reason of the variable nature of the reservoir due to porosity and permeability changes in the formation, both vertically and laterally.
3. That every operator would be afforded the opportunity to drill and produce his just and fair share of the gas in the field, thereby preventing waste and protecting correlative rights.
4. That the increased income attributable to this new production will be of substantial benefit to the producers, to the State of New Mexico and the Federal Government and to other royalty owners.

It is my opinion, therefore, that the Commission should adopt the proposed rule changes set forth in El Paso's application.

New Mexico Oil Conservation Commission  
August 14, 1974  
Page 2.

I might add, Mr. Chairman, that should the application be granted, it is my intention to drill all my locations as soon as drilling rigs and tubular goods are available, whether we are then operating under the New price or the old price.

Thank you very much.

  
Frank A. Schultz  
730 Fidelity Union Tower  
Dallas, Texas 75201

OIL CONSERVATION COMMISSION

P. O. BOX 2088

SANTA FE NEW MEXICO 87501

*file with  
IPNG  
drilling case*

October 23, 1974

Mr. Emery Arnold, Supervisor  
New Mexico Oil Conservation Commission  
1000 Rio Brazos Road  
Aztec, New Mexico 87410

Dear Emery:

In regard to our meeting next Tuesday I am jotting down a few thoughts for discussion on the matter of how to handle proration in the event the application in Case 5264 should be granted. I am sure that you will differ with some of my statements, but please give them serious consideration before coming to the meeting.

Since the reason for granting this application would be greater ultimate recovery it is highly desirable that a second well be drilled on as many units as economics would dictate. Thus incentives become extremely important.

Three suggestions for handling the deliverability factor in the proration formula have been discussed:

1. Add-on. The sum of the two tests.
2. The average of the two tests.
3. The highest of the two tests.

Since correlative rights are as well served by one as the other we should consider only the proposition of which would afford the greater ultimate recovery. Quite obviously "add on" would provide the greater incentive, particularly in the less attractive areas of the pool. It is also obvious that using an average could result in a decrease in the unit allowable and the use of the higher of the two tests could result in no increase or only a slight increase.

OIL CONSERVATION COMMISSION

P. O. BOX 2088

-2-

SANTA FE NEW MEXICO 87501

Mr. Emery Arnold, Supervisor  
Oil Conservation Commission  
Aztec, New Mexico

Regardless of the method used for computing allowables, it is extremely important that no well be prematurely abandoned if optimum recovery is to be accomplished. There is a need therefore, for a finding to the effect that because of price differential the incentive is present to prematurely abandon the existing well in favor of producing the allowable for the unit from the new well at the higher price. Therefore, the order should provide that both wells must be given the opportunity to produce as long as it is economically feasible to produce either well. In other words the old well or the well with the lower deliverability should be allowed to remain on the line.

Sincerely,

A. L. PORTER, Jr.  
Secretary-Director

ALP/ir

Amerada Hess opposes El Paso's proposed amendment of Order No. R-1670, as amended, for increased well density in Blanco Mesa Verde Pool, San Juan, Rio Arriba Counties, New Mexico.

If the Commission grants the amendment, the results will be economic waste of what is already constricted availability of drilling equipment and supplies. The amendment could possibly result in denying Amerada Hess and others the opportunity to produce their just and equitable share of the oil and gas in the pool.

It seems clear that even if reduced spacing can be geologically justified, additional drilling will not be a paying proposition under present wellhead gas prices.

The commitment of the resources necessary for drilling on 160-acre spacing can be better utilized in more productive areas. If a contemplated well is economically unjustifiable when offset by a unit on which two wells have been completed, waste could result by the drilling required to protect correlative rights.

This application is premature and it would not be proper to approve the proposed re-spacing. Later, if economic conditions permit a more intense drilling program the proposal should be reconsidered.

There is no immediate urgency and the ultimate recovery will not be adversely affected by waiting until closer spacing can be economically justified. On the other hand, if intensified drilling is permitted now, demand by offsetting operators could create an untenable situation for those producers who cannot benefit from the advantages of being able to sell the gas directly to the consumer. We urgently request the Commission to deny the proposal at this time.

NEW MEXICO

# Public Service Commission

STATE CAPITOL BUILDING

Santa Fe, New Mexico

~~XXXX~~

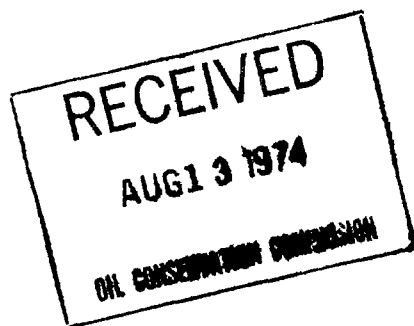
87503

August 13, 1974

RICHARD P. MONTOYA  
CHAIRMAN

MORRIS YASHVIN  
COMMISSIONER

J. C. HESTER  
COMMISSIONER



New Mexico Oil Conservation Commission  
Post Office Box 2088  
Santa Fe, New Mexico 87501

Re: New Mexico Oil Conservation Commission, Case  
No. 5264, Application of El Paso Natural Gas  
Company for an Amendment of Order No. R-1670

Gentlemen:

As the New Mexico regulatory body having general and exclusive jurisdiction and supervision over the rates, charges, service regulations and other matters pertaining to the sale of natural gas by public utilities in New Mexico and the sale of natural gas by any person, firm or corporation to a utility for resale in New Mexico, we are vitally concerned that this Commission and the utilities it regulates are able to continue to supply adequate, efficient and reasonable service at just and reasonable rates.

Southern Union Gas Company, one of our regulated gas utilities and which is the principal supplier of gas to consumers in New Mexico, has informed us that it is opposing, on behalf of its consumers, the application of El Paso Natural Gas Company in the above proceeding upon the following grounds, to-wit:

"(1) The increase in production from the Blanco-Mesaverde will more rapidly deplete the gas reserves available in the pool.

"(2) The increased production will occur at a more rapid rate than Southern Union's growth of New Mexico market demand; and, to this extent, will increase the percentage and total volume of gas utilized in the satisfaction of inter-state market demand.

"(3) In the foreseeable future, some additional wells in the pool may be required to meet the needs of high priority customers within and without the state, but the blanket, optional, infill drilling proposed in this case may not be the most desirable method of increasing deliverability of gas.

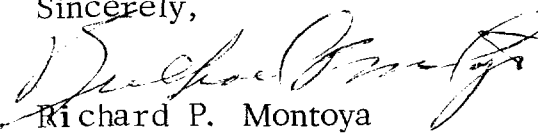
"(4) In any event, the proposed amendment of the allowable formula does not contribute to the prevention of waste or the protection of correlative rights; but is obviously motivated by the desire for a short term increase in the volume of gas to be produced.

"(5) A utility has the obligation to furnish its consumers with adequate, efficient and reasonable service at just and reasonable rates. The approval of the application in this case may impair the ability of Southern Union to fulfill this obligation to present and future New Mexico consumers.

"(6) Southern Union therefore feels compelled to oppose the application of El Paso Natural Gas Company in this case."

These grounds adequately state our concern with your pending proceeding and we ask that you give due consideration to the effect of your decision on New Mexico consumers, present and future.

Sincerely,

  
Richard P. Montoya  
Chairman

OIL CONSERVATION COMMISSION

P. O. BOX 2088

SANTA FE NEW MEXICO 87501

August 27, 1974

C  
O  
P  
Y

William Federici, Esq.  
Montgomery, Federici, Andrews,  
Hannahs & Buell  
350 E. Palace  
Santa Fe, New Mexico 87501

Dear Mr. Federici:

The New Mexico Oil Conservation Commission met this morning and extended the time for filing Suggested Findings of Fact in Case 5264 to September 16, 1974.

The Commission hopes this action will make it easier for the parties in this case to comply with its request.

Very truly yours,

WILLIAM F. CARR  
General Counsel

WFC/dr

*This letter was also mailed to:*

*Richard L. Morris  
Jack M. Campbell  
Edwene Finkle  
Richard C. Byrd  
Jason W. Kurland*

*Dick Carpenter*



J. O. SETH (1883-1963)

A. K. MONTGOMERY  
WM. R. FEDERICI  
FRANK ANDREWS  
FRED C. HANNAHS  
SUMNER G. BUELL  
SETH D. MONTGOMERY  
FRANK ANDREWS III  
OWEN M. LOPEZ  
JEFFREY R. BRANNEN  
JOHN BENNETT POUND

**MONTGOMERY, FEDERICI, ANDREWS, HANNAHS & BUELL**

ATTORNEYS AND COUNSELORS AT LAW

350 EAST PALACE AVENUE  
SANTA FE, NEW MEXICO 87501

POST OFFICE BOX 2307  
AREA CODE 505  
TELEPHONE 982-3876

August 28, 1974

Mr. William F. Carr  
General Counsel  
Oil Conservation Commission  
PO Box 2088  
Santa Fe, New Mexico 87501

Re: Case No. 5264

Dear Bill:

Thanks very much for your letter of August 27 informing me that time for filing suggested findings of fact has been extended to September 16, 1974. This will be most helpful.

Sincerely,



WRF:JF

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION

IN THE MATTER OF:

Application of El Paso Natural Gas Company )	
for the amendment of Order No. R-1670 )	Case
Blanco Mesaverde Pool, San Juan and Rio )	No. 5264
Arriba Counties, New Mexico.	

CERTIFICATE OF SERVICE

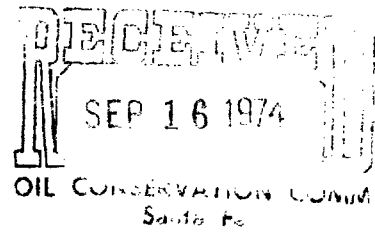
The undersigned, one of the attorneys for the Applicant El Paso Natural Gas Company, certifies that he did on the 19th day of September, 1974, mail a copy of the Applicant's Requested Findings of Fact to additional counsel of record and additional persons entering their appearances at the hearing, as per list attached.

Wm Federico

*El Paso* 7-11-74

APPLICATION OF EL PASO NATURAL GAS COMPANY FOR AN AMENDMENT OF ORDER NO. R-1670 TO PERMIT THE OPTIONAL DRILLING AND PRODUCTION OF AN ADDITIONAL WELL ON PRORATION UNITS IN THE BLANCO MESAVERDE GAS POOL OF SAN JUAN, RIO ARRIBA AND SANDOVAL COUNTIES, NEW MEXICO, AND TO PROVIDE FOR THE ASSIGNMENT OF ALLOWABLES FOR SUCH ADDITIONAL WELLS AND PRORATION UNITS

CASE NO. 5264



EL PASO NATURAL GAS COMPANY'S REQUESTED FINDINGS OF FACT

Comes now the Applicant, El Paso Natural Gas Company (El Paso), and requests the Commission to make findings of fact in the above styled and docketed proceeding, as follows:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the Blanco Mesaverde Gas Pool, located in San Juan, Rio Arriba and Sandoval Counties, New Mexico, is governed by special rules and regulations, promulgated by the Commission in Order No. R-1670, as amended, which provide for 320-acre proration units and well locations in the NE/4 and SW/4 of each governmental section, and for assignment of an allowable to each proration unit in the pool based on the amount of acreage in the unit and the deliverability of the unit well.

(3) That the applicant, El Paso Natural Gas Company, produces natural gas from wells which it owns and operates in the Blanco Mesaverde Gas Pool and purchases natural gas which is produced through wells owned and operated by others in that pool, which natural gas is transmitted through El Paso's interstate pipeline system.

(4) That the applicant seeks an order amending Order No. R-1670 in the following respects: (i) to permit the optional drilling of an additional well on each 320-acre proration unit in the Blanco Mesaverde Gas Pool, (ii) to determine the deliverability of each proration unit upon which an additional well is drilled by adding the deliverability of each of the two wells, ~~and (iii) to permit the production of the allowable assigned to a proration unit containing two wells from either or both wells.~~ [Applicant's proposed rule changes are set forth on Exhibit A attached hereto.]

(5) The producing formation of the Blanco Mesaverde Gas Pool is comprised of various overlapping and interconnecting lenticular sands of relatively low permeability, many of which are not in effective communication with existing wells in the pool but which could be efficiently and economically drained and developed by the drilling of additional wells pursuant to the rule changes proposed by the applicant.

( ) Implementation of such an infill drilling program would substantially increase recoverable reserves, and, if fully implemented, such increase is reasonably estimated to be six trillion cubic feet of gas. *<greater ultimate recovery>*

~~(6) In addition to the substantial increase in recoverable reserves which would result from implementation of an infill drilling program under the proposed rule changes, such additional drilling also would increase substantially the amount of gas which could be made available to supply the current needs of consumers throughout the marketing areas supplied by purchasers of gas produced from this pool. Although the applicant is not the only purchaser of gas in this pool, it expects to be able to purchase all or any portion of the increase which may reasonably be anticipated to result from this program, including such amounts as may be offered to it by other purchasers, in order to meet the market demand of its customers throughout its interstate pipeline transmission system.~~

(7) That approval of the subject application will afford each owner in the Blanco Mesaverde Gas Pool the opportunity to produce his just and equitable share of the gas in the subject pool, will substantially increase reserves and deliverability, and otherwise will prevent waste and protect correlative rights.

(8) That Order No. R-1670 should be amended by adoption of the rule changes set forth on Exhibit A attached hereto.

OF COUNSEL:

~~G. Scott Cuming  
Richard S. Morris  
John B. Chapman  
El Paso Natural Gas Company  
El Paso, Texas 79978~~

~~MONTGOMERY, FEDERICI, ANDREWS,  
HANNAHS & BUELL~~

~~By William R. Federici  
William R. Federici~~

~~350 East Palace Avenue  
P. O. Box 2307  
Santa Fe, New Mexico 87501~~

~~Attorneys for El Paso Natural Gas Company~~

RULE CHANGES PROPOSED BY EL PASO NATURAL GAS COMPANY APPLICABLE  
TO BLANCO MESAVERDE GAS POOL AS PROVIDED IN ORDER R-1670

A. WELL LOCATION AND ACREAGE REQUIREMENTS:

- Rule 2 (A) Initial wells drilled on a standard proration unit shall be located 990 feet from the outer boundary of either the Northeast or Southwest quarter of the section, subject to a variation of 200 feet for topographic conditions. Further tolerance shall be allowed by the Commission only in cases of extremely rough terrain where compliance would necessarily increase drilling costs.
- Rule 2 (B) The second well authorized to be drilled on a proration unit shall be drilled in the quarter section which does not contain a well and located relative to unit boundaries as provided in Rule 2 (A).
- Rule 5 (B) The Secretary-Director of the Commission shall have the authority to approve the drilling of a second well on an existing proration unit without notice and hearing when an application has been filed in due form by that unit's operator requesting permission to drill such second well.

C. ALLOCATION AND GRANTING OF ALLOWABLES:

- Rule 9 When calculating the allowable for a proration unit containing two wells, in accordance with Rule 9 of the General Rules and Regulations of Northwest New Mexico, the deliverability of both wells shall be combined in calculating the "AD Factor" and the unit allowable may be produced from either or both wells.

D. BALANCING OF PRODUCTION:

- Rule 15 For purposes of balancing underproduction or overproduction in accordance with Rule 15 of the General Rules and Regulations of Northwest New Mexico, both wells on a proration unit shall be considered as one well and the combined production from the two wells shall be compared against the allowable as provided for in Rule 9.

E. CLASSIFICATION OF WELLS:

- Rule 16 When determining whether a unit containing two wells should be classified marginal in accordance with Rule 16 of the General Rules and Regulations of Northwest New Mexico, the production from both wells shall be compared against the allowable in determining the classification.

F. REPORTING OF PRODUCTION:

- Rule 21 When reporting production in accordance with Rule 21 of the General Rules and Regulations of Northwest New Mexico for proration units on which two wells are located, the total unit production for the month shall be reported in addition to the individual well production.

**ILLEGIBLE**

RECEIVED  
SEP 16 1974  
OIL & GAS

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION

IN THE MATTER OF:

Application of El Paso Natural Gas Company	)	
for the amendment of Order No. R-1670,	)	Case
Blanco Mesaverde Pool, San Juan and Rio	)	No. 5264
Arriba Counties, New Mexico.	)	

CERTIFICATE OF SERVICE

The undersigned, one of the attorneys for the Applicant El Paso Natural Gas Company, certifies that he did on the 16th day of September, 1974, mail a copy of the Applicant's Requested Findings of Fact to all counsel of record and all persons who entered their appearances at the hearing, as per list attached.

Leth D. Montgomery

For the New Mexico Oil  
Conservation Commission:

William Carr, Esq.  
Legal Counsel for the Commission  
State Land Office Building  
Santa Fe, New Mexico 87501

For Southern Union Production  
Company:

Jack M. Campbell, Esq.  
Campbell & Bingaman  
121 East Palace Avenue  
Santa Fe, New Mexico 87501  
and  
William S. Jameson, Esq.  
General Counsel  
Southern Union Production Co.  
Dallas, Texas

For Mesa Petroleum Co.:

Clarence Hinkle, Esq.  
and  
Harold Hensley, Esq.  
Hinkle, Bondurant, Cox & Eaton  
Hinkle Building  
Roswell, New Mexico 88201  
and  
Richard C. Byrd, Esq.  
Anderson, Byrd & Rickerson  
Ottawa, Kansas 66067  
and  
Ed H. Selecman, Esq.  
General Counsel  
Mesa Petroleum Company  
PO Box 2009  
Amarillo, Texas 79105

For Aztec Oil & Gas Co.:

Clarence Hinkle, Esq.  
Hinkle, Bondurant, Cox & Eaton  
Hinkle Building  
Roswell, New Mexico 88201  
and  
Kenneth A. Swanson, Esq.  
General Counsel  
Aztec Oil & Gas Company  
2000 First National Bank Bldg.  
Dallas, Texas 75202

For Atlantic Richfield  
Union Oil Co. of Ca.  
Amerada Hess Corp.:

Clarence Hinkle, Esq.  
Hinkle, Bondurant, Cox & Eaton  
Hinkle Building  
Roswell, New Mexico 88201

For Clinton Oil Co.:

Clarence Hinkle, Esq.  
Hinkle, Bondurant, Cox & Eaton  
Hinkle Building  
Roswell, New Mexico 88201  
and  
Robert C. Spurlock, Esq.  
c/o Hinkle, Bondurant, Cox & Eaton  
Hinkle Building  
Roswell, New Mexico 88201

For Amoco Production Co.:

Oscar Swan, Esq.  
Atwood, Malone, Mann & Cooter  
Security National Bank Bldg.  
Roswell, New Mexico 88201

For Southern Union Gas Co.:

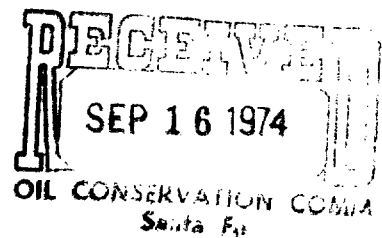
Richard N. Carpenter, Esq.  
Bigbee, Byrd, Carpenter & Crout  
Suite 200, Bokum Building  
Santa Fe, New Mexico 87501  
and  
A. S. Grenier  
Jack Hertz  
Fidelity Union Tower  
Dallas, Texas 75201



BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

APPLICATION OF EL PASO NATURAL GAS COMPANY FOR AN AMENDMENT OF ORDER NO. R-1670 TO PERMIT THE OPTIONAL DRILLING AND PRODUCTION OF AN ADDITIONAL WELL ON PRORATION UNITS IN THE BLANCO MESAVERDE GAS POOL OF SAN JUAN, RIO ARriba AND SANDOVAL COUNTIES, NEW MEXICO, AND TO PROVIDE FOR THE ASSIGNMENT OF ALLOWABLES FOR SUCH ADDITIONAL WELLS AND PRORATION UNITS

CASE NO. 5264



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(6) In addition to the substantial increase in recoverable reserves which would result from implementation of an infill drilling program under the proposed rule changes, such additional drilling also would increase substantially the amount of gas which could be made available to supply the current needs of consumers throughout the marketing areas supplied by purchasers of gas produced from this pool. Although the applicant is not the only purchaser of gas in this pool, it expects to be able to purchase all or any portion of the increase which may reasonably be anticipated to result from this program, including such amounts as may be offered to it by other purchasers, in order to meet the market demand of its customers throughout its interstate pipeline transmission system.

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MONTGOMERY, FEDERICI, ANDREWS,  
HANNAHS & BUELL

By William R. Federici  
William R. Federici

OF COUNSEL:

G. Scott Cuming  
Richard S. Morris  
John B. Chapman  
El Paso Natural Gas Company  
El Paso, Texas 79978

350 East Palace Avenue  
P. O. Box 2307  
Santa Fe, New Mexico 87501

Attorneys for El Paso Natural Gas Company

RULE CHANGES PROPOSED BY EL PASO NATURAL GAS COMPANY APPLICABLE  
TO BLANCO MESAVERDE GAS POOL AS PROVIDED IN ORDER R-1670

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LAW OFFICES

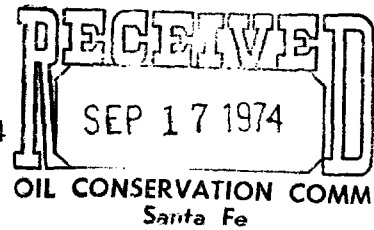
ANDERSON, BYRD & RICHESON

ROBERT A. ANDERSON  
RICHARD C. BYRD  
JOHN L. RICHESON

FIRST NATIONAL BANK BUILDING  
OTTAWA, KANSAS 66067

PHONE  
Area Code 913  
CHerry 2-1234

September 13, 1974



Mr. A. L. Porter, Jr.  
Secretary - Director  
Oil Conservation Commission  
State of New Mexico  
P. O. Box 2088  
Santa Fe, New Mexico 87501

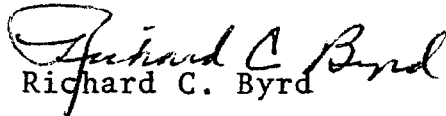
RE: Application of El Paso Natural  
Gas Company (Case No. 5264) --  
Suggested Findings of Fact of  
Mesa Petroleum Co.

Dear Mr. Porter:

Pursuant to the Commission's request at the conclusion  
of the hearing in the above-entitled case, Mesa hereby  
submits suggested findings and conclusions for your con-  
sideration.

Copies of the enclosed findings have been mailed to all  
attorneys of record.

Very truly yours,

  
Richard C. Byrd

ANDERSON, BYRD & RICHESON

RCB:mb  
Encl:

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

Application of El Paso Natural Gas )  
Company for an Amendment of Order )  
No. R-1670 to Permit the Optional )  
Drilling and Production of an Addi- )  
tional Well on Proration Units San )  
Juan, Rio Arriba and Sandoval )  
Counties, New Mexico, and to Provide )  
for the Assignment of Allowables for )  
Such Additional Wells and Proration )  
Units. )

Case No. 5264

SUGGESTED FINDINGS OF FACT SUBMITTED  
BY MESA PETROLEUM CO.

1. That El Paso Natural Gas Company is a natural gas company under the jurisdiction of the Federal Power Commission. In the Blanco-Mesaverde Pool (hereinafter referred to as "Pool") El Paso is both a purchaser and producer owning an interest in or operating approximately 1,100 of the 2,055 producing wells.

The leases owned by El Paso in the Pool were acquired by El Paso prior to 1969. That under the rules and regulations of the Federal Power Commission El Paso is entitled to recover its actual costs plus a return on the gas produced from its own wells on leases acquired prior to October 7, 1969.

2. That for gas purchased from existing wells in the Pool El Paso is permitted to pay independent producers 24¢ plus adjustment for BTU and taxes (gross price approximately 27¢ per MCF).

3. The price which El Paso would be permitted to pay, under Federal Power Commission rules and regulations, for gas which it purchases from the Pool from the second well drilled on an existing unit is undeterminable at the present time. The Federal Power Commission has not responded to the letter from this Commission dated July 18, 1974 requesting an answer as to whether or not the provisions of the Federal Power Commission's Opinion No. 699, fixing a national area rate of 43¢ (plus BTU adjustment and taxes) for wells drilled on and after 1/1/73, would be applicable to the second well drilled on a producing unit in this Pool.

4. The Commission finds that the average cost of drilling and completing a new well in the Pool is approximately \$152,000 per well. That the average operating cost per well is approximately \$200 per month. The record indicates a maximum additional recovery from an average new well of from 30% to 70% of the original recoverable reserves under an average old well.

5. The evidence in this proceeding demonstrates that at the applicable Rocky Mountain area rate of 24¢ per MCF (plus BTU and taxes) it would not be economically feasible for an independent producer to drill and complete a second well on the existing units in the Pool.

6. Independent producers own fractional interests in many of the wells which El Paso operates and from which it purchases gas. Should a second well be permitted on a unit, to permit the total allowable production to be produced from either the old or the new well would permit the purchaser-operator of the unit to produce the wells in a manner detrimental to the interest of the independent producers who own fractional interests.

#### CONCLUSIONS

1. This Commission's statutory obligation is to prevent the waste of natural gas and to protect the correlative rights of the mineral owners. These obligations must guide our deliberations and disposition of this application.

2. From the evidence presented, the Commission concludes that it is not economically feasible for an independent producer, as differentiated from a pipeline affiliate, to drill a second well on the existing 320 acre units and sell the gas from the new well at 24¢ per MCF (plus BTU and tax adjustments).

3. To amend the existing field rules to permit the drilling of a second well on each unit as requested by the applicant knowing that the applicant, because of Federal Power Commission regulations

of pipeline company produced gas could recover its costs of drilling additional wells, would put El Paso in a position of being permitted to produce gas from their units at a faster rate than other producers in the Pool. The increased production from El Paso's units would ultimately result in the violation of the correlative rights of the independent producers operating off-set units.

4. Should the Federal Power Commission determine that the national area rate is applicable to gas produced from the second well drilled on the unit in the Pool, it would not be proper to permit El Paso to produce the allowable from either the new well or the old well, whichever it desired. The cost of gas and the amount received by independent producers for gas produced from the old well on the unit would be approximately 20¢ per MCF less than gas produced from the new well on the unit. The Commission, not the operator of the well, should fix the allowable production from each of the wells on the unit. It is the combined deliverability of the two wells which would determine the unit's allowable production. Under such circumstances the production should be assigned to each well based on that well's percent of the total deliverability of the unit.

Respectfully submitted,

Clarence Hinkle,  
Ed H. Selecman, and  
Richard C. Byrd

By:



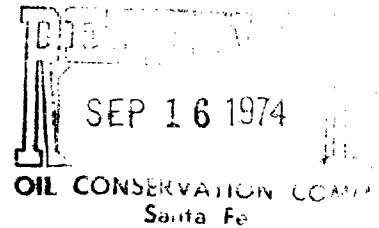
Richard C. Byrd  
ANDERSON, BYRD & RICHESON  
First National Bank Bldg.  
Ottawa, Kansas 66067

Attorneys for Mesa Petroleum Co.

Fin Bar \*  
JASON

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

In the matter of the hearing  
called by the Oil Conservation  
Commission of New Mexico for  
the purpose of considering:



Case No. 5264

Application of El Paso Natural  
Gas Company for amendment of  
Order No. R-1670 to permit the  
optional drilling and production  
of an additional well on prora-  
tion units in the Blanco-Mesaverde  
Gas Pool of San Juan, Rio Arriba and  
Sandoval counties, New Mexico, and  
to provide for the assignment of  
allowables for such additional wells  
and proration units.

REQUESTED FINDINGS TENDERED BY SOUTHERN UNION  
PRODUCTION COMPANY, UNION OIL COMPANY OF CAL-  
IFORNIA, AMERADA-HESS CORPORATION, SUN OIL COM-  
PANY, CLINTON OIL COMPANY.

(1) That due public notice having been given as required  
by law, the Commission has jurisdiction of this cause and the  
subject matter thereof.

(2) That Section 65-3-10, New Mexico Statutes Annotated,  
1953 Compilation, empowers and gives the duty to the Commission  
to prevent the waste of hydrocarbons and to protect the correla-  
tive rights of owners of interests in said hydrocarbons.

(3) That Section 65-3-5, New Mexico Statutes Annotated,  
1953 Compilation, gives the Commission jurisdiction and authority  
over all matters relating to the conservation of oil and gas.

(4) That "waste" and "correlative rights" are defined by  
Sections 65-3-3 and 65-3-29, respectively, New Mexico Statutes  
Annotated, 1953 Compilation.



(5) That the Blanco-Mesaverde Gas Pool was created by Commission Order No. 799 dated February 25, 1949.

(6) That said Order No. 799 established 320 acre spacing units in the Blanco-Mesaverde Gas Pool and said 320 acre spacing has been in effect since February 25, 1949.

(7) That Commission Order No. R-128-C dated December 16, 1954, provided for prorationing of the Blanco-Mesaverde Gas Pool on a proration formula identical to the formula presently used in said pool and said proration formula has been in effect since December 16, 1954.

Handwritten: *revised*  
(8) That said Order No. R-128-C finds that 320 acre proration units and the proration formula therein adopted prevent waste and protect correlative rights of the owners in the Pool.

Handwritten: *EPNG*  
*2000*  
(9) That the Applicant proposes to amend Order No. R-1670 to authorize the drilling of a second well on an existing proration unit without notice and hearing, with a provision that in calculating the allowable for a proration unit containing two wells, the deliverability of both wells would be combined in determining the unit's "AD Factor", and the unit allowable could be produced from either or both wells.

(10) That the approval of the application would amount to a change in the proration formula for the Blanco-Mesaverde Gas Pool, and as such is directly related to the protection of correlative rights and the prevention of waste.

(11) Applicant's Exhibit No. 16 shows the average bottom hole pressure of the three widely separated strat test wells which have never been produced, to be declining at essentially the same rate as the field average pressure. The average bottomhold pressure of the three strat test wells shows an increase in pressure decline rate with increases in field production rates. This steady and consistent pressure decline clearly demonstrates that these areas are being drained by the existing wells. No reservoir information was offered by applicant to show what reserves exist within the pool, what reserves exist under each tract in the pool, or what portion of the reserves would be produced under applicant's

proposed change in the spacing rule.

(12) That the Applicant's testimony was based upon evidence utilizing only pressure-production data from present wells and not upon pressure interference or volumetric withdrawal tests conducted within the pool.

(13) That the testimony of Southern Union Production Company shows that large, contiguous areas of the pool have experienced substantial and consistent declines of original pressures as a result of production, indicating that there is communication between wells in the pool and that reasonable reserves will be recovered in said pool without the drilling of additional wells.

(14) That the testimony of Southern Union Production Company shows that it has penetrated isolated stringers in wells it has drilled and that such stringers have not produced measurable increases in gas reserves.


(15) That the approval of the application would result in the drilling of additional wells in the better portion of the pool. Such additional drilling would require the drilling of offset wells that in many cases would be uneconomical, resulting in waste and impairment of correlative rights.

(16) That the evidence show that if the application is granted some owners in the Blanco-Mesaverde Gas Pool will be able to drill infill wells in the immediate future and others will not, due to shortages in drill pipe, casing, rigs and other necessary material supplies thereby resulting in uncompensated drainage and the consequent abuse of correlative rights.

Respectfully submitted,

CAMPBELL AND BINGAMAN, P.A.

By

  
Jack M. Campbell

Attorneys for Southern Union Production  
P.O. Box 2208  
Santa Fe, New Mexico 87501

KELLAHIN AND FOX

By

Jason W. Kellahin  
Jason Kellahin

Attorneys for Union Oil Co. of  
California, Amerada-Hess Corpor-  
ation, Sun Oil Co., Clinton Oil Co.  
P.O. Box 1769  
Santa Fe, New Mexico 87501

REQUESTED FINDINGS TENDERED BY: SOUTHERN UNION  
PRODUCTION COMPANY, UNION OIL COMPANY OF CALIFORNIA,  
AMERADA-HESS CORPORATION, SUN OIL COMPANY, CLINTON  
OIL COMPANY.

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

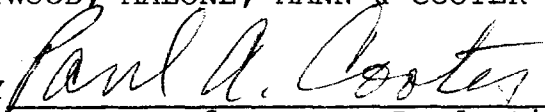
IN THE MATTER OF THE APPLICATION )  
OF EL PASO NATURAL GAS COMPANY )  
FOR THE AMENDMENT OF ORDER NO. )  
R-1670, BLANCO MESAVERDE POOL, )  
SAN JUAN AND RIO ARriba COUNTIES, )  
NEW MEXICO. ) No. 5264

ENTRY OF APPEARANCE

The undersigned, Atwood, Malone, Mann & Cooter of Roswell, New Mexico, hereby enter their appearance herein on behalf of Amoco Production Company, with Oscar Swan, Esquire, of Denver, Colorado.

ATWOOD, MALONE, MANN & COOTER

BY



Attorneys for Amoco Production  
Company

P. O. Drawer 700

Roswell, New Mexico 88201

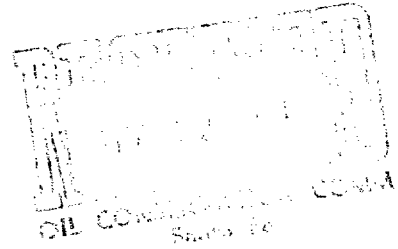
CLARENCE E. HINKLE  
W. E. BONDURANT, JR.  
LEWIS C. COX, JR.  
PAUL W. EATON, JR.  
CONRAD E. COFFIELD  
HAROLD L. HENSLEY, JR.  
STUART D. SHANOR  
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LAW OFFICES  
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**ROSWELL, NEW MEXICO 88201**

TELEPHONE (505) 622-6510

MIDLAND, TEXAS OFFICE  
521 MIDLAND TOWER  
(915) 683-4691

September 12, 1974



Mr. A. L. Porter, Jr.  
Oil Conservation Commission  
Box 2088  
Santa Fe, New Mexico 87501

Re: Case No. 5264 - El Paso Natural  
Gas Company application for  
amendment of Order R-1670

Dear Mr. Porter:

We enclose three copies of Requested Findings of Fact and Conclusions which we have prepared for filing on behalf of Aztec Oil & Gas Company. You will note that we have left blank spaces in the proposed findings 4 and 5 on page 2 relative to the number of wells connected to the respective pipelines of El Paso and Southern Union. Should these findings be used, I am sure the record will reflect the number which should be inserted.

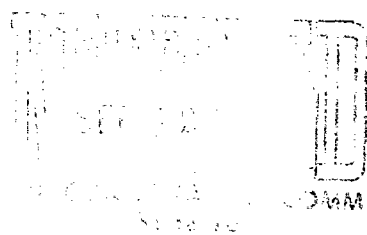
Yours sincerely,

HINKLE, BONDURANT, COX & EATON

By

CEH:cs  
Enc.  
cc: Kenneth A. Swanson

*Jim [unclear] HINKLE*



BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF EL PASO NATURAL GAS )  
COMPANY FOR AN AMENDMENT OF ORDER )  
R-1670 TO PERMIT THE DRILLING AND )  
PRODUCTION OF ADDITIONAL WELL ON )  
PRORATION UNITS IN THE BLANCO )  
MESAVERDE GAS POOL, SAN JUAN, RIO )  
ARRIBA AND SANDOVAL COUNTIES. )  
\_\_\_\_\_ )

Case No. 5264

REQUESTED FINDINGS OF FACT OF  
AZTEC OIL & GAS COMPANY

This case was heard by the Commission on August 13, 1974 upon the application of El Paso Natural Gas Company for the amendment of Order R-1670 relating to the Blanco Mesaverde Pool, San Juan, Rio Arriba and Sandoval Counties, New Mexico. Applicant seeks to amend the pool rules promulgated by Order R-1670 as amended to authorize the Secretary-Director of the Commission to approve the drilling of a second well on an existing proration unit without notice and hearing, provided that the second well would be drilled in the quarter section of the unit which does not contain a well and provided further that in calculating the allowable for a proration unit containing two wells, the deliverability of both wells would be combined for determining the unit's "AD factor" and a unit allowable could be produced from either or both wells.

The Commission having considered the testimony and exhibits admitted in evidence at said hearing and being fully advised in the premises finds:

1. That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter hereof.

2. Order R-1670, as amended, and the applicable rules provide for 320 acre spacing and proration units in the Blanco Mesaverde Pool

and, with the exception of a few non-standard units, there are approximately 2,055 producing wells on 320 acre proration units at the present time.

3. That El Paso Natural Gas Company (hereinafter referred to as "El Paso") owns or operates approximately 1,100 of the wells in the Blanco Mesaverde Pool (hereinafter referred to as "Pool") or in excess of 50% of the wells in the Pool.

4. El Paso, in addition to being the owner and operator of the majority of the wells in the pool, is the owner and operator of a gathering system, natural gas pipeline distribution system and is the purchaser or transporter of all of the gas from wells to which its lines are connected, which constitutes approximately \_\_\_\_% of all the wells in the Pool. ~~All gas produced and purchased by El Paso enters its interstate pipeline system and most of the gas is delivered at either the California-Arizona or Arizona-Nevada boundaries for consumption in these states.~~

5. Southern Union Gas Company and its wholly owned subsidiary own and operate a gas pipeline gathering system and a gas transportation system and purchase gas from approximately \_\_\_\_% of the wells in the Pool. All gas purchased and transported by Southern Union Gas Company is transported in intrastate commerce for in-state use and consumption except in such cases where gas is purchased or delivered to Southern Union Gas Company in excess of its market demand the excess has been delivered to El Paso for transportation in interstate commerce.

6. El Paso desires to increase its out of state deliverability and Southern Union Gas Company's existing connections are such that no additional gas is needed to meet its intrastate demand. There is no ratable take between the respective pipelines as to gas being produced from the Pool, and most of the gas purchase contracts of Southern Union Gas Company extend throughout the life of the leases on which the wells are located from which gas is being purchased and the owners

of such gas do not have the option to sell or otherwise dispose of gas which Southern Union is unable to purchase or transport in its pipeline.

7. Southern Union Production Company is the operator of approximately 70 wells located mostly in the northwest portion of the Pool. All of these wells are connected to the pipeline system of Southern Union Gas Company and its subsidiary.

8. Aztec Oil & Gas Company has an interest in some 500 wells in the Pool and is operator of 130 wells; 107 of which are connected to Southern Union Gas Company's system and 23 to the El Paso system. Almost all of the wells which Aztec operates are located in the northwest portion of the Pool.

9. The first producing well in the Pool was completed in 1953 and consequently there has been a production history of over 20 years and the information with respect thereto is shown by the Commission records. There is also available accurate information as to bottom hole pressures which have shown a gradual decline over the entire Pool, which is indicative of the fact that there has been communication between wells and that the wells are in fact draining gas from the respective 320 acre proration units.

10. Because of the variations in sand content and producing intervals in the various wells in the Pool, the wells can be classified as falling within four different categories; i.e. (1) the wells which have a deliverability in excess of one million cubic feet per day; (2) the wells which have a deliverability of five hundred thousand to one million cubic feet per day; (3) wells which have a deliverability of two hundred thousand to five hundred thousand cubic feet per day; and (4) those which have a deliverability of less than two hundred thousand cubic feet per day. There are approximately 150 wells in the first category, approximately 170 wells in the second category,



approximately 550 wells in the third category and approximately 1190 wells in the fourth category. The wells in the first two categories are all located in the central portion of the Pool. El Paso is running and purchasing the gas from practically all of the wells in the first two categories, which constitute some 420 wells having the greatest deliverability in the Pool.

<11. El Paso proposes to drill additional wells at the rate of 100 or more per year and these wells would most logically be located on the units upon which wells are located having the greatest deliverability. ~~These~~ wells would undoubtedly in many instances offset units upon which are located wells of relatively low deliverability and would require immediate drilling of offset wells regardless of the economics that might be involved. The drilling of additional wells by other operators to meet offset obligations would cause a chain reaction which could require the drilling of an additional 2,055 wells over a relatively short period of time. >

12. The gathering facilities and interstate pipeline of El Paso has additional capacity to handle the transportation of increased production from the Pool. The gathering system and pipeline facilities of Southern Union Gas Company has very little, if any, additional capacity for the handling of gas from the Pool. There is a differential in pressure between the two systems of approximately 100 pounds per square inch and the delivery of additional gas to the respective systems will result in increased line pressures. The additional wells which operators would be forced to drill to meet offset obligations in the outlying areas of the Pool may not, in many instances, be able to produce at a pressure so that their gas can be delivered into the pipelines without going to the additional expense of compression facilities which necessarily must be considered in determining the economics involved in the drilling of many of the wells in the outlying

Cost to  
operators  
to produce  
at pressure  
of 100 psi.

areas. Furthermore, the rapid drilling of wells in the area having the highest deliverability would result in production beyond the capacity of both pipelines.

13. Due to the widespread national program for the drilling of wells because of the energy shortage, tubular goods and drilling rigs are in short supply and cannot be readily obtained without long delays. El Paso has shown that it is in a position to drill 100 or more wells within the next year, but other operators, because of inability to obtain necessary tubular goods and drilling rigs and because of their commitments to drill wells in other areas, will be unable to carry on additional drilling operations at a rate which would permit them to meet offset obligations which would be the result of the drilling program contemplated by El Paso.

14. Immediate drilling by El Paso of a large number of wells in the areas having the greatest potential for deliverability in the Pool will cause drainage in the outlying areas having less potential for deliverability, which coupled with the inability of operators to obtain the tubular goods and drilling rigs necessary to meet offset obligations will cause a violation of correlative rights.

15. Because of the characteristics of the producing formation in the Pool and low porosity and permeability in some areas, complete economical drainage of the entire Pool by the existing wells will necessarily be over a long period of time and the drilling of infill wells may add from 2 to 23% to existing reserves, particularly in the outlying areas. On this account existing reserves can be made more readily available over the next several years by the drilling of infill wells. [However, waste will not be committed nor correlative rights violated by deferring drilling of infill wells for a reasonable period of time until tubular goods and drilling rigs can be obtained without undue delay.]

*wait  
to grant application*

16. There are a large number of proven or semi-proven undrilled locations in the Blanco Mesaverde Pool which should be drilled before operators are forced to drill a second well on existing 320 acre proration units. The evidence clearly shows that there is no particular urgency on the part of any operator to drill additional wells except in the case of El Paso, which is for the purpose of meeting its deliverability problems because of out of state demand.

#### REQUESTED CONCLUSIONS

Based upon the foregoing Findings of Fact, the Commission concludes:

1. That there is no substantial evidence that the present spacing pattern and proration formula in the Blanco Mesaverde Pool fail to prevent waste or protect correlative rights and the approval of the application would result in the drilling of unnecessary wells.

2. That the drilling of infill wells in the Pool may be desirable in order to make available within a shorter period of time the remaining producible gas within the Pool and to recover some additional gas which might not be recovered through the existing wells. However, the correlative rights of all owners and operators in the Pool cannot be adequately protected by proceeding with an unlimited and uncontrolled drilling program which might result from the immediate approval of the subject application because of the following:

(a) The Commission recognizes that there is a critical national shortage of tubular goods necessary for the drilling of oil and gas wells and that drilling rigs are not readily available and therefore it would not be possible for all operators to promptly meet offset obligations caused by an unlimited and uncontrolled drilling program and thereby protect correlative rights.

(b) The prompt drilling by El Paso of a large number of wells in the areas of the Pool having the highest deliverability

would result in drainage of outlying areas before many of the operators could meet offset obligations and thereby protect correlative rights.

(c) The rapid drilling of wells in the areas having the highest deliverability would also make gas available beyond the capacity of the pipelines to transport the same.

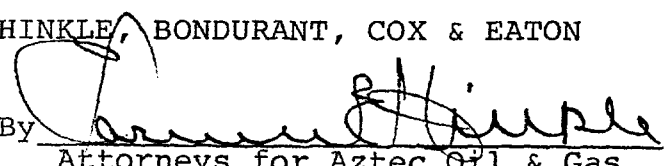
3. The Commission having considered all facts and circumstances further concludes that the most equitable and ideal way to protect the correlative rights of all parties concerned and to prevent waste would be through fieldwide unitization of the Blanco Mesaverde Pool. The Commission has no jurisdiction to force unitization, but recommends that such a course be voluntarily pursued by all operators involved and an earnest effort made to effect unitization if possible to do so within a reasonable period of time.

4. That the Commission retain jurisdiction of this cause and that a supplemental hearing be held in July 1975 for the purpose of determining at that time whether or not conditions are such that the approval of the subject application would be in the interest of prevention of waste and the protection of correlative rights.

Respectfully submitted,

HINKLE, BONDURANT, COX & EATON

By

  
Attorneys for Aztec Oil & Gas  
Company

P.O. Box 10

Roswell, New Mexico 88201

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASE NO. 5264 **71670-T**  
Order No. R-**4916**

APPLICATION OF EL PASO NATURAL GAS  
COMPANY FOR AN AMENDMENT OF ORDER NO.  
R-1670, BLANCO MESAVERDE ~~SES~~ POOL, TO  
PERMIT THE OPTIONAL DRILLING AND PRODUC-  
TION OF AN ADDITIONAL WELL ON PRORATION  
UNITS, SAN JUAN AND RIO ARriba COUNTIES,  
NEW MEXICO, AND TO PROVIDE FOR THE ASSIGNMENT  
OF ALLOWABLES FOR SUCH ADDITIONAL WELLS AND  
PRORATION UNITS.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 13 and  
August 14, 1974, at Santa Fe, New Mexico, before the Oil Conser-  
vation Commission of New Mexico, hereinafter referred to as  
the "Commission."

NOW, on this \_\_\_\_\_ day of November, 1974, the Commission,  
a quorum being present, having considered the testimony presented  
and the exhibits received at said hearing, and being fully advised  
in the premises,

FINDS:

(1) That due public notice having been given as required  
by law, the Commission has jurisdiction of this cause and the  
subject matter thereof.

(2) That the Blanco Mesaverde ~~SES~~ Pool, located in San  
Juan, Rio Arriba and Sandoval Counties, New Mexico, was created  
by Commission Order No. 799 dated February 25, 1949.

(3) That the Blanco Mesaverde ~~SES~~ Pool is governed by  
special rules and regulations, promulgated by the Commission in  
Order No. R-1670, as amended, which provide for 320-acre  
proration units and well locations in the NE/4 and SW/4 of each  
governmental section, and for <sup>the</sup> assignment of allowable to each  
proration unit in the pool based on the amount of acreage in  
the unit and the deliverability of the unit well.

1 -2-  
2 CASE NO.  
3 Order No. R-

4 (4) That the applicant, El Paso Natural Gas Company, seeks  
5 an order amending said Order No. R-1670 to permit the optional  
6 drilling of an additional well on each 320-acre proration unit  
7 in the Blanco Mesaverde ~~Gas~~ Pool; to determine the deliverability  
8 of each proration unit upon which an additional well is drilled  
9 by adding the deliverabilities of the two wells; to permit the  
10 production of the allowable assigned to a proration unit contain-  
11 ing two wells from ~~either or~~ both wells in any proportion; to  
12 consider both wells on a proration unit as one well for purposes  
13 of balancing underproduction or overproduction; to report the  
14 production of each well on the unit as well as the total unit  
15 production; and to compare the unit production against the unit  
16 allowable for determining whether a unit should be classified  
17 marginal or non-marginal.

18  
19 (5) That the Blanco-Mesaverde ~~Gas~~ Pool has been developed  
20 for approximately 20 years on 320-acre proration units.

21 (6) That to change the unit size now in said pool would  
22 disturb the equities under many of the existing proration units.

23 (7) That the proration unit size in the Blanco Mesaverde  
24 ~~Gas~~ Pool should continue to be 320 acres.

25 (8) That Section 65-3-10, New Mexico Statutes Annotated,  
26 1953 Compilation, empowers the Commission to prevent waste of  
27 hydrocarbons and to protect the correlative rights of the owners  
28 of each interest in said hydrocarbons.

29 (9) That Section 65-3-5, New Mexico Statutes Annotated,  
30 1953 Compilation, confers jurisdiction on the Commission over all  
31 matters relating to the conversion of oil and gas.  
32

1 -3-  
2 CASE NO.  
3 Order No. R-

4 (10) That "waste" is defined by Sections 65-3-3, New  
5 Mexico Statutes Annotated, 1953 Compilation.

6 (11) That the evidence reveals that the Blanco Mesaverde  
7 ~~Gas~~ Pool is not a homogeneous, uniform reservoir. ~~(Tr. 205)~~

8 (12) That the producing formation of the Blanco Mesaverde  
9 ~~Gas~~ Pool is comprised of various overlapping, interconnecting,  
10 and lenticular sands of relatively low permeability, many of  
11 which are not being efficiently drained by existing wells in the  
12 pool but which could be <sup>more</sup> efficiently and economically drained  
13 and developed by the drilling of additional wells pursuant to  
14 the rule changes proposed by the applicant. ~~(Tr. 141, 212)~~

15 (13) That infill drilling will substantially increase  
16 recoverable reserves from the Blanco Mesaverde ~~Gas~~ Pool. (Tr. 188)

17 (14) That infill drilling will result in greater ultimate  
18 recovery of the reserves under the various proration units in  
19 the pool.

20 (15) That infill drilling in the Blanco Mesaverde ~~Gas~~ Pool  
21 will result in more efficient use of reservoir energy and will  
22 tend to ensure greater ultimate recovery of gas from the pool,  
23 thereby preventing waste. ~~(Tr. 210)~~

24 (16) That if infill drilling is implemented in the Blanco  
25 Mesaverde ~~Gas~~ Pool, each operator will be afforded the opportunity  
26 to produce, without waste, his just and equitable share of the  
27 gas from the Pool, and his correlative rights, as defined by  
28 Section 65-3-29, New Mexico Statutes Annotated, 1953 Compilation,  
29 therefore, will not be impaired. ~~(Tr. 221)~~

30 (17) That both wells on a proration unit should be produced  
31 so long as it is economically feasible to do so.

32 (18) That the application should be approved.

~~(19) That jurisdiction of this cause is retained for the  
entirety of such further orders as the Commission may deem necessary~~

IT IS THEREFORE ORDERED:

(1) That the Special Rules for the Blanco Mesaverde Pool in San Juan, Rio Arriba and Sandoval Counties, New Mexico, as promulgated by Order No. R-1670, as amended, are hereby amended to permit the <sup>optional</sup> drilling of a second well on each proration unit; to provide that the deliverability of a proration unit containing two wells shall be the sum of the deliverabilities of each of the wells; to provide that the unit allowable may be produced from ~~either or~~ both of the wells in any proportion; to consider both wells on the proration unit as one well for purposes of balancing underproduction or overproduction; to provide for the reporting of production from each well individually and to require the reporting of total production from the unit; and to compare the unit production against the unit allowable in determining whether a unit should be classified marginal or non-marginal.

(2) That Rule 2 of the Special Rules for the Blanco Mesaverde Pool, as promulgated by Order No. R-1670, as amended, is hereby amended to read in its entirety as follows:

"RULE 2(A) The initial well drilled on a proration unit shall be located 990 feet from the outer <sup>boundary</sup> of either the Northeast or Southwest quarter of the section, subject to a variation of 200 feet for topographic conditions. Further tolerance shall be allowed by the Commission only in cases of extremely rough terrain where compliance would necessarily increase drilling costs.

"RULE 2(B) The second well drilled on a proration unit shall be located in the quarter section of the unit not containing a well, and shall be located with respect to the unit boundaries as described in Rule 2 A above.

"The plats (Form C-102) accompanying the Application for Permit to Drill (OCC Form C-101 or Federal Form 9-331-C) for the second well on a proration unit shall have outlined thereon the boundaries of the unit and shall show the location of the first well on the unit as well as the proposed new well.

→ "RULE 2 (C). In the event a second well is drilled on any proration unit, both wells shall be produced for so long as it is economically feasible to do so."



(3) That the Special Rules for the Blanco Mesaverde Pool as promulgated by Order No. R-1670, as amended, are hereby amended by the addition of the following Special Rules:

RULE 9 (A). The product obtained by multiplying each proration unit's acreage factor by the calculated deliverability (expressed as MCF per day) for the well(s) on the unit shall be known as the AD Factor for the unit. The acreage factor shall be determined to ~~the nearest hundredth of a unit~~ <sup>the second decimal place</sup> by dividing the acreage within the proration unit by 320, subject to the acreage tolerances provided in Rule 5(A). The AD Factor shall be computed to the nearest whole ~~unit number~~.

RULE 9 (B). The monthly allowable to be assigned to each marginal <sup>proration</sup> unit shall be equal to its latest available monthly production.

RULE 9 (C). The pool allowable remaining each month after deducting the total allowable assigned to marginal <sup>proration</sup> units shall be allocated among the non-marginal units entitled to an allowable in the following manner:

1. Seventy-five percent (75%) of the pool allowable remaining to be allocated to non-marginal units shall be allocated among such units in the proportion that each unit's "AD Factor" bears to the total "AD Factor" for all non-marginal units in the pool.

2. Twenty-five percent (25%) of the pool allowable remaining to be allocated to non-marginal units shall be allocated among such units in the proportion that each unit's acreage factor bears to the total acreage factor for all non-marginal units in the pool.

*The current*  
RULE 9 (D). ~~current~~ deliverability tests taken <sup>in accordance with</sup> each  
~~the "Gas Well Testing Procedures - San Juan Basin, New Mexico,"~~  
~~year~~ shall be used in calculating allowables for the proration  
*12-month*  
units in the pool for the ~~twelve-month~~ period  
beginning April 1 of the following year.

*regarding*  
RULE 9 (E). When calculating the allowable for a  
proration unit containing two wells, in accordance  
with Rule 9 <sup>of these rules</sup> ~~of the General Rules and Regulations~~  
~~of New Mexico, New Mexico~~, the deliverability of  
both wells shall be added in calculating the <sup>Q</sup>AD  
Factor and the unit allowable may be produced  
from ~~either or~~ both wells.

*said*  
(4) That ~~the~~ Special Rules for the Blanco Mesaverde Pool  
are hereby amended by the addition of the following Special  
Rule 10(C):

RULE 10 (C). The calculated deliverability at the  
"deliverability pressure" shall be determined in  
accordance with the provisions of the current "Gas  
Well Testing Rules and Procedures - San Juan Basin,  
New Mexico."

No well shall be eligible for reclassification to  
"Exempt ~~M~~arginal" status unless it is located on  
a marginal proration unit.

*We may want a Rule 10.  
Exempt marginal w/o*  
(5) That ~~said~~ <sup>said</sup> Special Rules for the Blanco Mesaverde Pool  
are hereby amended by the addition of the following Special  
Rule 12:

RULE 12. The full production of gas from each  
well, including drilling gas, shall be charged  
<sup>proration</sup>  
against the unit's allowable regardless of the  
disposition of the gas; provided, however, that  
gas used in maintaining the producing ability of  
the well shall not be charged against the  
allowable.

*said*  
(6) That ~~the~~ Special Rules for the Blanco Mesaverde Pool  
are hereby amended by the addition of the following Special  
Rule 14:

RULE 14 (A). Underproduction: Any non-marginal <sup>proration</sup>  
unit which has an underproduced status as of the end  
of a gas proration period shall be allowed to carry  
such underproduction forward into the next gas proration  
period and may produce such underproduction in  
addition to the allowable assigned during such  
succeeding period. Any allowable carried forward  
into a gas proration period and remaining unproduced

1 at the end of such gas proration period shall be  
2 cancelled.

3 RULE 14 (B). Production during any one month of  
4 a gas proration period in excess of the allowable  
5 assigned to a <sup>proration</sup> unit for such month shall be applied  
6 against the underproduction carried into such  
7 period in determining the amount of allowable,  
8 if any, to be cancelled.

9  
10 (7) That <sup>said</sup> ~~the~~ Special Rules for the Blanco Mesaverde Pool  
11 are hereby amended by the addition of the following Special  
12 Rule 15:

13 RULE 15 (A). Overproduction: Any unit which has  
14 an overproduced status as of the end of a gas pro-  
15 ration period shall carry such overproduction forward  
16 into the next gas proration period. Said overproduc-  
17 tion shall be made up during the succeeding gas  
18 proration period. Any unit which has not made up  
19 the overproduction carried into a gas proration  
20 period by the end of said period shall not be  
21 produced until such overproduction is made up.

22 RULE 15 (B). If, during any month, it is discovered  
23 that a <sup>proration</sup> unit is overproduced in an amount exceeding  
24 six times its average monthly allowable for the  
25 preceding twelve months (or, in the case of a newly  
26 connected well, six times its average monthly allowable  
27 for the months available), it shall not be produced  
28 that month nor each succeeding month until it is  
29 overproduced in an amount six times or less its  
30 average monthly allowable, as determined herein-  
31 above.  
32

1           RULE 15 (C). Allowable assigned to a <sup>proration</sup> unit during  
2 any one month of a gas proration period in excess  
3 of the production for the same month shall be  
4 applied against the overproduction chargeable  
5 to such unit in determining the amount of over-  
6 production which must be made up pursuant to the  
7 provisions of Rules 15 (A) or 15 (B) above.

8           RULE 15 (D). The Secretary-Director of the  
9 Commission shall have authority to permit a well  
10 which is subject to shut-in, pursuant to Rules  
11 15 (A) or 15 (B) above, to produce up to 500 MCF  
12 of gas per month upon proper showing to the  
13 Secretary-Director that complete shut-in would  
14 cause undue hardship, provided however, such  
15 permission shall be rescinded for any well  
16 produced in excess of the monthly rate authorized  
17 by the Secretary-Director.

18           RULE 15 (E). The Commission may allow overproduc-  
19 tion to be made up at a lesser rate than permitted  
20 under Rules 15 (A), 15 (B) or 15(D) above upon a  
21 showing at public hearing that the same is  
22 necessary to avoid material damage to the well.

23           RULE 15 (F). Any allowable accruing to a <sup>proration</sup> unit  
24 at the end of a gas proration period due to the  
25 cancellation of underage in the pool and the  
26 redistribution thereof shall be applied against  
27 the unit's overproduction.  
28  
29  
30  
31  
32

1        RULE 15 (G). The Secretary-Director of the Commission  
2 shall have authority to grant a pool-wide moratorium  
3 of up to three months on the shutting in of gas wells  
4 in a pool during periods of high-demand emergency  
5 upon proper showing that such emergency exists, and  
6 that a significant number of the wells in the pool  
7 are subject to shut-in pursuant to the provisions  
8 of Rules 15 (A) or 15 (B) above. No moratorium  
9 beyond the aforementioned three months shall be  
10 granted except after notice and hearing.

11        (8) That <sup>said</sup> ~~the~~ Special Rules for the Blanco Mesaverde Pool  
12 are hereby amended by the addition of the following Section E:

13        E. CLASSIFICATION OF UNITS

14        RULE 16 (A). The proration period (as defined in  
15 Rule 13) shall be ~~divided~~ divided into four classifi-  
16 cation periods of three months each, commencing on  
17 April 1, July 1, October 1, and January 1. After  
18 the production data is available for the last  
19 month of each classification period, any unit which  
20 had an underproduced status at the beginning of  
21 the proration period shall be classified marginal  
22 if its highest single month's production during  
23 the classification period is less than its average  
24 monthly allowable during said classification period;  
25 provided however, that the operator of any unit so  
26 classified, or other interested party, shall have  
27 15 days after receipt of notification of marginal  
28 classification in which to submit satisfactory  
29 evidence to the Commission that the unit is not  
30 of marginal character and should not be so classi-  
31 fied.  
32

1           RULE 16 (B). The Secretary-Director may reclassify  
2           a marginal or non-marginal <sup>proration</sup> unit at any time the  
3           unit's production data, deliverability data, or  
4           other evidence as to the unit's producing ability  
5           justifies such reclassification.

6           RULE 17. A <sup>proration</sup> unit which is classified as marginal  
7           shall not be permitted to accumulate underproduction,  
8           and any underproduction accrued to the unit prior to  
9           its classification as marginal shall be cancelled.

10          RULE 18. If, at the end of a proration period, a  
11          marginal <sup>proration</sup> unit has produced more than the total  
12          allowable for the period, assigned to a non-marginal  
13          unit of like deliverability and acreage, the marginal  
14          unit shall be reclassified non-marginal and its  
15          allowable and net status adjusted accordingly. (If  
16          the unit has been classified as marginal for one  
17          proration period only, or a portion of one proration  
18          period only, any underproduction cancelled as the  
19          result of such classification shall be reinstated  
20          upon reclassification back to non-marginal status.  
21          All uncompensated-for overproduction accruing to  
22          the <sup>unit</sup> ~~well~~ while marginal shall be chargeable upon  
23          reclassification to non-marginal.)

24          RULE 19. A proration unit containing a well which  
25          has been reworked or recompleted shall be classified  
26          non-marginal as of the date of reconnection of the  
27          well to a pipeline until such time as production  
28          data, deliverability data, or other evidence as  
29          to the unit's producing ability indicates that the  
30          unit should be classified marginal.

31  
32

<sup>proration</sup>  
RULE 20. All units not classified ~~as~~ marginal shall  
be classified ~~as~~ non-marginal.

<sup>said</sup>  
(9) That Rule 21 (A) of Special Rules for the Blanco  
Mesaverde Pool is hereby amended to read in its entirety as  
follows:

"RULE 21 (A). The monthly gas production from each well  
~~shall~~ shall be metered separately and the gas production  
therefrom shall be reported to the Commission on  
Form C-115 in accordance with Rule 1115 of the  
Commission's Rules and Regulations, so as to  
reach the Commission on or before the 24th day  
of the month next succeeding the month in which  
the gas reported was produced. The operator shall  
show on such report what disposition has been made  
of the gas produced. The sum of the production from  
both wells on the <sup>proration</sup> unit shall also be reported for  
multiple-well units."

<sup>said</sup>  
(10) That ~~the~~ Special Rules for the Blanco Mesaverde Pool  
are hereby amended by the addition of the following Special  
Rule 23:

RULE 23. Failure to comply with the provisions  
of this order or the rules contained herein shall  
result in the cancellation of allowable assigned  
to the affected proration unit. No further  
allowable shall be assigned to the affected unit  
until all rules and regulations are complied with.  
The Secretary-Director shall notify the operator  
of the unit ~~and~~ and the purchaser, in ~~wxxxx~~ writing,  
of the date of allowable cancellation and the  
reason therefor.

(11) That jurisdiction etc

DONE AT

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASE NO. 4682

APPLICATION OF EL PASO NATURAL  
GAS COMPANY FOR AMENDMENT OF THE  
RULES AND REGULATIONS GOVERNING  
THE BLANCO-MESAVERDE GAS POOL,  
SAN JUAN AND RIO ARriba COUNTIES,  
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

These matters come before the Commission at 9 a.m. on June 29, 1972, at Santa Fe, New Mexico, before the Oil Conservation Commission, hereinafter referred to as the "Commission," pursuant to motions to intervene in the above-entitled cause and a motion for an order from the Commission limiting and defining the evidence it will receive and consider in the above-entitled cause and restricting such evidence to those matters provided for by the Statutes of New Mexico, and a motion for the continuance of the above-entitled cause until such time as the Commission has prepared an environmental impact statement.

NOW, on this 6th day of July, 1972, the Commission, a quorum being present, having considered each of the above-described motions, the arguments presented therewith, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That Section 65-3-10, New Mexico Statutes Annotated, 1953 Compilation, empowers and gives the duty to the Commission to prevent the waste of hydrocarbons and to protect the correlative rights of owners of interests in said hydrocarbons.

(3) That Section 65-3-5, New Mexico Statutes Annotated, 1953 Compilation, gives the Commission jurisdiction and authority over all matters relating to the conservation of oil and gas.

(4) That "waste" and "correlative rights" are defined by Sections 65-3-3 and 65-3-29, respectively, New Mexico Statutes Annotated, 1953 Compilation.

(5) That the public has a vital interest in the conservation of the natural resources of the State of New Mexico.



(6) That the Commission's decision to approve or disapprove the application of El Paso Natural Gas Company in Case 4682 must be predicated upon the prevention of the waste of hydrocarbons and the protection of the correlative rights of owners of property in the Blanco-Mesaverde Gas Pool.

(7) That the Commission will receive evidence that is relevant to the prevention of waste of hydrocarbons and the protection of correlative rights.

(8) Evidence concerning market demand, curtailment of gas supplies, energy crisis, and environmental impact will be received by the Commission and considered in its determination to approve or disapprove the application if the party offering same can show the relevance of such matters to the prevention of waste and the protection of correlative rights.

(9) The Commission also has the authority to gather for informational purposes evidence concerning market demand, curtailment of gas supplies, energy crisis, and environmental matters, though such are not to be considered in its determination of approval or disapproval of the subject application.

(10) That the Commission will receive evidence concerning market demand, curtailment of gas supplies, energy crisis, and environmental matters if offered by a party merely for informational purposes.

(11) That after it has made its decision to approve or disapprove the application upon the basis of evidence that is relevant to waste and protection of correlative rights, and if that decision should be to approve the application, it will consider evidence offered for informational purposes only to the fullest extent possible in the implementation of the decision.

(12) That the New Mexico Oil Conservation Commission is not required by Section 12-20-6, New Mexico Statutes Annotated, 1953 Compilation, to prepare an environmental impact statement prior to the hearing of this case.

IT IS THEREFORE ORDERED:

(1) In accordance with the above, the three petitioners, the New Mexico Environmental Improvement Agency, the New Mexico Municipal League, and the New Mexico Public Service Commission each are hereby granted permission to intervene in the above-styled cause, subject to the following:

- A. Evidence offered or which is elicited on cross-examination which is not relevant to the waste of hydrocarbons shall be admitted for informational purposes only.

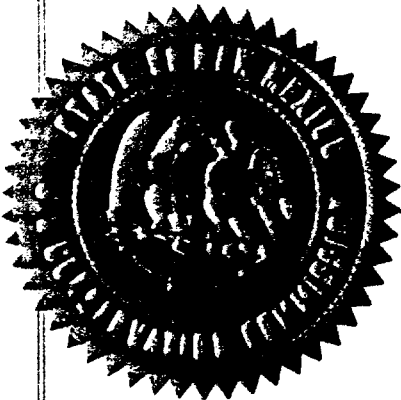
B. Evidence which is offered or which is elicited on cross-examination which is relevant to the waste of hydrocarbons shall be admitted for all purposes.

(2) To the extent that the above findings are in conflict with the motion of Southern Union Production Company, Southern Union Gathering Company, and Southern Union Gas Company, said motion is denied; to the extent the above findings are not in conflict with said motion, the motion is granted.

(3) That the motion of the New Mexico Environmental Improvement Agency to continue the above-entitled cause until such time as the New Mexico Oil Conservation Commission has prepared an environmental impact statement is hereby denied.

(4) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

*Bruce King*  
BRUCE KING, Chairman

*Alex J. Armijo*  
ALEX J. ARMIJO, Member

*A. L. Porter, Jr.*  
A. L. PORTER, Jr., Member & Secretary

S E A L

dr/

38

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASE NO. 4682  
Order No. R-4498

APPLICATION OF EL PASO NATURAL GAS  
COMPANY FOR AMENDMENT OF THE RULES  
AND REGULATIONS GOVERNING THE BLANCO-  
MESAVERDE GAS POOL, SAN JUAN AND RIO  
ARRIBA COUNTIES, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on June 29, 1972, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 27th day of March, 1973, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

(1) That applicant has requested that Case 4682 be dismissed without prejudice.

(2) That as a result of the hearing on June 29, 1972, an order was adopted by the Commission resolving certain procedural questions.

(3) That should Case 4682 or the subject matter thereof be raised in a subsequent proceeding before the Commission, the Commission should determine at that time whether or not the record of the June 29, 1972, hearing and the order adopted thereafter should be incorporated in the subsequent proceeding.

(4) That the applicant's request for dismissal without prejudice should be granted.

IT IS THEREFORE ORDERED:

(1) That Case No. 4682 is hereby dismissed without prejudice.

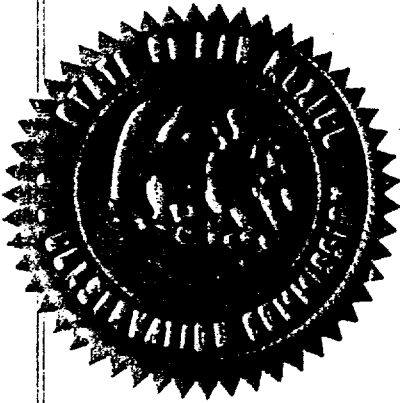
-2-

Case No. 4682

Order No. R-4498

(2) That in any application to reconsider the subject matter of Case 4682 the Commission shall first determine whether or not it will incorporate the record of the June 29, 1972, hearing before the Commission and the findings and order entered by the Commission in this case.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

*Bruce King*  
BRUCE KING, Chairman

*Alex J. Armiijo*  
ALEX J. ARMIJO, Member

*A. L. Porter, Jr.*  
A. L. PORTER, Jr., Member & Secretary

S E A L

dr/



# OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO  
P. O. BOX 2088 - SANTA FE  
87501

November 15, 1974

I. R. TRUJILLO  
CHAIRMAN

LAND COMMISSIONER  
ALEX J. ARMIJO  
MEMBER

STATE GEOLOGIST  
A. L. PORTER, JR.  
SECRETARY - DIRECTOR

Re: CASE NO. 5264

ORDER NO. R-1670-T

Applicant:

El Paso Natural Gas Company

Mr. William Federici  
Montgomery, Federici, Andrews,  
Hannahs & Buell  
Attorneys at Law  
Post Office Box 2307  
Santa Fe, New Mexico

Dear Sir:

Enclosed herewith are two copies of the above-referenced  
Commission order recently entered in the subject case.

Very truly yours,

*A. L. Porter, Jr.*

A. L. PORTER, Jr.  
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC x

Artesia OCC           

Aztec OCC x

Other Copies to all interested parties

BEFORE THE OIL CONSERVATION COMMISSION  
STATE OF NEW MEXICO

Application of El Paso Natural Gas )  
Company for an Amendment of Order )  
No. R-1670 to Permit the Optional )  
Drilling and Production of an Addi- )  
tional Well on Proration Units San )  
Juan, Rio Arriba and Sandoval )  
Counties, New Mexico, and to Provide )  
for the Assignment of Allowables for )  
Such Additional Wells and Proration )  
Units. )

Case No. 5264

SUGGESTED FINDINGS OF FACT SUBMITTED  
BY MESA PETROLEUM CO.

1. That El Paso Natural Gas Company is a natural gas company under the jurisdiction of the Federal Power Commission. In the Blanco-Mesaverde Pool (hereinafter referred to as "Pool") El Paso is both a purchaser and producer owning an interest in or operating approximately 1,100 of the 2,055 producing wells.

The leases owned by El Paso in the Pool were acquired by El Paso prior to 1969. That under the rules and regulations of the Federal Power Commission El Paso is entitled to recover its actual costs plus a return on the gas produced from its own wells on leases acquired prior to October 7, 1969.

2. That for gas purchased from existing wells in the Pool El Paso is permitted to pay independent producers 24¢ plus adjustment for BTU and taxes (gross price approximately 27¢ per MCF).

3. The price which El Paso would be permitted to pay, under Federal Power Commission rules and regulations, for gas which it purchases from the Pool from the second well drilled on an existing unit is undeterminable at the present time. The Federal Power Commission has not responded to the letter from this Commission dated July 18, 1974 requesting an answer as to whether or not the provisions of the Federal Power Commission's Opinion No. 699, fixing a national area rate of 43¢ (plus BTU adjustment and taxes) for wells drilled on and after 1/1/73, would be applicable to the second well drilled on a producing unit in this Pool.

4. The Commission finds that the average cost of drilling and completing a new well in the Pool is approximately \$152,000 per well. That the average operating cost per well is approximately \$200 per month. The record indicates a maximum additional recovery from an average new well of from 30% to 70% of the original recoverable reserves under an average old well.

5. The evidence in this proceeding demonstrates that at the applicable Rocky Mountain area rate of 24¢ per MCF (plus BTU and taxes) it would not be economically feasible for an independent producer to drill and complete a second well on the existing units in the Pool.

6. Independent producers own fractional interests in many of the wells which El Paso operates and from which it purchases gas. Should a second well be permitted on a unit, to permit the total allowable production to be produced from either the old or the new well would permit the purchaser-operator of the unit to produce the wells in a manner detrimental to the interest of the independent producers who own fractional interests.

#### CONCLUSIONS

1. This Commission's statutory obligation is to prevent the waste of natural gas and to protect the correlative rights of the mineral owners. These obligations must guide our deliberations and disposition of this application.

2. From the evidence presented, the Commission concludes that it is not economically feasible for an independent producer, as differentiated from a pipeline affiliate, to drill a second well on the existing 320 acre units and sell the gas from the new well at 24¢ per MCF (plus BTU and tax adjustments).

3. To amend the existing field rules to permit the drilling of a second well on each unit as requested by the applicant knowing that the applicant, because of Federal Power Commission regulations

of pipeline company produced gas could recover its costs of drilling additional wells, would put El Paso in a position of being permitted to produce gas from their units at a faster rate than other producers in the Pool. The increased production from El Paso's units would ultimately result in the violation of the correlative rights of the independent producers operating off-set units.

4. Should the Federal Power Commission determine that the national area rate is applicable to gas produced from the second well drilled on the unit in the Pool, it would not be proper to permit El Paso to produce the allowable from either the new well or the old well, whichever it desired. The cost of gas and the amount received by independent producers for gas produced from the old well on the unit would be approximately 20¢ per MCF less than gas produced from the new well on the unit. The Commission, not the operator of the well, should fix the allowable production from each of the wells on the unit. It is the combined deliverability of the two wells which would determine the unit's allowable production. Under such circumstances the production should be assigned to each well based on that well's percent of the total deliverability of the unit.

Respectfully submitted,

Clarence Hinkle,  
Ed H. Selecman, and  
Richard C. Byrd

By:



Richard C. Byrd  
ANDERSON, BYRD & RICHESON  
First National Bank Bldg.  
Ottawa, Kansas 66067

Attorneys for Mesa Petroleum Co.



ROBERT A. ANDERSON  
RICHARD C. BYRD  
JOHN L. RICHESON

LAW OFFICES  
ANDERSON, BYRD & RICHESON

FIRST NATIONAL BANK BUILDING  
OTTAWA, KANSAS 66067

PHONE  
Area Code 913  
CHerry 2-1234

September 13, 1974

Mr. A. L. Porter, Jr.  
Secretary - Director  
Oil Conservation Commission  
State of New Mexico  
P. O. Box 2088  
Santa Fe, New Mexico 87501

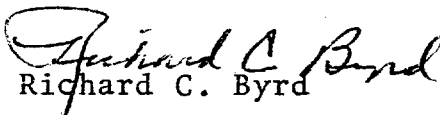
RE: Application of El Paso Natural  
Gas Company (Case No. 5264) --  
Suggested Findings of Fact of  
Mesa Petroleum Co.

Dear Mr. Porter:

Pursuant to the Commission's request at the conclusion  
of the hearing in the above-entitled case, Mesa hereby  
submits suggested findings and conclusions for your con-  
sideration.

Copies of the enclosed findings have been mailed to all  
attorneys of record.

Very truly yours,

  
Richard C. Byrd

ANDERSON, BYRD & RICHESON

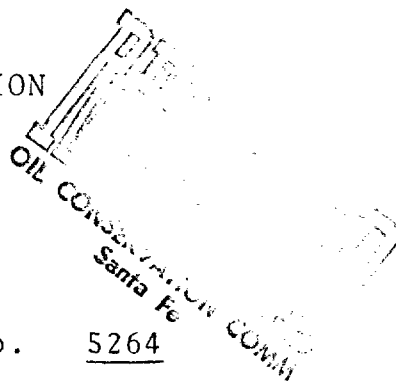
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Encl:

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

Application of El Paso Natural Gas )  
Company for an Amendment of Order )  
No. R-1670 to Permit the Optional )  
Drilling and Production of an Addi- )  
tional Well on Proration Units San )  
Juan, Rio Arriba and Sandoval )  
Counties, New Mexico, and to Provide )  
for the Assignment of Allowables for )  
Such Additional Wells and Proration )  
Units. )

Case No. 5264



SUGGESTED FINDINGS OF FACT SUBMITTED  
BY MESA PETROLEUM CO.

1. That El Paso Natural Gas Company is a natural gas company under the jurisdiction of the Federal Power Commission. In the Blanco-Mesaverde Pool (hereinafter referred to as "Pool") El Paso is both a purchaser and producer owning an interest in or operating approximately 1,100 of the 2,055 producing wells.

The leases owned by El Paso in the Pool were acquired by El Paso prior to 1969. That under the rules and regulations of the Federal Power Commission El Paso is entitled to recover its actual costs plus a return on the gas produced from its own wells on leases acquired prior to October 7, 1969.

2. That for gas purchased from existing wells in the Pool El Paso is permitted to pay independent producers 24¢ plus adjustment for BTU and taxes (gross price approximately 27¢ per MCF).

3. The price which El Paso would be permitted to pay, under Federal Power Commission rules and regulations, for gas which it purchases from the Pool from the second well drilled on an existing unit is undeterminable at the present time. The Federal Power Commission has not responded to the letter from this Commission dated July 18, 1974 requesting an answer as to whether or not the provisions of the Federal Power Commission's Opinion No. 699, fixing a national area rate of 43¢ (plus BTU adjustment and taxes) for wells drilled on and after 1/1/73, would be applicable to the second well drilled on a producing unit in this Pool.

4. The Commission finds that the average cost of drilling and completing a new well in the Pool is approximately \$152,000 per well. That the average operating cost per well is approximately \$200 per month. The record indicates a maximum additional recovery from an average new well of from 30% to 70% of the original recoverable reserves under an average old well.

5. The evidence in this proceeding demonstrates that at the applicable Rocky Mountain area rate of 24¢ per MCF (plus BTU and taxes) it would not be economically feasible for an independent producer to drill and complete a second well on the existing units in the Pool.

6. Independent producers own fractional interests in many of the wells which El Paso operates and from which it purchases gas. Should a second well be permitted on a unit, to permit the total allowable production to be produced from either the old or the new well would permit the purchaser-operator of the unit to produce the wells in a manner detrimental to the interest of the independent producers who own fractional interests.

#### CONCLUSIONS

1. This Commission's statutory obligation is to prevent the waste of natural gas and to protect the correlative rights of the mineral owners. These obligations must guide our deliberations and disposition of this application.

2. From the evidence presented, the Commission concludes that it is not economically feasible for an independent producer, as differentiated from a pipeline affiliate, to drill a second well on the existing 320 acre units and sell the gas from the new well at 24¢ per MCF (plus BTU and tax adjustments).

3. To amend the existing field rules to permit the drilling of a second well on each unit as requested by the applicant knowing that the applicant, because of Federal Power Commission regulations

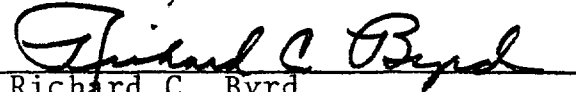
of pipeline company produced gas could recover its costs of drilling additional wells, would put El Paso in a position of being permitted to produce gas from their units at a faster rate than other producers in the Pool. The increased production from El Paso's units would ultimately result in the violation of the correlative rights of the independent producers operating off-set units.

4. Should the Federal Power Commission determine that the national area rate is applicable to gas produced from the second well drilled on the unit in the Pool, it would not be proper to permit El Paso to produce the allowable from either the new well or the old well, whichever it desired. The cost of gas and the amount received by independent producers for gas produced from the old well on the unit would be approximately 20¢ per MCF less than gas produced from the new well on the unit. The Commission, not the operator of the well, should fix the allowable production from each of the wells on the unit. It is the combined deliverability of the two wells which would determine the unit's allowable production. Under such circumstances the production should be assigned to each well based on that well's percent of the total deliverability of the unit.

Respectfully submitted,

Clarence Hinkle,  
Ed H. Selecman, and  
Richard C. Byrd

By:



Richard C. Byrd  
ANDERSON, BYRD & RICHESON  
First National Bank Bldg.  
Ottawa, Kansas 66067

Attorneys for Mesa Petroleum Co.

*Fin. Exp. 842D*

BEFORE THE OIL CONSERVATION COMMISSION  
STATE OF NEW MEXICO

Application of El Paso Natural Gas )  
Company for an Amendment of Order )  
No. R-1670 to Permit the Optional )  
Drilling and Production of an Addi- )  
tional Well on Proration Units San )  
Juan, Rio Arriba and Sandoval )  
Counties, New Mexico, and to Provide )  
for the Assignment of Allowables for )  
Such Additional Wells and Proration )  
Units. )

Case No. 5264

SUGGESTED FINDINGS OF FACT SUBMITTED  
BY MESA PETROLEUM CO.

1. That El Paso Natural Gas Company is a natural gas company under the jurisdiction of the ~~Federal Power Commission~~.

In the Blanco-Mesaverde Pool (hereinafter referred to as "Pool")

\* <El Paso is both a purchaser and producer owning an interest in or operating approximately 1,100 of the 2,055 producing wells.>

*cost +*

The leases owned by El Paso in the Pool were acquired by El Paso prior to 1969. That under the rules and regulations of the Federal Power Commission El Paso is entitled to recover its actual costs plus a return on the gas produced from its own wells on leases acquired prior to October 7, 1969.

② That for gas purchased from existing wells in the Pool El Paso is permitted to pay independent producers 24¢ plus adjustment for BTU and taxes (gross price approximately 27¢ per MCF).

③ The price which El Paso would be permitted to pay, under Federal Power Commission rules and regulations, for gas which it purchases from the Pool from the second well drilled on an existing unit is undeterminable at the present time. The Federal Power Commission has not responded to the letter from this Commission dated July 18, 1974 requesting an answer as to whether or not the provisions of the Federal Power Commission's Opinion No. 699, fixing a national area rate of 43¢ (plus BTU adjustment and taxes) for wells drilled on and after 1/1/73, would be applicable to the second well drilled on a producing unit in this Pool.

*respond to price increase of gas*

4. The Commission finds that the average cost of drilling and completing a new well in the Pool is approximately \$152,000 per well. That the average operating cost per well is approximately \$200 per month. <The record indicates a maximum additional recovery from an average new well of from 30% to 70% of the original recoverable reserves under an average old well.>

*Respond*  
5. The evidence in this proceeding demonstrates that at the applicable Rocky Mountain area rate of 24¢ per MCF (plus BTU and taxes) it would not be economically feasible for an independent producer to drill and complete a second well on the existing units in the Pool.

*Respond*  
6. Independent producers own fractional interests in many of the wells which El Paso operates and from which it purchases gas. Should a second well be permitted on a unit, to permit the total allowable production to be produced from either the old or the new well would permit the purchaser-operator of the unit to produce the wells in a manner detrimental to the interest of the independent producers who own fractional interests.

#### CONCLUSIONS

1. This Commission's statutory obligation is to prevent the waste of natural gas and to protect the correlative rights of the mineral owners. These obligations must guide our deliberations and disposition of this application.

2. From the evidence presented, the Commission concludes that it is not economically feasible for an independent producer, as differentiated from a pipeline affiliate, to drill a second well on the existing 320 acre units and sell the gas from the new well at 24¢ per MCF (plus BTU and tax adjustments).

3. To amend the existing field rules to permit the drilling of a second well on each unit as requested by the applicant knowing that the applicant, because of Federal Power Commission regulations

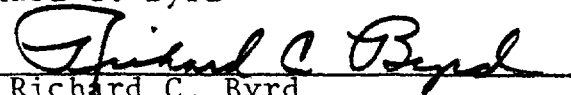
of pipeline company produced gas could recover its costs of drilling additional wells, would put El Paso in a position of being permitted to produce gas from their units at a faster rate than other producers in the Pool. The increased production from El Paso's units would ultimately result in the violation of the correlative rights of the independent producers operating off-set units.

4. Should the Federal Power Commission determine that the national area rate is applicable to gas produced from the second well drilled on the unit in the Pool, it would not be proper to permit El Paso to produce the allowable from either the new well or the old well, whichever it desired. The cost of gas and the amount received by independent producers for gas produced from the old well on the unit would be approximately 20¢ per MCF less than gas produced from the new well on the unit. The Commission, not the operator of the well, should fix the allowable production from each of the wells on the unit. It is the combined deliverability of the two wells which would determine the unit's allowable production. Under such circumstances the production should be assigned to each well based on that well's percent of the total deliverability of the unit.

Respectfully submitted,

Clarence Hinkle,  
Ed H. Selecman, and  
Richard C. Byrd

By:



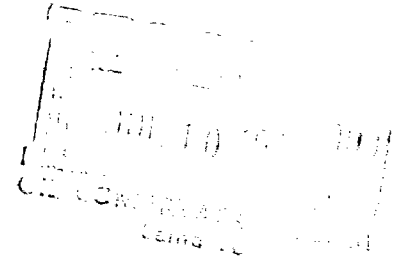
Richard C. Byrd  
ANDERSON, BYRD & RICHESON  
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Ottawa, Kansas 66067

Attorneys for Mesa Petroleum Co.

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF EL PASO NATURAL GAS COMPANY FOR AN AMENDMENT OF ORDER NO. R-1670 TO PERMIT THE OPTIONAL DRILLING AND PRODUCTION OF AN ADDITIONAL WELL ON PRORATION UNITS SAN JUAN, RIO ARriba AND SANDOVAL COUNTIES, NEW MEXICO, AND TO PROVIDE FOR THE ASSIGNMENT OF ALLOWABLES FOR SUCH ADDITIONAL WELLS AND PRORATION UNITS.



CASE NO. 5264

MOTION FOR POSTPONEMENT

TO THE HONORABLE OIL CONSERVATION COMMISSION OF NEW MEXICO:

Comes now Mesa Petroleum Co. of Amarillo, Texas, hereinafter referred to as Mesa, acting by and through the undersigned attorneys, and enters its appearance in this cause and requests that the hearing set for August 13, 1974 be postponed, and as grounds for this motion would respectfully show:

1. Mesa owns an interest in more than 450 wells and is the operator of 28 wells in the Blanco Mesaverde Gas Pool, San Juan, Rio Arriba and Sandoval Counties of the State of New Mexico. The granting of El Paso's application could require that Mesa drill approximately 36 additional net wells.

2. The rule changes proposed by El Paso applicable to the Blanco Mesaverde Gas Pool as provided in Order No. R-1670 will authorize the drilling of a second well on an existing proration unit and the unit allowable be produced from either or both wells.

On June 21, 1974, the Federal Power Commission issued its Opinion and Order prescribing a uniform national rate for sales of natural gas produced from wells commenced on or after January 1, 1973, Opinion 699, Docket No. R-389-B. It cannot be determined from such opinion what the pricing policies and procedures may be to determine prices of gas produced from additional wells commenced on or after January 1, 1973, particularly to be applied in connection with any order which the Oil Conservation Commission may issue in this hearing. Until such time as the Federal Power



Commission issues an opinion clarifying the effect of its Opinion and Order of June 21, 1974 on the sale of gas produced from the additional wells drilled on existing proration units, it is impossible for Mesa to determine its position with respect to El Paso's application in this cause.

3. The granting of Mesa's Motion for Continuance will neither cause waste nor violate the correlative rights of the owners of interests in the oil and gas reserves underlying the Blanco Mesaverde Gas Pool.

WHEREFORE, Mesa respectfully requests that the hearing on the subject application of El Paso be postponed until such time as the Federal Power Commission issues its order and opinion clarifying the effect of its Opinion and Order of June 21, 1974 (Opinion 699, Docket No. R-389-B) on the sales of gas produced from the additional wells drilled on existing proration units, as provided for in the proposed rule changes in the subject application. In the event the Commission desires a hearing on this motion, it is further requested that such hearing be held on a date convenient to the Commission prior to August 13, 1974.

Respectfully submitted,

MESA PETROLEUM CO.

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D. D. Dent

P. O. Box 2009  
Amarillo, Texas 79105

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Richard C. Byrd

Anderson, Byrd & Richeson  
First National Bank Building  
Ottawa, Kansas 66067

---

Clarence E. Hinkle

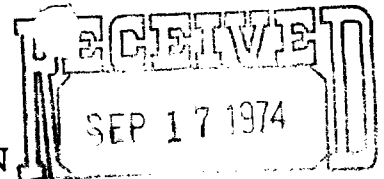
Hinkle, Bondurant, Cox & Eaton  
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Attorneys for MESA PETROLEUM CO.

ROBERT A. ANDERSON  
RICHARD C. BYRD  
JOHN L. RICHESON

LAW OFFICES  
ANDERSON, BYRD & RICHESON

FIRST NATIONAL BANK BUILDING  
OTTAWA, KANSAS 66067



OIL CONSERVATION COMMISSION  
Santa Fe  
Area Code 913  
CHerry 2-1234

September 13, 1974

Mr. A. L. Porter, Jr.  
Secretary - Director  
Oil Conservation Commission  
State of New Mexico  
P. O. Box 2088  
Santa Fe, New Mexico 87501

RE: Application of El Paso Natural  
Gas Company (Case No. 5264) --  
Suggested Findings of Fact of  
Mesa Petroleum Co.

Dear Mr. Porter:

Pursuant to the Commission's request at the conclusion  
of the hearing in the above-entitled case, Mesa hereby  
submits suggested findings and conclusions for your con-  
sideration.

Copies of the enclosed findings have been mailed to all  
attorneys of record.

Very truly yours,

  
Richard C. Byrd

ANDERSON, BYRD & RICHESON

RCB:mb  
Encl:

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

Application of El Paso Natural Gas )  
Company for an Amendment of Order )  
No. R-1670 to Permit the Optional )  
Drilling and Production of an Addi- )  
tional Well on Proration Units San )  
Juan, Rio Arriba and Sandoval )  
Counties, New Mexico, and to Provide )  
for the Assignment of Allowables for )  
Such Additional Wells and Proration )  
Units. )

Case No. 5264

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BY MESA PETROLEUM CO.

1. That El Paso Natural Gas Company is a natural gas company under the jurisdiction of the Federal Power Commission. In the Blanco-Mesaverde Pool (hereinafter referred to as "Pool") El Paso is both a purchaser and producer owning an interest in or operating approximately 1,100 of the 2,055 producing wells.

The leases owned by El Paso in the Pool were acquired by El Paso prior to 1969. That under the rules and regulations of the Federal Power Commission El Paso is entitled to recover its actual costs plus a return on the gas produced from its own wells on leases acquired prior to October 7, 1969.

2. That for gas purchased from existing wells in the Pool El Paso is permitted to pay independent producers 24¢ plus adjustment for BTU and taxes (gross price approximately 27¢ per MCF).

3. The price which El Paso would be permitted to pay, under Federal Power Commission rules and regulations, for gas which it purchases from the Pool from the second well drilled on an existing unit is undeterminable at the present time. The Federal Power Commission has not responded to the letter from this Commission dated July 18, 1974 requesting an answer as to whether or not the provisions of the Federal Power Commission's Opinion No. 699, fixing a national area rate of 43¢ (plus BTU adjustment and taxes) for wells drilled on and after 1/1/73, would be applicable to the second well drilled on a producing unit in this Pool.

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5. The evidence in this proceeding demonstrates that at the applicable Rocky Mountain area rate of 24¢ per MCF (plus BTU and taxes) it would not be economically feasible for an independent producer to drill and complete a second well on the existing units in the Pool.

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#### CONCLUSIONS

1. This Commission's statutory obligation is to prevent the waste of natural gas and to protect the correlative rights of the mineral owners. These obligations must guide our deliberations and disposition of this application.

2. From the evidence presented, the Commission concludes that it is not economically feasible for an independent producer, as differentiated from a pipeline affiliate, to drill a second well on the existing 320 acre units and sell the gas from the new well at 24¢ per MCF (plus BTU and tax adjustments).

3. To amend the existing field rules to permit the drilling of a second well on each unit as requested by the applicant knowing that the applicant, because of Federal Power Commission regulations

of pipeline company produced gas could recover its costs of drilling additional wells, would put El Paso in a position of being permitted to produce gas from their units at a faster rate than other producers in the Pool. The increased production from El Paso's units would ultimately result in the violation of the correlative rights of the independent producers operating off-set units.

4. Should the Federal Power Commission determine that the national area rate is applicable to gas produced from the second well drilled on the unit in the Pool, it would not be proper to permit El Paso to produce the allowable from either the new well or the old well, whichever it desired. The cost of gas and the amount received by independent producers for gas produced from the old well on the unit would be approximately 20¢ per MCF less than gas produced from the new well on the unit. The Commission, not the operator of the well, should fix the allowable production from each of the wells on the unit. It is the combined deliverability of the two wells which would determine the unit's allowable production. Under such circumstances the production should be assigned to each well based on that well's percent of the total deliverability of the unit.

Respectfully submitted,

Clarence Hinkle,  
Ed H. Selecman, and  
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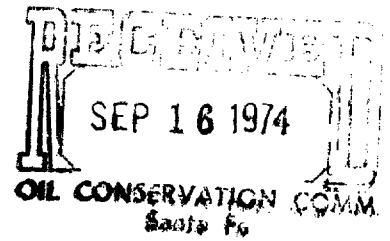
By:



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Ottawa, Kansas 66067

Attorneys for Mesa Petroleum Co.

1 BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION



CASE NO. 5264

APPLICATION OF EL PASO NATURAL  
GAS COMPANY FOR AN AMENDMENT OF  
ORDER NO. R-1670 TO PERMIT THE  
OPTIONAL DRILLING AND PRODUCTION  
OF AN ADDITIONAL WELL ON PRORATION  
UNITS IN THE BLANCO MESAVERDE GAS  
POOL OF SAN JUAN, RIO ARRIBA AND  
SANDOVAL COUNTIES, NEW MEXICO,  
AND TO PROVIDE FOR THE ASSIGNMENT  
OF ALLOWABLES FOR SUCH ADDITIONAL  
WELLS AND PRORATION UNITS.

SUGGESTED FINDINGS OF FACT  
SUBMITTED BY SOUTHERN UNION GAS COMPANY

Comes now Southern Union Gas Company, a participant in and party  
to this proceeding, and respectfully submits its suggested and requested Find-  
ings of Fact as follows:

1. The Commission has jurisdiction of this cause and the subject  
matter hereof.

2. The public has a vital interest in the conservation of natural gas  
and other resources in the State of New Mexico.

3. This proceeding was commenced by the application of El Paso  
Natural Gas Company (EPNG) to amend Order No. R-1670 to permit double  
drilling on existing proration units within the Blanco-Mesaverde Gas Pool and  
to change the allowable formula to include the deliverability of the double  
drilled well additive to that of the first well.

4. The basic statutes (NMSA 1953) governing the approval or dis-  
approval of the EPNG application are: §§65-3-2, prohibiting waste; 65-3-3,  
defining waste; 65-3-5, concerning the Commission's powers and duties;  
65-3-10, referring to this Commission's duty to prevent waste and protect  
correlative rights; 65-3-1-13(c), relating to the formulation of an allowable  
formula; 65-3-14, relating to the equitable allocation of allowable production

1 and spacing; 65-3-15(c), concerning purchases by common purchasers; and  
2 65-3-29(h), defining correlative rights.

3           5. The Blanco Mesaverde Pool presently has some 2,058 producing  
4 gas wells, each located on a 320-acre spacing and proration unit. The total  
5 production allowable for the pool is divided among the wells under a rather  
6 complex allowable formula which considers both the acreage dedicated to the  
7 well and the well's pipeline deliverability. The spacing rules for this pool and  
8 the allowable formula have been in effect for approximately 23 years and 20  
9 years, respectively.  
10

11           6. By its application, EPNG is seeking to increase deliverability  
12 from the pool by the double-drilling of additional wells on existing 320-acre  
13 proration units. However, rather than petitioning the Commission to change  
14 the spacing for the pool from 320 acres to 160 acres, EPNG seeks an order per-  
15 mitting the drilling of a second well on any 320-acre unit and amending the  
16 prorating formula so that the acreage factor for the wells would not be affected  
17 but the deliverability of the two wells would be additive. Normally under New  
18 Mexico practice, the drilling of a second well would require the formation of  
19 two non-standard 160-acre proration units, each with an acreage factor of  
20 0.5 to be applied to the allowable formula which tends to reduce the allowable  
21 for the well because of its shortage of acreage. A double-drilled proration  
22 unit would receive a larger allowable than a proration unit the operator of which  
23 would not or could not drill the additional well.  
24  
25

26           7. Under such a rule, there is a very real likelihood of drainage of  
27 gas underlying units with one well to units with two wells. Other operators in  
28 the pool, therefore, realize that if the rule is adopted, they will be obligated  
29 under their leases to drill additional wells to prevent such drainage even  
30 though the pool spacing rules would not require additional drilling.  
31

32           8. The Commission must assume that the existing allowable formula

1 is valid until it is successfully attacked.

2           9. There has been a lack of substantial evidence presented in the  
3 record of this case to support the basic findings in the language of Continental  
4 Oil Co. v. Oil Conservation Com'n., 70 N.M. 310, 373 P.2d 809, or their  
5 equivalents, which findings or their equivalents are necessary to and upon  
6 which jurisdiction of this Commission to approve the EPNG application depends.  
7

8           10. The existing allowable formula currently adequately prevents  
9 waste and protects correlative rights. Waste would not be more prevented nor  
10 would correlative rights be better protected under the proposed new formula,  
11 at the current time.

12           11. At this stage of field and office study of the relationship between  
13 double drilling in the pool and any increased reserves in the pool, there is no  
14 substantial evidence that approval of the EPNG application will substantially  
15 increase recoverable reserves in the Blanco Mesaverde Gas Pool. The results  
16 of existing studies are speculative and conjectural.

17           12. Approval of EPNG's application would result in the production  
18 of natural gas from the Blanco Mesaverde Gas Pool in excess of the demand for  
19 natural gas for reasonable current requirements, for current consumption and  
20 for use within or outside the state, together with the demand for such amounts  
21 as are necessary for building up or maintaining reasonable storage reserves.  
22

23           13. Approval of the EPNG proposal would not provide for the  
24 allocation of the allowable production among gas wells in the Blanco Mesaverde  
25 Gas Pool delivering to a gas transportation facility upon a reasonable basis and  
26 recognizing correlative rights throughout the pool.  
27

28           14. Approval of EPNG's application would not, insofar as is prac-  
29 tible, prevent drainage between producing tracts in the Blanco Mesaverde Gas  
30 Pool which is not equalized by counter-drainage.  
31

32



1           15. The Commission must assume that the existing spacing is valid  
2 until it is successfully attacked.

3           16. At this stage of field and office investigation of the drainage of  
4 gas wells in the pool, there is no substantial evidence that the existing prora-  
5 tion units in the Blanco Mesaverde Gas Pool containing one gas well do not  
6 efficiently and economically drain and develop the area within such existing  
7 proration units. The results of existing studies are speculative and conjectural.

8           17. There is no substantial evidence that consideration of the eco-  
9 nomic loss caused by the drilling of unnecessary wells, the protection of  
10 correlative rights, including those of royalty owners, the prevention of waste,  
11 the avoidance of the augmentation of risks arising from drilling of an excessive  
12 number of wells and the prevention of reduced recovery which might result  
13 from the drilling of too few wells, supports the proposed change in spacing, at  
14 the current time.

15           18. The existing spacing currently adequately prevents waste and  
16 protects correlative rights. Waste would not be more prevented nor would  
17 correlative rights be better protected under EPNG's proposed new spacing, at  
18 the current time.

19           19. EPNG, as producer and purchaser, is in a markedly different  
20 and more favorable position than other producers in the pool, in relation to  
21 economically justifying double-drilling now, in terms of having pipe and other  
22 drilling and completion materials and services available now and in terms of the  
23 siting of acreage within the pool currently owned or controlled.

24           20. Due to current shortages in drilling and completion goods,  
25 equipment and services, the differential pricing to different producers and  
26 ambiguity over the applicability of the new uniform national rate for sales of  
27 natural gas to interstate commerce to the double-drilled well and/or total or  
28 proportion of the gas produced from the double-drilled proration unit, not all  
29  
30  
31  
32

1 owners of property in the Blanco Mesaverde Gas Pool would have practical  
2 opportunity to produce without waste his just and equitable share of the gas in  
3 the pool, if the EPNG application were approved at the present time.

4           21. Funds available to operators required to double drill, and also  
5 tubular good allocations, would have to be diverted from other exploratory and  
6 developmental programs. It is in the public interest to encourage the explor-  
7 ation for and development of new reserves of natural gas outside of already  
8 defined pools.

10           22. Delay in approving the EPNG plan would more closely correlate  
11 supply and reasonable market demand, both within and outside New Mexico.

12           23. Southern Union Gas Company has a vital stake and interest in  
13 the outcome of this proceeding arising from separate but interdependent cir-  
14 cumstances, to-wit, as a purchaser of natural gas from producers within this  
15 and other San Juan Basin pools; as an owner of gas transportation facilities  
16 serving gas wells therein; and as a public utility in New Mexico seeking to  
17 furnish New Mexico consumers with adequate, efficient and reasonable gas  
18 service at just and reasonable rates. Gas from this and other San Juan Basin  
19 pools purchased by Southern Union Gas Company is the exclusive source of  
20 supply for approximately 500,000 New Mexicans in Albuquerque, Santa Fe and  
21 other areas of Southern Union Gas Company's Northwestern and Albuquerque  
22 service divisions. This is no current market demand for these New Mexico  
23 consumers for the additional gas to be produced under the EPNG application.  
24 The New Mexico Public Service Commission, charged by law with the super-  
25 vision and regulation of public utilities' gas service, shares the concerns  
26 expressed by Southern Union Gas Company.

29           24. If substantial additional reserves could be developed by double-  
30 drilling in this pool, such would be accomplished even if the approval of double-  
31 drilling were to be deferred until a later date. The likelihood of double-drilling  
32

1 under more equal opportunities for all operators in the pool is subverted by not  
2 approving the EPNG application at the present time.

3 25. At the present time, the application of EPNG in this case should,  
4 and must, be disapproved and denied.

5 Respectfully submitted,

6  
7 A. S. GRENIER  
8 JACK HERTZ  
9 Fidelity Union Tower  
10 Dallas, Texas 75201

11 BIGBEE, BYRD, CARPENTER & CROUT

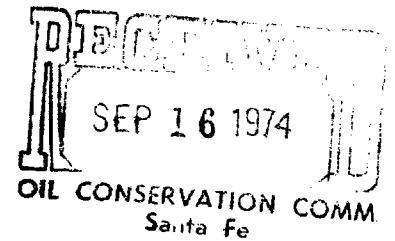
12 By Richard H. Lopez

13 P. O. Box 669  
14 Santa Fe, New Mexico 87501

15 Attorneys for Southern Union Gas Company  
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BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

In the matter of the hearing  
called by the Oil Conservation  
Commission of New Mexico for  
the purpose of considering:



Case No. 5264

Application of El Paso Natural  
Gas Company for amendment of  
Order No. R-1670 to permit the  
optional drilling and production  
of an additional well on prora-  
tion units in the Blanco-Mesaverde  
Gas Pool of San Juan, Rio Arriba and  
Sandoval counties, New Mexico, and  
to provide for the assignment of  
allowables for such additional wells  
and proration units.

REQUESTED FINDINGS TENDERED BY SOUTHERN UNION  
PRODUCTION COMPANY, UNION OIL COMPANY OF CAL-  
IFORNIA, AMERADA-HESS CORPORATION, SUN OIL COM-  
PANY, ~~GLENDALE OIL COMPANY~~ *dwk*

(1) That due public notice having been given as required  
by law, the Commission has jurisdiction of this cause and the  
subject matter thereof.

(2) That Section 65-3-10, New Mexico Statutes Annotated,  
1953 Compilation, empowers and gives the duty to the Commission  
to prevent the waste of hydrocarbons and to protect the correla-  
tive rights of owners of interests in said hydrocarbons.

(3) That Section 65-3-5, New Mexico Statutes Annotated,  
1953 Compilation, gives the Commission jurisdiction and authority  
over all matters relating to the conservation of oil and gas.

(4) That "waste" and "correlative rights" are defined by  
Sections 65-3-3 and 65-3-29, respectively, New Mexico Statutes  
Annotated, 1953 Compilation.

(5) That the Blanco-Mesaverde Gas Pool was created by Commission Order No. 799 dated February 25, 1949.

(6) That said Order No. 799 established 320 acre spacing units in the Blanco-Mesaverde Gas Pool and said 320 acre spacing has been in effect since February 25, 1949.

(7) That Commission Order No. R-128-C dated December 16, 1954, provided for prorationing of the Blanco-Mesaverde Gas Pool on a proration formula identical to the formula presently used in said pool and said proration formula has been in effect since December 16, 1954.

(8) That said Order No. R-128-C finds that 320 acre proration units and the proration formula therein adopted prevent waste and protect correlative rights of the owners in the Pool.

(9) That the Applicant proposes to amend Order No. R-1670 to authorize the drilling of a second well on an existing proration unit without notice and hearing, with a provision that in calculating the allowable for a proration unit containing two wells, the deliverability of both wells would be combined in determining the unit's "AD Factor", and the unit allowable could be produced from either or both wells.

(10) That the approval of the application would amount to a change in the proration formula for the Blanco-Mesaverde Gas Pool, and as such is directly related to the protection of correlative rights and the prevention of waste.

(11) Applicant's Exhibit No. 16 shows the average bottom hole pressure of the three widely separated strat test wells which have never been produced, to be declining at essentially the same rate as the field average pressure. The average bottomhold pressure of the three strat test wells shows an increase in pressure decline rate with increases in field production rates. This steady and consistent pressure decline clearly demonstrates that these areas are being drained by the existing wells. No reservoir information was offered by applicant to show what reserves exist within the pool, what reserves exist under each tract in the pool, or what portion of the reserves would be produced under applicant's

proposed change in the spacing rule.

(12) That the Applicant's testimony was based upon evidence utilizing only pressure-production data from present wells and not upon pressure interference or volumetric withdrawal tests conducted within the pool.

(13) That the testimony of Southern Union Production Company shows that large, contiguous areas of the pool have experienced substantial and consistent declines of original pressures as a result of production, indicating that there is communication between wells in the pool and that reasonable reserves will be recovered in said pool without the drilling of additional wells.

(14) That the testimony of Southern Union Production Company shows that it has penetrated isolated stringers in wells it has drilled and that such stringers have not produced measurable increases in gas reserves.

(15) That the approval of the application would result in the drilling of additional wells in the better portion of the pool. Such additional drilling would require the drilling of offset wells that in many cases would be uneconomical, resulting in waste and impairment of correlative rights.

(16) That the evidence show that if the application is granted some owners in the Blanco-Mesaverde Gas Pool will be able to drill infill wells in the immediate future and others will not, due to shortages in drill pipe, casing, rigs and other necessary material supplies thereby resulting in uncompensated drainage and the consequent abuse of correlative rights.

Respectfully submitted,

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REQUESTED FINDINGS TENDERED BY: SOUTHERN UNION  
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AMERADA-HESS CORPORATION, SUN OIL COMPANY, ~~CITIZENS~~ JWC  
~~OIL COMPANY.~~