

1 NEW MEXICO OIL CONSERVATION DIVISION

2 STATE LAND OFFICE BUILDING

3 STATE OF NEW MEXICO

4 CASE NO. 10990

5  
6 IN THE MATTER OF:

7  
8 The Application of Amoco Production  
9 Company for Exception to  
10 Deliverability Testing for Certain  
11 Wells in the South Blanco-Pictured  
12 Cliffs Pool, Rio Arriba, San Juan,  
13 and Sandoval Counties, New Mexico.

14  
15 BEFORE:

16 JIM MORROW

17 Hearing Examiner

18 State Land Office Building

19 June 9, 1994

20  
21  
22 19 1994

23 REPORTED BY:

24 CARLA DIANE RODRIGUEZ  
25 Certified Shorthand Reporter  
for the State of New Mexico

ORIGINAL

## A P P E A R A N C E S

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE & SHERIDAN, P.A.  
 Post Office Box 2208  
 Santa Fe, New Mexico 87504-2208  
 BY: **WILLIAM F. CARR, ESQ.**

## I N D E X

	Page Number
Appearances	2
WITNESSES FOR THE APPLICANT:	
1. <b><u>J. W. "BILL" HAWKINS</u></b>	
Examination by Mr. Carr	3
Examination by Mr. Morrow	12
Certificate of Reporter	19

## E X H I B I T S

	Page Marked
Exhibit No. 1	6
Exhibit No. 2	7

1                   EXAMINER MORROW: We'll call Case  
2                   10990, which is the application of Amoco  
3                   Production Company for exception to  
4                   deliverability testing for certain wells in the  
5                   South Blanco Pictured Cliffs Pool in Rio Arriba,  
6                   San Juan and Sandoval Counties, New Mexico.

7                   Call for appearances.

8                   MR. CARR: May it please the Examiner,  
9                   my name is William F. Carr with the Santa Fe law  
10                  firm Campbell, Carr, Berge & Sheridan.

11                  We represent Amoco Production Company  
12                  in this case, and I have one witness.

13                  EXAMINER MORROW: Are there other  
14                  appearances? Will you please stand to be sworn.

15                  **J. W. "BILL" HAWKINS**

16                  Having been first duly sworn upon his oath, was  
17                  examined and testified as follows:

18                  EXAMINATION

19                  BY MR. CARR:

20                  Q. Will you state your name for the  
21                  record, please?

22                  A. James William Hawkins.

23                  Q. Where do you reside?

24                  A. In Denver, Colorado.

25                  Q. By whom are you employed?

1           A.     Amoco Production Company.

2           Q.     What is your current position with  
3 Amoco?

4           A.     I'm a senior petroleum engineering  
5 associate, and I'm responsible for regulatory  
6 affairs for the Southern Rockies Business Unit.

7           Q.     Have you previously testified before  
8 this Division?

9           A.     Yes, I have.

10          Q.     At the time of that prior testimony,  
11 were your credentials as a petroleum engineer  
12 accepted and made a matter of record?

13          A.     Yes.

14          Q.     Are you familiar with the proration  
15 rules as they affect Amoco's operations in the  
16 South Blanco-Pictured Cliffs Pool?

17          A.     Yes, I am.

18          Q.     Are you familiar with the application  
19 filed in this case on behalf of Amoco?

20          A.     Yes, I am.

21                 MR. CARR: Mr. Morrow, are the  
22 witness's qualifications acceptable?

23                 EXAMINER MORROW: Yes.

24          Q.     Mr. Hawkins, Could you briefly state  
25 what Amoco seeks with this application?

1           A.       Yes. Amoco is seeking an exception  
2 from the deliverability testing requirements for  
3 wells in the South Blanco-Pictured Cliffs Pool,  
4 that are on marginal gas proration units and  
5 their average production is less than the minimum  
6 allowable that's been made permanent for the  
7 pool.

8           Q.       You actually testified in recent  
9 hearings concerning the establishment of minimum  
10 allowables for this pool, did you not?

11          A.       Yes, I did.

12          Q.       At that time, what did Amoco recommend?

13          A.       We recommended that the minimum  
14 allowable be made permanent, and we also  
15 recommended that the wells in the pool that were  
16 not capable of making that minimum allowable be  
17 granted an exception from deliverability testing.

18          Q.       What was the result of that hearing?

19          A.       The minimum allowable was made  
20 permanent, but the finding was made that the  
21 request for exceptions for deliverability testing  
22 was beyond the scope of the matter, and that a  
23 separate application would be required.

24          Q.       That's the reason we're here today, is  
25 that correct?

1           A.       That's correct.

2           Q.       Let's go to what has been marked as  
3 Amoco Exhibit No. 1. I would ask you first to  
4 identify that for Mr. Morrow, and then review the  
5 information on that exhibit.

6           A.       Exhibit No. 1 is a table that shows a  
7 summary of information from the most current  
8 proration schedule for the San Juan Basin, as it  
9 results to the South Blanco-Pictured Cliffs Pool,  
10 and it shows some information regarding Amoco's  
11 operations and the total pool. Just to kind of  
12 run through the table, the number of wells that  
13 Amoco operates in the pool are 268, and the total  
14 pool has about 1,500 total wells.

15                   The average monthly sales is reported  
16 in that proration schedule. The average monthly  
17 production from October 92 to March 93 is about  
18 250,000,000 cubic feet for Amoco's operations,  
19 and about 1.4 Bcf per month for the total pool.  
20 What that averages out, a typical well makes just  
21 under 1,000 Mcf a month for both Amoco or the  
22 total pool, and that would be about 30 Mcfd; so  
23 you can see the wells are fairly low-rate  
24 producers.

25                   In fact, if you look at the proration

1 schedule, there are only 10 wells that Amoco  
2 operates that actually make more than 3,000 Mcf  
3 per month or the minimum allowable, and in the  
4 total pool there's about 36 wells that were  
5 averaging over 3,000 Mcf a month.

6 Yet, under the current deliverability  
7 testing requirements, Amoco is going to have to  
8 test about 190 wells that we operate, and we  
9 estimate that there's roughly a thousand wells  
10 that will have to be tested in the entire pool.

11 Q. Most of these tests would not result in  
12 any data being obtained that would have a  
13 significance on the allowable for the gas  
14 proration units on which these wells are located,  
15 is that right?

16 A. That's correct.

17 Q. Let's go to Amoco Exhibit No.. Would  
18 you identify this for Mr. Morrow?

19 A. Amoco Exhibit No. 2 is simply the few  
20 pages in that proration schedule that identify  
21 each of the wells that are currently producing  
22 for Amoco in the South Blanco-Pictured Cliffs  
23 Pool. I've underlined each of those wells that  
24 have averaged over 3,000 Mcf per month.

25 You'll note on that first page, the

1 Horton No. 2 well, there appears to be a mix-up.  
2 I don't find that well in our records as  
3 producing from this pool, so I put a question  
4 mark by that one.

5 We've also identified, under the column  
6 marked "status," with little tick marks, the  
7 proration units that are currently in a  
8 nonmarginal status, and those, again, would  
9 be--they're indicating that they're making more  
10 than an allowable that's been assigned to that  
11 proration unit, and they would still be required  
12 to be tested for deliverability.

13 In total, there's about 30 wells that  
14 we have identified on this schedule that are  
15 either in a nonmarginal status or produce more  
16 than 3,000 Mcf a month that would, you know,  
17 could be, I guess, made a case to continue the  
18 deliverability testing for those wells.

19 One concern I have is that the  
20 marginal/nonmarginal status is probably a little  
21 bit out of date. The latest proration schedule  
22 has not been put out yet, so some of those marked  
23 here as nonmarginal may, in fact, be reclassified  
24 as marginal wells, at the latest schedule.

25 As you can see, a number of those wells



1 actually make less than 3,000 Mcf a month or less  
2 than the minimum allowable.

3 Q. Mr. Hawkins, Amoco is seeking an  
4 exception from deliverability testing for  
5 marginal wells that can't make the minimum  
6 allowable?

7 A. That's correct.

8 Q. You're asking this for the Amoco  
9 wells. Is there any reason that similar  
10 exceptions shouldn't be granted to wells operated  
11 by other operators in the pool?

12 A. Absolutely not. I think that for the  
13 same reasons Amoco asks for these exceptions,  
14 other operators should come forward and ask for  
15 exceptions from their wells. I think, at the  
16 last hearing, there was an opportunity for us to  
17 request it for the entire pool, but since a  
18 separate hearing was required, we could see no  
19 adverse effect by us asking for an exception from  
20 deliverability testing, so we've come to the  
21 Division to ask for exceptions for Amoco's  
22 operated wells at this time.

23 Q. It's your testimony that these tests  
24 are unnecessary?

25 A. Yes.

1           Q.       The information is not of value that is  
2 obtained from the test?

3           A.       That's correct.

4           Q.       Does the Division have authority to  
5 grant these exceptions?

6           A.       Yes, they do.

7           Q.       What rule is that?

8           A.       Under the general proration rules,  
9 Order R-8170, I think it's Rule 9(C), exceptions  
10 to deliverability tests:

11                   "The director of the Oil Conservation  
12 Division has the authority to allow exceptions to  
13 deliverability testing requirements for wells on  
14 marginal GPUs where the deliverability of the  
15 well is of such volume as to have no significance  
16 in the determination of the GPU's allowable." So  
17 there is authority there for the Division to  
18 grant this exception.

19           Q.       How much do these tests actually cost?

20           A.       We've estimated the costs run about  
21 \$250 per well. For our operations, we're looking  
22 at roughly 250 wells, just for round numbers so  
23 roughly \$50,000 to run the testing for South  
24 Blanco-Pictured Cliffs pool.

25           Q.       Pool wide, have you estimated what

1 these tests are costing operators?

2 A. For the thousand wells, probably close  
3 to a quarter of a million dollars, and that's  
4 probably subject to dispute. Other operators may  
5 think their tests cost more or less. It's a  
6 ballpark figure.

7 Q. If this requirement is eliminated for  
8 Amoco wells, will it result, in your opinion, in  
9 more efficient operations in this pool?

10 A. Yes, it will.

11 Q. Will granting this application  
12 otherwise be in the best interest of  
13 conservation, the prevention of waste and the  
14 protection of correlative rights?

15 A. Yes, it will.

16 Q. Were Exhibits 1 and 2 prepared by you?

17 A. Yes, they were.

18 MR. CARR: At this time, Mr. Morrow, we  
19 move the admission into evidence of Amoco  
20 Exhibits 1 and 2.

21 EXAMINER MORROW: 1 and 2 are  
22 admitted.

23 MR. CARR: That concludes my direct  
24 examination of Mr. Hawkins.

25

## EXAMINATION

BY EXAMINER MORROW:

Q. What is the basis now for exemption of wells from deliverability testing in this pool?

A. Currently, wells are exempted from deliverability testing when their production is less than the acreage factor or the acreage portion of the allowable. That would be the F1 times the acreage factor.

And, for the South Blanco-Pictured Cliffs Pool, that number, as I recall, is roughly 500 Mcf a month. It may be 460 or it may be 520, but it's in that ballpark. So, that's the basis for the 190 wells that we would have to test, or the wells that can make more than that acreage factor.

Q. So you have 190 you have to test, and how many do you operate? Let's see.

A. We operate a total of 268. Some of those are shut in. I think there's 223 or so shown on the proration schedule that are actually producing.

Q. Do you understand how the minimum allowable is currently assigned in the pool?

A. The way I understand it, it is assigned

1 based on, if a deliverability was 100 Mcfd, you  
2 would calculate an allowable of 3000 Mcf a month,  
3 which would basically say, anything that makes  
4 less than 100 Mcfd has no restriction. At least  
5 that's my understanding.

6 Q. I think that's right. Is Amoco in  
7 agreement with that method of calculating the  
8 allowable?

9 A. I think that's a reasonable way to do  
10 it. I think there may be some other ways you  
11 could approach it on a minimum allowable, and  
12 that might be to--and of course we're breaking  
13 new ground here, but assign a pseudo  
14 deliverability of 100 Mcfd to each well so that  
15 no deliverability testing is required.

16 That would calculate to 3,000 Mcf per  
17 month. Any well that produces more than that  
18 3,000 Mcf per month would be required to be  
19 tested on a biannual basis for its  
20 deliverability.

21 Q. The way it's done now, some wells  
22 actually get less than the minimum allowable  
23 assigned?

24 A. That's correct. So, I think it would  
25 take something like that pseudo allowable--and of

1 course there's no definition of that in our  
2 proration rules, so that might take another type  
3 of--

4 Q. Right now, you don't see any problems  
5 with the current--

6 A. No. The main thing in my mind, as long  
7 as we can eliminate some of the costs associated  
8 with the proration of the pool for these low-rate  
9 wells and still, you know, keep the higher-rate  
10 wells under the rules, and being tested and being  
11 prorated, then I think we're in pretty good  
12 shape.

13 Most of these low-rate wells are in a  
14 marginal category, anyway, and they're not making  
15 the allowable, whatever allowable would be  
16 assigned to them, based on their deliverability.

17 Q. Sometimes the deliverability and the  
18 producing capability aren't the same many times,  
19 probably most times?

20 A. That's right.

21 Q. How would you propose to define this  
22 exception? Maybe you've done it in your  
23 application. But, if you would, go through that  
24 again. Are you talking about deliverability or  
25 producing capacity?

1           A.       I think producing capacity makes more  
2 sense than using the deliverability. The reason  
3 for that is just what you said. Many wells may  
4 have a deliverability of, let's say, 100 Mcfd,  
5 but their well isn't actually capable of making  
6 3,000 Mcf a month for a sustained period of  
7 time.

8                   So, for all practical purposes, that  
9 well is not capable of making a minimum  
10 allowable, and the deliverability of the well is  
11 really not of any significance in prorating that  
12 well. I think it makes more sense to look at  
13 these wells on their production capability,  
14 what's the average production been for some past  
15 period of time.

16                   And, I would just say for purposes of  
17 simplicity, looking at the most current proration  
18 schedule and saying, "What's the average  
19 production shown on that schedule?" if that well  
20 is not capable of making the minimum allowable or  
21 has not demonstrated that capability, and if it's  
22 a marginal well, marginal status GPU, then it  
23 should have an exception for deliverability  
24 testing.

25           Q.       So you would want to keep some of the

1 nonmarginal wells that have very low  
2 deliverabilities would have less, as you pointed  
3 out in your testimony, would have less allowable  
4 than the 100 Mcf, but you would still go ahead  
5 and propose the testing?

6 A. I guess what I'm trying to do is, I  
7 realize that the rule that requires or that gives  
8 the authority for exceptions to deliverability  
9 tests is pretty specific about marginal GPUs, so  
10 I'm concerned if you go to nonmarginal GPUs you  
11 step out of the authority of the rule.

12 But practically, I think you're right.  
13 If the well can't make the minimum, regardless of  
14 what it's proration status is, it probably should  
15 have an exception.

16 Q. Because of the way the exception  
17 language--

18 A. --language is written, exactly.

19 Q. You testified this application's just  
20 for Amoco but did you visit with any of the other  
21 operators prior to the hearing and get their  
22 feeling on--

23 A. I talked to UnoCal on this at the time  
24 of the last hearing, and I have not talked  
25 specifically about this application to other



1 operators, but I have talked to other operators  
2 in general on our attempts to reduce the  
3 deliverability testing requirements that affect  
4 all the operators in the pools.

5 Part of that came about as a result of  
6 that change in the rules on acreage, or F1  
7 acreage portion of the allowable. If the well  
8 can't make the acreage portion, why do the  
9 deliverability test on it. And I told all the  
10 operators that I spoke with at that time that we  
11 were going to continue to look for ways, you  
12 know, to take some of the costs out of the  
13 proration system that weren't adding much value  
14 either to the state or to the operators.

15 So, I guess in a roundabout way, yes,  
16 we had talked to them about trying to do things  
17 to eliminate some of the deliverability testing  
18 costs.

19 Q. Obviously they heard what you requested  
20 at the last hearing when you made this same  
21 application?

22 A. That's correct.

23 EXAMINER MORROW: Anything else, Mr.  
24 Carr?

25 MR. CARR: We have nothing further, Mr.

1     Morrow.

2                     EXAMINER MORROW:   Thank you, Mr.  
3     Hawkins.   We'll take Case 10990 under  
4     advisement.   Let's take about a five, ten-minute  
5     break, and we'll reconvene after that.

6                     (And the proceedings concluded.)

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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 10990  
heard by me on June 9 1994.

  
\_\_\_\_\_  
Ox Conservation Division     Examiner

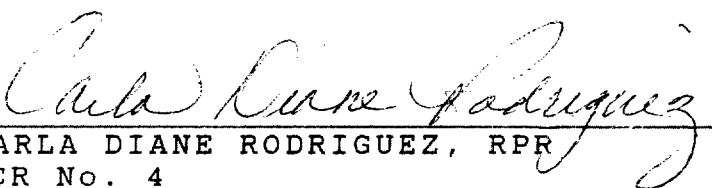
## 1 CERTIFICATE OF REPORTER

2  
3 STATE OF NEW MEXICO )  
4 COUNTY OF SANTA FE ) ss.  
5

6 I, Carla Diane Rodriguez, Certified  
7 Shorthand Reporter and Notary Public, HEREBY  
8 CERTIFY that the foregoing transcript of  
9 proceedings before the Oil Conservation Division  
10 was reported by me; that I caused my notes to be  
11 transcribed under my personal supervision; and  
12 that the foregoing is a true and accurate record  
13 of the proceedings.

14 I FURTHER CERTIFY that I am not a  
15 relative or employee of any of the parties or  
16 attorneys involved in this matter and that I have  
17 no personal interest in the final disposition of  
18 this matter.

19 WITNESS MY HAND AND SEAL July 8, 1994.  
20

21  
22   
23 CARLA DIANE RODRIGUEZ, RPR  
24 CCR No. 4  
25