

NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICOHearing Date FEBRUARY 28, 1991 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
Alan W. Bahlbrig	Chesron	Midland, TX
Mark S. Corley	Chesron	Midland, TX
Mike Zimmerman	Conoco	Midland, TX
Harry Beathe	Conoco	Midland, TX
Ann Butler	Gas Co of New Mexico	Albuquerque
VIC LYON	Gas Co / NM	Santa Fe
PAUL MOLLO	GAS CO / NM	
Melvin Christopher	GCONM	ALB
Ward Camp	Kelcher & McLeod	ALBQ
William J. Dean	Campbell & Back P.A.	"
James R. Kusek	Northern Natural Gas	Santa Fe
Larry N. Emmons	Amoco Production Co	Omaha
Ron McRAGG	OCD, Gas Marketing	Denver
Rand Carroll	OCD, Gas Marketing	S.F.
Dan W. Hall	OCD, Gas Marketing	S.F.
H.H. Baker & Sons	El Paso Natural Gas	El Paso TX
John W. Fordward	Doyle & Hartman	Midland TX
BB	"	"

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NAME	REPRESENTING	LOCATION
Mr. P. Dyck Gene Baller JADAVIDSON	D. Hartman Ballers Law Firm D. HARTMAN	Midland Santa Fe MIDLAND
T. CORDER EZZELL, JR.	H. OLSEN (HINKLE LAW FIRM)	ROSWELL
W. J. Keller Louis Jones	Keller Keller and Associates Meridian Oil	Santa Fe Farmington
Joanne Reuter	Doyle Hartman	Santa Fe
Evelyn Down	OCA	Hobbs
Paul West	Unocal	Farmington

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

IN THE MATTER OF:)
THE HEARING CALLED BY THE OIL)
CONSERVATION DIVISION ON ITS OWN MOTION)
TO ACCEPT NOMINATIONS AND OTHER)
EVIDENCE AND INFORMATION TO ASSIST IN) CASE NO. 10254
DETERMINING APRIL THROUGH SEPTEMBER)
1991 GAS ALLOWABLES FOR THE PRORATED)
GAS POOLS IN NEW MEXICO.)
-----)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

BEFORE: WILLIAM J. LeMAY, Chairman
WILLIAM WEISS, Commissioner
GARY CARLSON, Commissioner

February 28, 1991
9:10 a.m.
Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission on February 28, 1991, at 9:10 a.m. at Mabry Hall, Education Building, Santa Fe, New Mexico, before Susan G. Ptacek, a Certified Court Reporter No. 124, State of New Mexico.

FOR: OIL CONSERVATION BY: SUSAN G. PTACEK
DIVISION Certified Court Reporter
CCR No. 124

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February 28, 1991
 Commissioner Hearing
 Case No. 10254

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* * *

1 COMMISSIONER LEMAY: At this point we will call Case
2 No. 10254.

3 MR. STOVALL: Mr. Chairman, I would request that you
4 call the case since I am representing the Division

5 COMMISSIONER LEMAY: That's right. Case No. 10254,
6 hearing called by the Oil Conservation Commission on its
7 own motion to accept nominations and other evidence,
8 information to assist us in determining the six months' gas
9 allowable for prorated pools in New Mexico. I will now
10 call for appearances in case 10254.

11 MR. STOVALL: Mr. Chairman, it's my pleasure, Robert
12 G. Stovall of Santa Fe on behalf of the Oil Conservation
13 Division. I have two witnesses.

14 COMMISSIONER LEMAY: Thank you, Mr. Stovall.
15 Additional appearances in the case?

16 MR. CARR: May it please the Commission, my name is
17 William F. Carr with the law firm Campbell & Black, P.A.,
18 of Santa Fe. I represent Union Oil Company of California
19 doing business as Unocal. I have one witness.

20 COMMISSIONER LEMAY: Thank you, Mr. Carr. Additional
21 appearances in the case?

22 MR. ZIMMERMAN: I am Michael Zimmerman with Conoco.

23 COMMISSIONER LEMAY: Mr. Zimmerman, do you plan to be
24 represented by counsel? You are counsel? No, you're an
25 engineer, aren't you?

1 MR. ZIMMERMAN: No, sir, I'm not an engineer.

2 COMMISSIONER LEMAY: Are you a lawyer?

3 MR. ZIMMERMAN: No.

4 COMMISSIONER LEMAY: Are you a geologist?

5 MR. ZIMMERMAN: Gas marketing.

6 COMMISSIONER LEMAY: Gas marketing specialist. I

7 guess my point is -- I didn't mean to put you on the spot.

8 Do you plan on having -- are you going to be your own

9 witness or are you going to have --

10 MR. ZIMMERMAN: I just have two graphs, yes, sir.

11 COMMISSIONER LEMAY: Let's go off the record just for
12 a minute here.

13 (Discussion off the record.)

14 COMMISSIONER LEMAY: Mr. Kellahin.

15 MR. KELLAHIN: Mr. Chairman, my name is Tom Kellahin.
16 I have clients who have sent individual representatives to
17 make a statement in what I understood to be a rule-making
18 function in setting allowables for the next six-month
19 period. If it's your desire, I am happy to enter my
20 appearance for those companies. There are a number of them
21 here. If Mr. Zimmerman needs my assistance, I am happy to
22 do that. Representatives from Meridian and others are here
23 to do the similar presentation and I am happy to make the
24 appearance if that's the procedure you would like to
25 employ.

1 COMMISSIONER LEMAY: I think it would be helpful only
2 to entertain questions and keep the organizational
3 framework. If there is only a statement to be read and not
4 subject to questions, this isn't an interrogation-type
5 thing, jut clarification questions, then I see no problem
6 in making those statements after the witnesses have been
7 sworn in and present their testimony in the case.

8 I guess our preference would be, though, if
9 there was going to be testimony on the record by a sworn
10 witness that, just for his benefit, that a lawyer pretty
11 much introduced the witness and handled the questions.

12 MR. KELLAHIN: Let's proceed in that fashion, and when
13 we go back on the record, I will enter my appearance for
14 Mr. Zimmerman as well as the Meridian representatives in
15 the event that they might participate in that fashion.

16 COMMISSIONER LEMAY: I think we are back on the
17 record.

18 There is no problem with that. I'd like to have
19 that, if that will be fine with Mr. Zimmerman. Thank you,
20 Mr. Kellahin.

21 You will be representing Conoco and who else?
22 Do you have anyone else?

23 MR. KELLAHIN: Meridian Oil Company, Marathon Oil
24 Company, Conoco, Inc.

25 COMMISSIONER LEMAY: Meridian, Conoco, Marathon?

1 MR. KELLAHIN: Yes, sir.

2 COMMISSIONER LEMAY: Thank you, sir. Additional
3 appearances in the case?

4 MR. EMMONS: Larry Emmons with Amoco, and I just have
5 a short statement.

6 COMMISSIONER LEMAY: We can have the statements
7 afterwards. There is no problem with that.

8 COMMISSIONER LEMAY: Additional appearances in the
9 case?

10 Will those witnesses who will be giving
11 testimony, please stand and raise their right hand.

12 (Whereupon the witnesses were duly
13 sworn.)

14 COMMISSIONER LEMAY: Mr. Stovall, you may begin.

15 MR. STOVALL: Call Ron Merrett as my first witness.

16 RONALD H. MERRETT,
17 the Witness herein, having been first duly sworn, was
18 examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. STOVALL:

21 Q. Please state your name and place of residence?

22 A. My name is Ronald H. Merrett. I reside in
23 Albuquerque, New Mexico.

24 Q. How are you employed?

25 A. I'm employed as director of natural gas programs

1 for -- in the Oil Conservation Division of the Energy and
2 Minerals Department, state of New Mexico.

3 Q. What do you do in that capacity? What is the
4 natural gas programs?

5 A. Natural gas programs consists primarily of two
6 major functions; one of them is to assist and enhance the
7 gas marketing activities in the state, and the second is to
8 coordinate state -- the department's activities in the oil
9 and natural gas administration and revenue data base.

10 Q. And in your understanding what is the
11 relationship between your position and natural gas programs
12 and the gas proration activity of the Oil Conservation
13 Division?

14 A. The gas proration activity concerns allocation,
15 as I understand it, of gas produced in the state. My
16 bureau, which I head, gas marketing bureau, is more
17 concerned with the marketing and sales of that gas,
18 although we don't do any direct selling. We have acquired
19 a substantial body of knowledge of the way the gas market
20 operates in this country and how the New Mexico gas
21 production fits into that.

22 I, therefore, think we have a very good
23 understanding of the impact that gas proration system may
24 have on gas marketing.

25 MR. STOVALL: Mr. Chairman, Commissioners, I'm not

1 offering Mr. Merrett actually as a technical expert
2 witness. Unless you so desire, I don't intend to go into
3 any specific qualifications. He is testifying in his
4 capacity as an official of the state and about his
5 knowledge and understanding, which is not in a specific
6 area of expertise.

7 COMMISSIONER LEMAY: Certainly his qualifications to
8 present testimony are acceptable.

9 Q. (By Mr. Stovall) Mr. Merrett, would you -- do
10 you have a familiarity with the pattern of New Mexico
11 natural gas production, historical pattern, and are you
12 prepared to discuss that and its implications for
13 predicting the future, if you will?

14 A. Yes.

15 Q. Would you describe the pattern of New Mexico
16 natural gas production over the past three years?

17 A. Mr. Chairman, I have prepared an exhibit, a
18 chart, which you may wish to enter as an exhibit in this
19 case.

20 Q. If I may, Mr. Merrett, just for everybody's
21 clarification, the commissioners have a colored copy of the
22 chart labeled "New Mexico Natural Gas production"; is that
23 correct?

24 A. That's correct.

25 Q. It has been labeled for the purpose of this

1 hearing as OCD Exhibit No. 4 for identification. If
2 anybody needs copies, they are on the table outside the
3 hearing room.

4 Proceed, Mr. Merrett.

5 A. This chart is headed "New Mexico Natural Gas
6 Production, 1988 to 1990." You will see from the chart
7 that there is a distinct pattern of production with a high
8 level in January and a high level in December for each of
9 the three years. I should at this point emphasize that
10 this chart represents total production from wells in New
11 Mexico, and therefore in order to derive a number of -- the
12 volume of gas sales it would probably be appropriate to
13 deduct 7 percent from each number to represent sales versus
14 production.

15 The pattern of production, as you see, is higher
16 in the winter and lower in the summer, and although not --
17 although not exactly duplicated from year to year, it is
18 quite clear there is a winter -- there is a seasonal
19 pattern. I think that is also reflected in the periods
20 which have been selected for gas proration; that is to say
21 a summer period and a winter period.

22 Q. Mr. Merrett, just so its clear what the
23 information contained on this graph is, if I understand,
24 this is a -- each of those lines represents a one-year
25 production period; is that correct?

1 A. That's correct. The red line on the
2 commissioner's charts at the bottom is 1988, and we just
3 simply take the total production as reported by the
4 industry for each month and plot that. And the green line
5 is for -- the middle line is for 1989, and the blue line at
6 the top with the diamonds is 1990. I think that's all I
7 need to say about the chart.

8 Q. Just one other clarifying question, this
9 represents total production from all gas sources in the
10 state; is that correct?

11 A. This is from all state, Federal, fee and Indian
12 wells.

13 Q. Not just that from prorated pools?

14 A. That's correct.

15 Q. How can this production pattern be related to
16 the future, say over the next three to five years?

17 A. Well, that's a main -- one of the main topics of
18 my testimony today, Mr. Chairman. The patterns, as you
19 see, are different for the three years. I think it's clear
20 that in 1988 there was a much bigger difference between
21 January and say July than you saw in 1990. In 1990 the
22 production pattern was much more even throughout the year.

23 And so relating this to the next five years is
24 somewhat in the nature of guesswork. However, we call it
25 demand forecasting, and that's what we will attempt to do.

1 I think it is possible statistically to produce some curves
2 which will fit these three curves here and use such a
3 projection curve for future years. That's the way we would
4 plan to do that.

5 Q. What are New Mexico's primary markets for
6 natural gas, and are those markets likely to change in the
7 next three to five years?

8 A. Approximately 80 percent of the gas produced in
9 New Mexico is exported to California. I should say
10 approximately 90 percent of the gas produced in New Mexico
11 is exported to other states. But 80 percent of that goes
12 to California. It is likely in our view that this pattern
13 will continue, although in 1990 -- and you may hear
14 testimony from others on this -- in 1990 there began the
15 fairly substantial movement of gas up to half a BCF a day
16 from New Mexico to -- into Texas and states beyond. So
17 that gas is starting to move to the east as well as to the
18 west.

19 And we shall -- we expect that pattern to
20 accentuate and to continue over the next several years.
21 But nonetheless California can still be expected to be a
22 very substantial part of New Mexico's market, taking
23 perhaps 70 to 80 percent of the gas produced in the state.
24 The domestic production is not expected to -- domestic
25 consumption -- excuse me -- is not expected to increase

1 very dramatically. It's a little over 10 percent at the
2 moment of production and it is expected to stay roughly
3 that over the next few years.

4 Q. Has the gas proration system, to your knowledge,
5 caused any shortage of supply? Let me rephrase that.

6 Is New Mexico as a gas source for interstate
7 markets at all unreliable because of the gas proration
8 system, in your opinion?

9 A. The short answer is no. Let me add more to
10 that. It's often speculated and has been asserted by
11 certain parties that a gas proration system holds back --
12 hold backs demand for New Mexico gas. I don't think this
13 is true. I think this is -- the only area in which this
14 might be true was if the potential purchaser perceived
15 uncertainty, some uncertainty, as to the continuity of
16 supply. That would be the only area in which I would
17 expect there to be any way in which our system could be
18 said to hold down demand for New Mexico's gas.

19 If the potential purchaser perceived that our
20 supply was unreliable, then they might not wish to
21 contract. They might choose to contract for somebody
22 else's gas. However, in any instance that I am aware of
23 and become aware of over the past four years, where a
24 producer would maintain that our system holds him back from
25 selling gas, from a state's perspective there is always

1 somebody else who has gas available and is able to sell
2 into that market.

3 We have a surplus of gas in this nation, and we
4 have a surplus of deliverability in this state, and we have
5 substantial evidence to support that statement. So I do
6 not believe that any case, sound case, can be made for the
7 allegation that our gas proration system causes a shortage
8 of supply.

9 Q. Are you familiar with the changes in the gas
10 proration system as a result of a recent commission order?
11 I believe R-8180I. H, excuse me.

12 A. I am somewhat familiar with it, but I'm not an
13 expert in this area.

14 Q. Particularly in addressing the question of the
15 fact that under the former system gas proration was on a
16 monthly basis. Allowables were established one month for
17 the following month, and under the new system it is the
18 intent to establish allowables for a six-month period. You
19 familiar with that?

20 A. Yes, I am.

21 Q. Do you have an opinion as to whether or not that
22 will be beneficial to both producers and/or suppliers in
23 terms of forecasting and making purchase and sale
24 commitments?

25 A. I believe it's a very dramatic improvement in

1 our system from my observation or it could be. For
2 example, as I pointed out when looking at the chart, OCD
3 Exhibit No. 4, there is a distinct seasonal pattern in
4 demand from the state. We can expect that reproduced in
5 future years. I think that with a six-month proration
6 period, we in gas marketing can attempt to forecast the
7 demand under a six-month period. It is not possible to do
8 it for one month. It is very difficult to do it for six
9 months. But if we have sufficient information from the
10 industry, plus what we can derive ourselves, we can build a
11 fairly simple model, econometric model, which will attempt
12 to forecast demand over this period for New Mexico gas.

13 As you well know, Mr. Chairman, the California
14 market, which is our principal market, obtains gas from
15 other sources besides New Mexico. Substantial volumes come
16 from Canada. Also there is gas which comes through
17 interstate pipelines which pass through New Mexico from
18 the -- from other states to the east of us, and this amount
19 is unpredictable and varies -- it can vary very
20 dramatically from month to month, depending on price and
21 demand for gas in the center part of the country. We have
22 no way of forecasting that.

23 However, if we have sufficient assistance from
24 the industry, for example, from the major purchasers of New
25 Mexico -- New Mexico gas, and from the pipelines and from

1 the producers, we can, I think, put together a pretty
2 reasonable forecast of what demand will be for each of the
3 six-month periods. I might say that we have received
4 strong support from the two principal purchasers of New
5 Mexico gas in California, that is Southern California Gas
6 Company and Pacific Gas and Electric, both of whom have
7 supplied us with some preliminary data and have said that
8 they are very supportive of what this commission is trying
9 to do in changing the gas proration system.

10 If we can get a similar degree of help from the
11 major producers and from the interstate pipelines, I think
12 that we can -- we can put together a fairly reasonable
13 forecast. And I recognize that each of those, producers
14 and pipelines and consumers, have certain proprietary
15 interests in keeping their forecasts and their data
16 confidential to them. But nonetheless, I think that we
17 probably can expect a reasonable degree of cooperation from
18 them.

19 Given that ability to make a six-month forecast
20 for each of the periods, I believe that we can put a little
21 more reality into the gas proration system.

22 Q. And is the Office of Natural Gas Programs
23 prepared to participate in future allocation, proration
24 hearings to assist the commission in setting allowables
25 which will ensure adequate supplies of New Mexico gas

1 available?

2 A. Yes, Mr. Chairman, we have a staff -- we have
3 two gas marketers, one of whom is an economist who is well
4 able to produce this kind of information and supply it to
5 the gas proration people.

6 Q. Is there anything further you would like to add
7 to your testimony?

8 A. No, that's all I have for the moment.

9 Q. And was Exhibit No. 4, the graph, prepared under
10 your supervision and control?

11 A. Yes, it was.

12 MR. STOVALL: I move the admission of Exhibit No. 4,
13 and I have no further questions.

14 COMMISSIONER LEMAY: Without objection Exhibit No. 4
15 will be admitted into the record.

16 (Division Exhibit 4 was admitted in
17 evidence.)

18 COMMISSIONER LEMAY: Are there some questions in the
19 audience there for Mr. Merrett?

20 Do my fellow commissioners have any questions
21 they would like to ask Mr. Merrett?

22 COMMISSIONER CARLSON: Ron, how much of this
23 production is from prorated pools?

24 THE WITNESS: The next witness is probably able to
25 answer that than me. He has it in his testimony.

1 COMMISSIONER CARLSON: Fine.

2 COMMISSIONER LEMAY: Thank you, Mr. Merrett, you may
3 be excused. Mr. Stovall, you may call your next witness.

4 MR. STOVALL: Call Mr. Morrow.

5 JIM MORROW,
6 the Witness herein, having been first duly sworn by the
7 Notary Public, was examined and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. STOVALL:

10 Q. Would you please state your name and place of
11 residence?

12 A. Yes, sir. My name is Jim Morrow. I live in
13 Santa Fe.

14 Q. And how are you employed, Mr. Morrow?

15 A. I work for the Oil Conservation Division.

16 Q. In what capacity?

17 A. My title is chief petroleum engineer.

18 Q. In that capacity as chief petroleum engineer, do
19 you have anything to do with the gas proration system?

20 A. Yes, sir, I've been -- since I've been on board
21 I've been involved with the gas proration system.

22 Q. Is perhaps that an understatement? Have you not
23 been responsible actually for designing the new --
24 implementation of the new rules; is that correct?

25 A. Yes, sir, I have worked fairly extensively on

1 the new rule system and the new method for determining and
2 assigning allowables.

3 Q. Mr. Morrow, have you ever testified before the
4 Oil Conservation Division or the Oil Conservation
5 Commission and had your qualifications as a petroleum
6 engineer accepted?

7 A. Before the division I have testified, yes, sir;
8 not before the commission.

9 Q. Have you prepared certain exhibits for use in
10 today's hearing with respect to establishing allowables for
11 the prorated gas pools in the state of New Mexico?

12 A. Yes, prepared along with the help of the
13 proration section, Exhibits 1 through 3.

14 MR. STOVALL: Mr. Chairman, at this time I offer
15 Mr. Morrow as an expert petroleum engineer

16 COMMISSIONER LEMAY: Mr. Morrow is certainly qualified
17 to give testimony as are the other witnesses. We're not
18 necessarily qualifying witnesses to give expert testimony
19 in any realm but to shed light on the total gas demand/gas
20 supply situation.

21 Q. (By Mr. Stovall) Mr. Morrow, we are going into
22 a new era of gas proration in New Mexico; is that not
23 correct?

24 A. Yes, sir. It's changing from a monthly
25 allowable setting system, as I understand it has been since

1 inception, to a system where we assign allowables on a
2 six-month basis.

3 Q. Let me stop you there and go back and explain
4 briefly what the gas proration really is. What is the
5 purpose of the concept of gas proration?

6 A. New Mexico law says that when demand in a
7 particular pool is less than the productive capacity of
8 that pool to produce; and if the pool should produce in
9 excess of the demand, then it defines that as -- the
10 statute defines that as waste.

11 OCD is charged with preventing waste, and the
12 statutes further say that where the demand, market demand,
13 for gas is not as much as the productive capacity, and
14 where there is a need to protect correlative rights, that
15 the commission will prorate the market down to the well
16 level so that each individual well will have an opportunity
17 to produce its fair share of that market, and also so that
18 the market will be met.

19 Is that close to what you wanted?

20 Q. As I understand what you're saying, it is not
21 the intent of proration to restrict production below a
22 level of demand as best can be estimated; is that correct?

23 A. No, sir, that is not the intent to do that. In
24 fact, some of the rules work in the opposite direction.
25 They provide certain provisions to ensure that the market

1 will be met by the wells in that pool. I might add that in
2 New Mexico proration is on a pool basis; it's not an
3 across-the-state thing, but on an individual pool basis.

4 Q. Is every gas pool in New Mexico prorated?

5 A. No, sir. There are many that are not. There
6 are 18 that are prorated; four in the northwest, and 14 in
7 the southeast part of the state.

8 Q. How long has gas been prorated in New Mexico?

9 A. Since the 1950s I'm told.

10 Q. And you have stated that there are 18 pools in
11 New Mexico that are prorated, and Mr. Merrett was asked
12 earlier by Commissioner Carlson how much -- roughly how
13 much of New Mexico gas production is subject to proration.

14 A. The 90 plus BCF shown on Mr. Merrett's exhibit
15 breaks down this way. The 90 plus was for December of
16 1990. Prorated gas pools in December 1990 produced 34.5
17 BCF, nonprorated gas pools produced 39.3 BCF, and there was
18 15.5 BCF of casing head gas production. So of the gas well
19 gas, Commissioner Carlson, roughly 45 percent in December
20 of 1990 came from prorated gas pools.

21 Q. Mr. Morrow, we've alluded to the fact that the
22 gas proration system in the rules under which that system
23 operates have been changed recently. Would you discuss in
24 more detail now those rule changes? How this hearing
25 relates to those changes?

1 A. I might go back just a little and say that
2 approximately two years ago Chairman LeMay appointed a
3 committee of industry people and regulatory people to study
4 the rules and come forward with a -- any recommendations
5 they might see for changes. That committee submitted a
6 report and discussed that report at a September 24th
7 hearing before the commission. And the commission acted on
8 that -- their recommendation on December 10th to establish
9 amendments to the rules.

10 I guess the biggest change is the change from --
11 that we've already discussed -- from the monthly assignment
12 of allowables and prorated pools to a -- to the assignment
13 of allowables on a six-month basis. The two six-month
14 allocation periods will be April through September and
15 October through March, as Ron testified, a summer period
16 and then a winter period.

17 Q. Excuse me. Were those periods -- do you know
18 the basis for selecting those particular periods as opposed
19 to other six-month periods, say January-June,
20 July-December.

21 A. The annual proration period that we've used
22 historically has begun each year in April. Under the prior
23 rules we began the year in April, and I guess right now it
24 escapes me why -- other than that, why we use April through
25 September and October through March other than it does

1 represent those periods of lower demand and higher demand
2 that are obvious on Exhibit No. 4 that Ron discussed.

3 Q. Do I understand you correctly to say that by
4 going from April to October and October through March, what
5 that does, that gives you proration allowable over, if you
6 will, the peak months, the greater activity months, so
7 there is not a change in the middle of that activity
8 period?

9 A. That's right. The average amount -- the average
10 monthly allowable during those two periods should be closer
11 to the peak and the valley during those same periods than
12 they would be if you shifted the periods, say, three
13 months. So I think it represents a good way to attempt to
14 establish an average monthly allowable. The demand should
15 be fairly -- fairly uniform during that period.

16 Q. Now, how would you propose -- under these new
17 rules that we're talking about a six-month period, how
18 would you propose and are you prepared to make a
19 recommendation for a method for establishing allowables,
20 let's say, for this -- for the upcoming April to September
21 1991 proration or allocation period?

22 A. Yes, sir, we've -- along with the notice for the
23 hearing and then as our Exhibit 1 through 3 today, we
24 circulated some -- what we have chosen to call preliminary
25 monthly average pooling allowables for 12 of the pools in

1 the southeast and four of the pools -- all four pools in
2 the northwest. I mentioned here that the Burton
3 Flat-Strawn and the Monument McKee-Ellenburger in the
4 southeast were omitted from our estimated allowables or
5 preliminary allowables because the wells in those pools are
6 essentially at marginal status at this time.

7 The way we decided to approach an estimate of
8 preliminary allowables was to look back to the period from
9 April through September 1990 as the basis for predicting
10 what the allowables should be for April through September
11 1991. We averaged up the average monthly sales for each
12 pool. And if you refer to line 1 in Exhibits 1 and 2, you
13 can see what the amount is -- what the average monthly
14 sales was for each of the pools.

15 Q. Excuse me, Mr. Morrow, just so we're clear,
16 Exhibits 1 and 2 are the -- would you just describe briefly
17 what those two exhibits are in general and then we will
18 move into detail as to how you used them.

19 A. We called Exhibit 1 the market demand and
20 allowable determination schedule for the prorated pools in
21 the southeast. And Exhibit 2 is the same thing for the
22 prorated pools in the northeast or the San Juan basin.

23 Q. Now, if you would -- then go through the process
24 which I think you started of how -- what process was used
25 to create these exhibits and come up with a preliminary

1 allowable?

2 A. Line 1 we discussed is average monthly pool
3 sales from those pools for that period we talked about,
4 1990 April through September pool sales.

5 Line 2 is nominations, and if it's okay I would
6 like to defer discussion of nominations until we have gone
7 on through the remainder of the exhibits.

8 Line 3 is a line called adjustments, and on this
9 line we made adjustments for increasing or decreasing pool
10 production for 1990 compared to 1989. If the pool had been
11 showing an increased amount of sales, we put an adjustment
12 in there to correct for that. Also made some adjustments
13 in some cases for the over- or underproduced status of the
14 pool. In two cases, in the Eumont pool and the Jalmat
15 pool, we put in a special adjustment which would bring the
16 allowables to the minimum amounts that have been approved
17 by recent OCD orders. So a special adjustment was needed
18 in those two pools, because we had -- at the end of our
19 calculation we had to wind up with a minimum allowable
20 because the orders had said we would do that.

21 The fourth line is the monthly pool allowable
22 that we're proposing to assign to the entire pool in each
23 case, and that includes both marginal and nonmarginal
24 allowable.

25 The fifth line is the amount of allowable for

1 each pool which we will assign to marginal wells, and this
2 was determined by looking back at the October through
3 December 1990 marginal sales for the marginal wells in each
4 pool. And the reason we use that period is because that
5 was the period that was established in our recent rules
6 change. It said -- they directed us to use the most recent
7 classification period available to us to establish marginal
8 allowables.

9 Having come up with a figure for marginal
10 allowables, we subtracted that from the total pool
11 allowable, and the remainder is the amount which we would
12 then propose to assign to the nonmarginal wells. And in
13 each of the pools then we took that nonmarginal amount and
14 distributed it out to the nonmarginal wells using the
15 allocation formula for the particular pool.

16 In the southeast part of the state, all of the
17 allocation formulas are based on acreage. Acreage alone
18 determines how much -- what your share of the allowable
19 will be if you're a nonmarginal well in the southeast part
20 of the state and in a prorated pool.

21 In the northwest both acreage and deliverability
22 come into play. Both those factors are applicable in the
23 northwest. And you can see on Exhibit 2 we come up with
24 what we call a F1 factor, which is the acreage factor, and
25 an F2 factor, which is the acreage times the deliverability

1 factor, which is used to allocate a part of the total
2 allowable to each individual well. In the southeast we
3 have only the F1 factor for use in allocating the
4 allowable.

5 That method of distributing allowable has not
6 changed from the way we did it in the past. We would come
7 up with a monthly amount and distribute it in the same
8 manner that we're doing here. So that part of our rule did
9 not change.

10 One more thing I'd add is that after we came up
11 with these F1 and F2 factors, we looked back at what the
12 history of the F1 and F2 factor assignment had been and
13 what April through September '89 and '90 and '91 -- '91, of
14 course, is a prediction. But '89 and '90 we compared pool
15 allowable for each pool and pool sales and the F1 and F2
16 factors, and that's shown on Exhibit No. 3. That lets you
17 go back and see how our 1991 preliminary allowable compares
18 to what happened in the previous two years.

19 That's a lot of talking about a lot of numbers
20 but hopefully it's clear to you. If it's not, I will be
21 glad to answer any questions you'd have.

22 Q. Now, Mr. Morrow, you had talked about the
23 nominations line and indicated that you wanted to skip
24 that. Are you ready now to discuss nominations?

25 A. Yes, sir.

1 Q. Describe just briefly, for the record, what
2 nominations are and what their purpose is in the gas
3 proration system?

4 A. The purpose of nominations is to hear from
5 people who know what their requirements will be in a
6 particular pool as to what they expect in that pool in a
7 certain period. I guess nominations at one time were the
8 primary determining factor for what the allowable would be
9 in a particular pool. That was during the time when the
10 pipelines were also the purchasers of gas, and they knew
11 probably better than they do now what they would purchase
12 and move from a particular pool.

13 But the nominations that we've been getting over
14 the months and the ones that we received this time come
15 primarily -- I guess altogether from transporters of gas
16 from the particular pools. We also sometimes get
17 nominations from those who are involved in the spot market,
18 and we include those when we get them. And in talking to
19 Donna McDonough, who has been adding these up over the
20 months, she indicated to me that she feels assured that
21 there is no duplication between that spot market and the
22 transportation nominations. But these nominations that are
23 shown on line 2 are from the transporters of gas from the
24 various pools.

25 Q. Mr. Morrow, in recent years the nominations have

1 really not been very significant in establishing
2 allowables; isn't that correct?

3 A. No, they have not been used in recent years. I
4 meant to cover -- take a minute to cover how we did it if
5 you would like for to me to. Prior to this change we
6 looked at last month's sales in each pool to determine next
7 month's allowable. That was the way we were doing it
8 before we made this change. It's the way we did it for
9 March. We looked at what -- in February we looked at what
10 had been produced in January and used that as a basis for
11 the March allowable. Made some adjustments to it but that
12 was primarily the basis for it. So the nominations were
13 accepted but they really didn't come into play.

14 Q. Is it your intention and the intention of the
15 Oil Conservation Division to attempt to make nominations a
16 more meaningful part of the proration system under the new
17 rules; is that correct?

18 A. Yes, sir. As was discussed in the two memos
19 that went out from Mr. LeMay concerning this hearing, it's
20 our hope that we can publish these preliminary allowables
21 and that nominators and producers -- nominators from the
22 pipelines and also from the buyers and the purchasers --
23 buyers and purchasers same thing I guess. The buyers and
24 the producers, I meant to say, would come in and tell us
25 what they think about the preliminary allowables, and

1 forecast their estimates of what they think they will
2 produce or what they think they will buy; and we also would
3 hope that the pipelines would continue to come and
4 nominate.

5 Q. Have you received some nominations for the
6 six-month allocation period beginning in April?

7 A. Yes, sir, we have.

8 Q. How will they fit into this process that you've
9 described?

10 A. When we asked for nominations, we asked that
11 they submit nominations for each of the six months, April,
12 May, June, July, August, September. We received some of
13 the nominations in that manner, and others came in just for
14 April. In coming up with a way to add those up, we took --
15 where we had six months, we took the average nomination.
16 And where we did not have -- where we only had April, we
17 used April to represent the average.

18 So we added all that together, and came up with
19 total monthly nominations for the southeast pools of 5.6
20 BCF, and the amount for each pool is listed there on line
21 2. 5.6 BCF is 30 percent less than the March nominations
22 and 34 percent less than what we proposed here as the
23 preliminary pool allowable for the southeast if you total
24 it all up.

25 The nominations -- in looking at who usually

1 nominates in the southeast, we can see that the nominations
2 are not complete at this point from the southeast.

3 Total nominations for the four pools in the
4 northwest were more complete. They totaled 19.6 BCF, and
5 this is considerably more than was nominated for March,
6 about three times as much, because our nominations were not
7 good for March. And it's 17 percent less than the total
8 preliminary allowable that we proposed to assign in the San
9 Juan Basin pools. The nominations here are much more
10 complete than in the southeast. Those who usually nominate
11 have submitted their nominations for the northwest pools.

12 Q. Mr. Morrow, let's turn to your Exhibit 3 at this
13 time and just discuss what that is.

14 A. Could I say just one more thing about
15 nominations before leaving nominations?

16 Q. Absolutely. What would you like to say about
17 nominations before we leave nominations, Mr. Morrow?

18 A. Nominations, if you look across the lines and
19 compare line 2 to line 4, you can see that in all but three
20 pools nominations are less than the preliminary allowable
21 that we propose to assign to the pool. In three of the
22 pools, in the Atoka-Penn which is the first column on
23 Exhibit 1, and in the Indian Basin pools, both the Morrow
24 and the Upper Penn, you note there that the total of the
25 nominations we received are higher than the preliminary

1 allowable that we proposed to assign.

2 After we got those nominations we looked back at
3 December '90 and January '91 production for those three
4 pools, and it does appear that we will need to make an
5 adjustment, at least we need to consider making an
6 adjustment to these preliminary allowables in those three
7 pools, because not only are the nominations, which are
8 higher than our preliminary allowable, but because
9 production apparently has increased more than we were aware
10 of at the time that we made the preliminary allowable
11 schedule. That's what I wanted to say.

12 Q. Again, let's turn briefly to Exhibit No. 3 and
13 just explain what is displayed on that exhibit and how it
14 is useful for purpose of this hearing?

15 A. All right. Might just look at the bottom
16 column, which is the comparison for the pools in the
17 northwest, and you can see that for each pool we show pool
18 allowable MCF per month, pool sales MCF per month, F1 and
19 F2 factor for the years '89 and '90; and we show all of
20 that from '91 with the exception of pool sales, which of
21 course we won't know until after the period is over.

22 But you can look at Blanco Mesaverde and see
23 that the F1 factor in '89 was 1596; it was 3085 in '90; and
24 2787 is proposed for '91. So that's the way this could be
25 useful to one who wanted to compare what we're proposing

1 here with historical data.

2 Q. Now, Mr. Morrow, if anybody here present at this
3 hearing believes that the F1 and/or F2 factors do not
4 properly represent what they believe should be the -- in
5 effect the allowable to be assigned based on those factors,
6 do you have any -- how can they affect -- that information
7 can be affected? Can they make recommendations for
8 adjustment?

9 A. Sure can. That's one of the primary purposes of
10 the hearing, as I understand it, is that those involved
11 would review these preliminary figures and come to us with
12 any information they have which would assist us in better
13 determining what the allowables should be for those pools.
14 Anything that would be presented I assume would be
15 considered by the commissioners in coming up with a final
16 amount to be assigned to each pool.

17 Q. Do you believe -- is it your opinion that the
18 method you described is a reasonable and sound method for
19 calculating allowables, and it will allow you to take into
20 consideration information which you receive in today's
21 hearing to recommend to the commission an allowable
22 schedule for the prorated pools for the April to September
23 1991 proration period or allocation period?

24 A. Yes, sir. I think it's a good start. When we
25 get the -- you know, Ron's group does some work on

1 predicting what the markets are going to be in the future,
2 that will be helpful to us when it's available. We looked
3 this time at maybe some series of formulas that we can use
4 that would apply -- which when applied to past production
5 amounts would produce an allowable which would be
6 reasonable. But those -- those really -- we didn't find
7 the right formula, so this is the method that we came up
8 with. I think it will be.

9 Another thing I might add, is that the rules
10 allow flexibility for producers in what they produce. If
11 we get the allowable too low, there is some flexibility
12 that lets a well overproduce it's allowable and make that
13 up at a later time. In the event that we did miss on what
14 the allowable should be, we could make some corrections in
15 October which could compensate for that.

16 Q. If in that situation, if for example, that you
17 found most nonmarginal wells in a pool were overproduced
18 for an allocation period, then in fact the pool would
19 probably require some adjustment; is that correct?

20 A. Yes, sir, that's correct.

21 Q. But in the case if an individually well in a
22 pool were significantly overproduced, that would indicate
23 that the proration system was working, and that the
24 production should be allocated; is that correct?

25 A. Right. And if it was a just a single well and

1 the entire pool was not overproduced, that would mean that
2 probably that individual overproduced well would need to
3 cut back or to shut in to make up some of that
4 overproduction, to get the wells in balance. Which is the
5 purpose of the proration system to start with.

6 Q. Mr. Morrow, with respect to some specific
7 exceptions that exist in other orders, I believe that
8 you've already testified that the Jalmat and the Eumont are
9 subject to a minimum allowable pursuant to division order.
10 Did I understand you correctly that the adjustment factor
11 that you plugged into this was used to ensure that the
12 wells were assigned at minimum allowable based on the
13 acreage factor?

14 A. Yes, sir, that's right. In those pools we were
15 able to start with the answer and work backwards.

16 Q. But if in fact you had an indication in the
17 future that in those specific pools that demand was greater
18 than the minimum allowable would reflect, in fact that
19 allowable could be increased above that?

20 A. Yes, sir, it would be. It could be and that
21 would -- the way I understand the order is written that
22 these are minimums and not maximums.

23 Q. One final question, specific question,
24 Mr. Morrow, on -- the Burton Flat-Morrow pool has not been
25 subject to proration restrictions for approximately the

1 last year pursuant to a division order. How does -- does
2 that division order and the deproration of that pool for a
3 limited period, how does -- is that affected by this --
4 your recommendations and by this system?

5 A. Well, in that pool the wells and the gas
6 proration units have not been subject to the allowables
7 which have been set. We've continued to calculate the
8 allowables based on sales from the pool just to see what
9 proration would -- if applied to that pool or we have
10 applied to that pool as just an exercise to track the
11 production there and see what happens to the allowable.

12 Q. Is it correct that that order deprorating that
13 pool for a period -- actually that period ends during this
14 allocation period?

15 A. I believe it ends in June. That's my memory.

16 Q. And are you prepared to make a recommendation at
17 this time, or is that a matter that should be addressed at
18 a future hearing as to how to deal with that pool as a
19 result of that transition from deproration back into the
20 system or --

21 A. Yes, sir, that's right. I believe that comes
22 back up for hearing this summer.

23 Q. Is there anything further you wish to add to
24 your testimony regarding the system and your preliminary
25 allowables as proposed, as you described it?

1 A. I don't believe so. I was going to point out
2 that we do review the pools subject to proration on a
3 periodic basis to see if proration is still applicable.
4 But what we have said about Eumont and Jalmat and Burton
5 Flat already has told you that we do that. So that's all I
6 have.

7 Q. Exhibits 1 through 3 were prepared by you or
8 under your supervision; is that correct?

9 A. Yes, sir. I had some help on them but they
10 were.

11 MR. STOVALL: I move the admission of Exhibits 1
12 through 3. And I have no nothing further of this witness.

13 COMMISSIONER LEMAY: Without objection Exhibits 1, 2,
14 3 will be admitted in the record.

15 (Division Exhibits 1 through 3 were
16 admitted in evidence.)

17 COMMISSIONER LEMAY: Some questions of, Mr. Morrow?
18 Yes, Mr. Kellahin.

19 CROSS-EXAMINATION

20 BY MR. KELLAHIN:

21 Q. Mr. Morrow, I would like to direct some
22 questions to you concerning the application of the method
23 in establishing the monthly allowable which is column 3,
24 for example, on Exhibit No. 1, and how that relates to the
25 judgments you applied to in the method in selecting the

1 level of adjustment, which is column 3, in a particular
2 pool.

3 Let me begin by asking, sir, that the
4 preliminary estimates of allowable levels were circulated
5 to the industry, attached to a memo from the division dated
6 February 4?

7 A. Yes, sir, that's correct.

8 Q. That attachment to the February 4 memo, is that
9 an attachment that you prepared, sir?

10 A. Yes, sir. I did work on it.

11 Q. By quick comparison of Exhibits 1 and 2 to the
12 attachment from February 4 causes me to believe that the
13 documents are identical, the numbers are the same, are they
14 not?

15 A. With the exception of the nominations which have
16 been added in column -- line 2 -- they are identical. We
17 wanted them to be identical except for that.

18 Q. When I look at the February 4 memo and I look at
19 the monthly pool allowable for the Atoka-Penn, in the memo
20 it was to be an allowable for the pool on a monthly basis
21 of 79,417 MCF?

22 A. Yes, sir, that's what it says.

23 Q. And that, in fact, is the same number used on
24 Exhibit No. 1?

25 A. Right.

1 Q. Were there any proposed nominations received by
2 the division after the February memo for that pool?

3 A. Yes, sir. They were -- all the nominations we
4 got were received after that. They totaled 151,849,000, as
5 we've indicated on Exhibit No. 1.

6 Q. How have you responded then to the nominations
7 received by you after February 4 in setting the final
8 allowable for any of the particular pools?

9 MR. STOVALL: Object.

10 A. I have not responded at all.

11 MR. STOVALL: Mr. Morrow, excuse me, just a moment. I
12 want to clarify the question and make sure that I -- I
13 don't think Mr. Morrow testified that these are final
14 allowables. They're recommendations, I believe, subject to
15 the information received at this hearing.

16 THE WITNESS: We may get some more information today
17 that would help us even more than those nominations have
18 helped us.

19 Q. (By Mr. Kellahin) That's the purpose of my
20 question, Mr. Morrow, is to have you tell us on Exhibit
21 No. 1, for example in the Atoka-Penn pool, when we look at
22 the fourth column and see the 79,417 MCF --

23 A. Right.

24 Q. -- at what point does that number reflect your
25 judgment of the level at which to set allowables in that

1 pool?

2 A. That was -- that was judgment made during
3 January -- probably during January, I'd say.

4 Q. And so we have not yet integrated into your
5 recommendation any nominations received after what point in
6 January of 1991 in setting the allowables for the pool?

7 A. All of the nominations we got we got them --
8 most of them came in yesterday close to 5 o'clock, so we
9 hadn't done too much with them, Tom, since then; but that's
10 when the nominations -- they're all recent, very recent
11 nominations. Anyway we point out in one of the memos, or
12 Bill did, that the nominations could also be presented here
13 today if someone desired to do that.

14 Q. When I look at column 2 then on Exhibit No. 1,
15 and see the total nominations of 151,849 MCF --

16 A. Yes, sir.

17 Q. -- that reflects nominations received by you as
18 of what date?

19 A. As of yesterday, February 27.

20 Q. The prior line, that's the sales from that pool
21 during April -- April to September 1990 on Exhibit No. 1 --

22 A. Okay.

23 Q. -- the 69,000, that's a monthly average based
24 upon --

25 A. Right.

1 Q. -- April to September 1990?

2 A. Right.

3 Q. You take the total and divide by six or --

4 A. That's right.

5 Q. So that's actual sales from that pool?

6 A. That was sales added up from the proration
7 schedules. You know, it didn't include any supplemental
8 data that might have come in, but it should be essentially
9 correct.

10 Q. The next column is the nomination from
11 purchasers, pipelines and producers?

12 A. Right.

13 Q. Then column 4 is the recommended level of
14 allowable on a monthly basis for the pool of the 79,000
15 plus MCF?

16 A. That's correct.

17 Q. There is an adjustment of 10,000 MCF?

18 A. Yes, sir, that's right.

19 Q. Why 10,000?

20 A. Let me see. I've got that written down the
21 reason for each of those adjustments. Let me refer to
22 that. That was based on 1990 sales compared to 1989 sales.
23 It showed an increase of -- let's see, '89 -- I've
24 indicated in my notes '90 compared to '89 sales, but that
25 doesn't agree with what I have shown on Exhibit 3 here. So

1 let me look further. (Pause.) The 10,000 -- I'm going to
2 say, Tom, had to a comparison of F1 factors and recent
3 sales from that pool. That's as good an answer I can give
4 you at this time.

5 Q. Did you consistently apply that methodology to
6 the adjustments in each of the pools?

7 A. No, sir, I did not. As I stated in my earlier
8 testimony, I made an adjustment based on a couple of
9 things, which compared '90 and '89 production, and if it
10 was increasing, I put in an adjustment. And I looked at
11 over- and underproduction of the pool in some pools, and
12 then after I finished the calculation, I looked at the F1
13 and F2 which resulted, and then went back and made another
14 adjustment if that appeared to be needed to bring those F1
15 and F2 factors in line with recent in April through
16 September 1990 F1 factor.

17 So this was not an exact science. It was an
18 attempt to get at a starting place for an allowable
19 determination.

20 Q. Is the methodology applied to come up with the
21 adjustment component one that does not integrate the
22 nominations for that pool?

23 A. It didn't integrate the nominations in the
24 preliminary data which we're looking at here, because we
25 didn't have the nominations available at that time. The

1 intent is to provide these preliminary allowables to the
2 commissioners, along with the nominations that we've
3 received, which we've done to some extent here, and any
4 other information which may be forthcoming after I get
5 through, which would help them decide what the proper level
6 of allowables should be. This was meant to come up with a
7 starting place for an allowable for the April through
8 September 1991 period.

9 Q. That's what I am trying to understand. That
10 column 4 on Exhibits 1 and 2 does not indicate your final
11 recommendation of the actual allowable for the pool shown
12 in that column on a monthly basis?

13 A. That's correct. I think if you listened to my
14 earlier testimony, I had said that in the Atoka-Penn and in
15 the Indian Basin Morrow and the Indian Basin Upper Penn
16 additional adjustments would probably be necessary, not
17 only based on those nominations but based on a look at
18 December and January production which also was not
19 available when this was compiled.

20 Q. Do you at this point have a recommended minimum
21 level of allowable for any of the pools that would show us
22 a refinement of the column 4 entries?

23 A. No, sir. I don't have. I would withhold any
24 recommendation until I've heard what else is said or
25 submitted here today for that final recommendation.

1 Q. Do you have any time frame or schedule by which
2 to share with us what the final allowable will be on a
3 monthly basis for any of the pools?

4 A. We would certainly -- I sure hope to get it out
5 by April 1st.

6 Q. An April 1st decision then falls within the time
7 frame to get the information out to the industry so that
8 the wells can be produced in the month of April which would
9 be the first month of the six-month prorationing period?

10 A. Yes, sir. We would like to have a proration
11 schedule out April 1st. Refinement of that answer.

12 MR. KELLAHIN: Thank you, sir. Thank you.

13 COMMISSIONER LEMAY: Thank you, Mr. Kellahin.

14 Additional questions from the audience of this witness?

15 MR. CAMP: Mr. Chairman, if I may appear, my name is
16 Ward Camp. I'm with the Keleher & McLeod law firm. I'm
17 not licensed to practice in the state of New Mexico, but
18 this is not an adversarial proceeding. The Gas Company of
19 New Mexico has a couple of questions just for
20 clarification.

21 MR. STOVALL: Mr. Camp, let me just, for the record,
22 clarify that I am aware that he is qualified I believe in
23 the state of Oklahoma at least and has taken the New Mexico
24 bar completing it yesterday. Is that true, Mr. Camp?
25 He's not listening.

1 COMMISSIONER LEMAY: We understand you are trying to
2 be a lawyer in New Mexico.

3 MR. CAMP: I gave it a valiant effort yesterday.

4 CROSS-EXAMINATION

5 BY MR. CAMP:

6 Q. Just so I know, I have some confusion about the
7 adjustment factors, but turning to Exhibit No. 3, at the
8 bottom of the page, the difference between April-September
9 1990 and April-September 1991, you have the Basin Dakota
10 and the Blanco Mesaverde trending down, and then you have
11 the Blanco South and the Tapacito -- well, Blanco South
12 stays exactly the same. Tapacito goes up. Just so that I
13 understand, why do two go down, one stays the same and one
14 goes up?

15 A. Why don't we talk about them one at a time, sir?
16 Which one do you want to talk about first?

17 Q. Let's just go right across from left to right.

18 A. If you look at the Basin Dakota, for 1989 the
19 pool allowable was 7.3 BCF.

20 Q. Right.

21 A. Pool sales were 7.2 BCF, almost the same. In
22 1990 pool allowable was 9.4 BCF. Pool sales were again 7.2
23 BCF, which is -- that's what it averaged for that period.
24 So there was a lot of unused allowable assigned during that
25 period.

1 Now, the pool allowable which we propose to
2 assign for '91 is nearly 8 BCF, and it's more than was
3 produced in any of the -- or sold in -- in either of the
4 two prior years. So that's some of the logic that went
5 into this selection of that amount.

6 Q. And that same logic just carries through all the
7 way through?

8 A. Yes, sir. On the Blanco Mesaverde, if you look
9 at those comparisons, you can see that we're proposing to
10 assign 14.3 BCF compared to sales in '90 of 12.37 and in
11 '89 of 10.68.

12 Q. I also have a question, turning to Exhibit 2,
13 did you previously say that these pool allowables will be a
14 minimum allowable and not the maximum? Is that --

15 A. These are their top allowables. You may have
16 heard that in talking about the Jalmat and Eumont, that
17 minimum comes in there. But these are the allowables which
18 will be compared to the sales from each individual.

19 Q. So they are the ceiling? They're the maximum
20 allowable?

21 A. They're ceiling subject to some --

22 Q. Adjustments?

23 A. -- ability to overproduce. They don't have to
24 stay within any individual month. They have periods where
25 they can overproduce and then make that up with

1 underproduction in the future.

2 Q. But as to the Jalmat and Eumont, those are
3 minimum production allowables?

4 A. Well, those -- well, they still operate as
5 maximums once assigned, but they are the minimum/maximum
6 that we will assign in those pools.

7 Q. The minimum -- I guess that's where my confusion
8 is coming from.

9 A. We make our calculations to see what the
10 allowables should be for that pool, whether we did it under
11 the old system or this one we're trying to develop here
12 today or now. If we come up with an allowable less than
13 600 a day in those pools, then the orders that were signed
14 say that we must assign at least 600 per day for each well
15 in those pools that has 160 acres assigned to it.

16 Q. I remember your earlier testimony that -- if you
17 have production in excess of demand, it's waste. And if
18 you're setting a minimum that's higher than actual
19 production, it seems to follow that you'd have waste.
20 Isn't that right?

21 A. I don't -- repeat your statement again.

22 Q. Well, if you set a production minimum that's in
23 excess of the actual demand, that's the statutory waste
24 that you were talking about as you initially opened your
25 comments with.

1 MR. STOVALL: Mr. Camp, if I may, for purposes of
2 clarification, I think I can help -- I think I understand
3 what you're saying. In order to understand how those
4 minimums were set, I'd have to look actually at the record
5 for those specific cases that set the orders. Now, I've
6 not asked those records be incorporated because I don't
7 believe they are necessary. But I think those records will
8 reflect that, in fact, those pools, the production in those
9 pools, has been artificially limited by the allowable
10 system and therefore allowables were raised to ensure that,
11 in fact, did not happen in those pools.

12 So that's -- hopefully that explains the answer
13 to your question.

14 MR. CAMP: Yes. The concern is if you are setting a
15 minimum, and we can't send production in excess of demand,
16 we have to be very careful about that because that would be
17 the waste you started out this whole conversation with.

18 THE WITNESS: These cases both came to hearing, and
19 they were -- the proposal was discussed there, and the law
20 was considered when the order was signed. And, you know,
21 if someone found that they weren't operating according to
22 the statutes, they could come forward and request changes
23 in those. It was the expectation that those orders would
24 not -- would not violate the waste statute.

25 MR. CAMP: Thank you. I have no further questions

1 COMMISSIONER LEMAY: Thank you, Mr. Camp. Additional
2 questions of the witness?

3 Commissioner Weiss.

4 EXAMINATION

5 BY COMMISSIONER WEISS:

6 Q. Is a nomination a contract?

7 A. No, sir. I don't believe it's a contract. I
8 believe it's a forecast.

9 Q. It might not have a lot of validity then; is
10 that what you're telling me?

11 A. I didn't mean to say that, sir.

12 COMMISSIONER WEISS: That was my question, thank you.

13 EXAMINATION

14 BY COMMISSIONER LEMAY:

15 Q. Mr. Morrow, there again, on nominations, just
16 because they were just recently submitted, is there any
17 backup information that they supply to you with the
18 nominations, or is it strictly the pipelines -- I won't
19 call it a guess but maybe a calculation or estimate as to
20 what gas would be needed from those fields to supply the
21 demand that I guess they're estimating at the other end?

22 A. I would expect that it would be or that it is.
23 In coming in with just as raw numbers without any --
24 without a lot of backup or justification as to why they
25 might have increased or decreased. They're just furnished

1 as nominations or forecasts.

2 Q. I see. Without any backup justification is what
3 you're saying?

4 A. Yes, sir, that's right.

5 Q. Is it only the pipelines that have chosen to
6 nominate to date or do you get any nominations from
7 purchasers at all?

8 A. I don't believe there are any purchaser
9 nominations included in here. There are some cases where
10 the purchaser is also the transporter -- I mean the -- did
11 you ask purchasers or transporters?

12 Q. I was thinking of purchasers that were not
13 transporters. Do they ever nominate?

14 A. Some spot market nominations do come in and have
15 come in in the past, but there's none included in those
16 nominations that are shown on line 2 here today.

17 Q. I see. Then is it your understanding or do the
18 pipelines indicate that the gas they're nominating is both
19 traditional system sales gas as well as transportation gas
20 that they are transporting on behalf of purchasers and
21 markets?

22 A. Yes, sir, that's my understanding of the
23 nomination.

24 COMMISSIONER LEMAY: Thank you. Are there any other
25 questions of Mr. Morrow?

1 Mr. Stovall.

2 MR. STOVALL: Mr. Chairman, I just want to do couple
3 of clarification questions.

4 REDIRECT EXAMINATION

5 BY MR. STOVALL:

6 Q. Again the purpose of this is -- that I think we
7 make it very clear, is this not correct, Mr. Morrow, that
8 the division is not advocating any specific level of
9 allowable. It is the intent of the division and the
10 purpose of the system to attempt to predict an appropriate
11 level of demand for each pool, and then allocate that
12 demand amongst the wells in the pool so that each have a
13 fair share to produce into the market; is that correct?

14 A. Yes, sir. Our interest is to get it right, have
15 a correct allowable assigned.

16 Q. I think you indicated to Mr. Kellahin that you
17 simply start -- as a starting point took last year's sales,
18 made some adjustments in each pool, varying with the
19 different, but with the information you have available to
20 try to come up with a number from which the commission can
21 start to make whatever adjustments are appropriate based on
22 whatever information is received during this nomination
23 hearing process?

24 A. Yes, sir. I'd expect we would look at -- you
25 know, data that is available to us. If nominations, for

1 instance, came in much higher than the wells had the
2 capacity to produce, then I'm sure they'd want to know that
3 also.

4 Q. Just one other quick question. Mr. Camp was
5 talking about the comparison table on Exhibit 3. Is it
6 correct to say in looking at Exhibit 3 the important --
7 critical factor is really not the pool allowable or the
8 pool sales, but rather the F1 or -- and/or F1 and F2
9 factors in distributing --

10 A. F1 and F2 factors will be the bottom line. If
11 we get those right, then everything else will fall into
12 place.

13 Q. In fact, that pool allowable includes
14 nonmarginal wells and there may be a difference -- F1 or F2
15 may be different because there are different numbers of
16 nonmarginal units in pools; is that correct?

17 A. Well, it will vary because of that. But I would
18 expect that the F1 and F2 that we addressed here today
19 would be the ones that are on this sheet, and then any
20 changes that were proved to be needed, added -- you know,
21 additions or subtractions from those would be what the
22 commissioners would probably finally come up with.

23 MR. STOVALL: I have nothing further.

24 COMMISSIONER LEMAY: Thank you, Mr. Stovall.
25 Commissioner Weiss.

1 COMMISSIONER WEISS: I'm confused.

2 THE WITNESS: Yes, sir.

3 EXAMINATION (Resumed)

4 BY COMMISSIONER WEISS:

5 Q. On this nomination, does it have -- I don't
6 understand, for instance, how they can nominate -- someone
7 can nominate twice what the production was last year or the
8 sales, without some supporting evidence. You say that's
9 the way it's done?

10 A. That's the way it's done. You know, it would be
11 probably something that -- if we go ahead and use that
12 nomination, if it's twice as much as it appears that it
13 should be, we probably might want to call them and ask them
14 for some supporting information before we acted on that
15 nomination.

16 COMMISSIONER WEISS: Very good. That's clear.

17 COMMISSIONER LEMAY: Additional questions? If not,
18 the witness may be excused. Thank you, Mr. Morrow.

19 Do you have any additional witnesses?

20 MR. STOVALL: I have nothing further, Mr. Chairman.

21 COMMISSIONER LEMAY: I think we can continue.

22 Mr. Carr, would you care to present your witness?

23 Let me ask a question here. You've 15, 20, 30
24 minutes? Do you have any idea?

25 MR. CARR: Probably 15 to 20 minutes.

1 COMMISSIONER LEMAY: Why don't we take a break now
2 then, before you come on, because we will have a few more
3 witnesses and statements. Let's take about a 15-minute
4 break and resume here at 10:45.

5 (At 10:25 a.m. a recess was taken.)

6 COMMISSIONER LEMAY: We will continue. Mr. Carr.

7 MR. CARR: May it please the examiner, Unocal has one
8 witness, Paul West. We have seven exhibits. I have about
9 10 copies of the exhibits. I am having additional copies
10 made that will be here in just a few minutes.

11 COMMISSIONER LEMAY: You may continue.

12 PAUL WEST,
13 the Witness herein, having been first duly sworn, was
14 examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. CARR:

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

19 A. Paul west.

20 Q. Mr. West, where do you reside?

21 A. Farmington, New Mexico.

22 Q. By whom are you employed?

23 A. Union Oil Company of California doing business
24 as Unocal.

25 Q. What position do you hold with Unocal?

1 A. District production superintendent -- manager,
2 excuse me.

3 Q. As district production manager does your
4 geographic area of responsibility include the San Juan
5 Basin?

6 A. Yes, it does.

7 Q. Could you very briefly review for the commission
8 your educational background and then summarize your work
9 experience?

10 A. B.S. in civil engineering from Mexico State and
11 been with Unocal for 22 years, production operations and
12 construction in Texas, California, Alaska and New Mexico.

13 Q. Do your current duties with Unocal require that
14 you become and stay familiar with the procedures utilized
15 by the Oil Conservation Division to set allowables from the
16 prorated pools in the San Juan Basin?

17 A. Yes.

18 Q. Does Unocal operate wells in the prorated pools
19 in the basin?

20 A. Yes.

21 Q. Do you have any wells in the Tapacito pool?

22 A. No, we do not.

23 Q. But you have wells in all others?

24 A. Yes.

25 Q. Have you reviewed the preliminary allowable

1 estimates distributed by the Oil Conservation Division
2 early this month with its memorandum explaining the
3 procedures utilized?

4 A. Yes, I have.

5 Q. And have you studied these estimates and
6 compared these estimates with the ability of Unocal wells
7 to produce in the prorated pools in the San Juan Basin?

8 A. Yes, I have.

9 Q. Have you prepared exhibits that demonstrate the
10 impact of the proposed preliminary allowable should they be
11 become final on Unocal's properties in the basin?

12 A. Yes.

13 MR. CARR: Are the witness' qualifications acceptable?

14 COMMISSIONER LEMAY: The witness is qualified to
15 present testimony, that's correct.

16 Q. (By Mr. Carr) Mr. West, first I'd like you to
17 refer to what has been marked as Unocal Exhibit No. 1, and
18 simply, before we go into the details, state the
19 conclusions and recommendations of Unocal based on your
20 study?

21 A. Yes, this is our summary comments, after doing a
22 review of the preliminary estimates, and the conclusions
23 are as that with OCD's estimates for April through
24 September of '91 that we will be significantly impacted on
25 our Basin Dakota pool. We will have to reduce sales and to

1 a smaller extent we will also have to reduce sales in the
2 Blanco Mesaverde pool.

3 Q. What are you going to request the division do
4 today?

5 A. We would like to request that the OCD set higher
6 allocations for April through September, higher than their
7 estimates, in order for us to produce at approximately the
8 same levels as we were able to in 1990.

9 Q. Let's go to Unocal Exhibit No. 2, and I'd ask to
10 first identify this and then review it for the commission.

11 A. This is a detail look of how we see the
12 preliminary estimates affecting us. And as I mentioned on
13 its summary, that the most significant impact is in the
14 Basin Dakota. And what this amounts to is that of our
15 nonmarginal Basin Dakota wells that 65 percent of them, if
16 we were to produce in '91 in this April through September
17 time frame at the same level as we did in 1990, that we
18 would overproduce on 65 percent of those nonmarginal wells.

19 Q. Let's go to the second block of information on
20 this exhibit.

21 A. This is looking at that same 65 percent
22 population of nonmarginal wells, which would overproduce at
23 those limits. The actual production in 1990 in that time
24 frame was 75 million per month. In 1990 we had an
25 allocation for those wells of 91 million, and this would

1 equate -- this did equate to underproducing those wells by
2 16 million a month.

3 I need to point out here that during this April
4 through September time frame, we do need to underproduce
5 wells. We're doing two things there; we're balancing
6 overproduction from the previous winter and also saving up
7 allowable for the coming winter in that time frame.

8 The number at the bottom of the page is looking
9 at what would have happened to us or what will happen to us
10 this year with the '91 OCD estimated -- preliminary
11 estimates calculation if we produced at the same level, and
12 it equates to 11 1/2 million a month overproduction. And
13 here, again, this is in a period of time that we need to be
14 underproducing in order to use our swing and sell gas in
15 the winter months when both the price and demand are a lot
16 better.

17 Q. Is it Unocal's desire to produce during 1991 at
18 levels comparable to what they produced in 1990?

19 A. Yes, it is. At this point we would plan to
20 produce at the same levels and would like to have
21 allocations to allow us to do that.

22 Q. If allowables are set equal to the estimates
23 that we're now looking at, does this actually mean that
24 production is actually going to be reduced in the Basin
25 Dakota pool?

1 A. It would be reduced. We, of course, have the 12
2 times over allowance on -- on when we curtail production.
3 We would either by management decision curtail production
4 in this time frame. If we did not, then we would be forced
5 to in the next six-month period.

6 Q. Let's go now to Exhibit No. 3 and I'd ask you to
7 review that, please.

8 A. This is encompassing our suggestion of the
9 changes that we would like to see or that we would have to
10 see in the Basin Dakota pool in order to accomplish our
11 objectives of having the same allocation that we did the
12 previous year. The left column of figures under OCD
13 preliminary estimates are identical to the numbers found on
14 the page presented in earlier testimony for that particular
15 pool.

16 Starting at the top with the average sales
17 figure for the actual time frame of April through September
18 in '90, the administrative adjustment that the OCD is using
19 in their estimates of 700 million, then from that the
20 marginal production subtraction of a little over 5 billion
21 feet, and that is actually the figure for October through
22 December 1990. That was selected for that marginal
23 subtraction. And then from the difference there is where
24 the F1, F2s are computed from.

25 Q. When we look at this marginal production figure

1 for October through December 1990, in your opinion is that
2 a representative figure of the kind of marginal production
3 you would expect from this pool?

4 A. Not for the time frame that we're looking at,
5 April through September. The nature of the production
6 swinging from winter to summer, whether you're talking
7 about establishing allowables in this April to September
8 time frame or another time frame, in this particular case
9 the marginal production for that October through December
10 time frame was high as compared to the other quarters of
11 the year. What it amounts to is leaving a very low number
12 from which to compute the F1 and F2 factors. In this case
13 it turned out in developing F1s and F2s that were far below
14 last year.

15 We would contend that it would be better to use
16 the marginal subtraction from the same time frame as the
17 sales figure that's represented in the first line. And in
18 this case that would be our number on the right side of the
19 page of 4 1/2 BCF.

20 Q. Would you just go through the figures on the
21 right column and show what Unocal's recommendation is?

22 A. On the right side, that it would be our
23 suggestion of adjustments to make in the procedure. Number
24 one being that marginal production figure of actually using
25 the time period that the production comes from for previous

1 year. We would suggest that for all pools, that that -- if
2 you don't do that, because of the swings that might occur,
3 the nonmarginal allowable line as it's titled may be very
4 high or very low. It just kind of opens up to a game of
5 chance as to where the figure might go. We would assume --
6 we would recommend that that be for the same time period
7 that production comes from.

8 With that number we have looked at the F1s and
9 F2s that we would need to provide us the allocation that we
10 would like to have in '91 which would allow us the same
11 productions we had in '90. And to develop the F1s and F2s
12 that we suggest there would require an administrative
13 adjustment of 1 billion feet of gas rather than 700 million
14 as was in the preliminary estimates.

15 Q. Anything further with Exhibit 3.

16 A. No.

17 Q. Let's move now to Unocal Exhibit No. 4, the
18 information on Blanco Mesaverde pool and I again would ask
19 you to review this for the commission.

20 A. This is the same kind of a look at the Blanco
21 Mesaverde pool. As I mentioned the restrictions from 1990
22 level of production are much less in this pool in
23 preliminary estimates than they were in the Dakota pool.
24 But going through the same figures, the column on the left
25 is the OCD preliminary estimates.

1 Once again, we would suggest that the marginal
2 subtraction should be from the same time period as the
3 sales comes from. In this case, as you can see, it's
4 relatively flat and has little impact. To get the F1s and
5 F2s that we would need to prevent curtailment of production
6 over what we had in '90, we would have to have an
7 administrative adjustment of 3 BCF rather than 2 BCF that
8 are in the preliminary estimates.

9 Q. Let's now go to Exhibit No. 5.

10 A. Exhibit 5 is to illustrate what this actually
11 means to us on a well from the previous things here that
12 I've discussed. Looking at the -- at the impacts of a
13 typical well of the two pools, using the OCD preliminary
14 estimate and the '90 actual allocation, and then our
15 suggestion for a change. In this example we're using the
16 average well of our nonmarginal proration units in the
17 Basin Dakota pool and in the Mesaverde pool.

18 What it equates to is if we use the OCD
19 preliminary estimates as they are, our average well would
20 have an allowable of 154 MCF a day. We actually had in
21 1990 211 MCF a day, and our suggestion here would give us
22 209 MCF a day. Then on the Mesaverde pool, the numbers are
23 for the OCD estimate 230 MCF a day, and our actual
24 allocation was 262 in 1990, and our suggestion would yield
25 us 258.

1 Q. Mr. West, let's now go to Exhibit No. 6, and
2 review your calculations for the South Blanco Picture Cliff
3 pool?

4 A. In looking at the South Blanco Picture Cliffs
5 pool, the F1s and F2s, which I think was previously
6 discussed in other testimony, are about the same as they
7 were the previous year, and we have really no real issue
8 with those at this time. This sheet is simply a suggestion
9 of once again reverting to the more appropriate period for
10 making the marginal production subtraction, which in this
11 case would yield a lesser required administrative
12 adjustment.

13 Q. Would you identify the information on Exhibit
14 No. 7?

15 A. Exhibit 7 we offer as just documentation of the
16 figures that we developed on Exhibit 2. So that if anyone
17 needed to cross-check the figures that we developed there,
18 the proration books from those wells would indicate those
19 figures.

20 Q. In your opinion, do the estimates that have been
21 provided by the OCD represent reasonable allowable limits
22 for the Blanco Mesaverde and the Basin Dakota pools for the
23 next six-month period?

24 A. No, I think we're short.

25 Q. Do you have an opinion as to whether or not

1 using nominations as a basis for setting allowables is a
2 fair way to approach this problem?

3 A. Yes, I do.

4 Q. What is that?

5 A. I have a concern that using nominations isn't
6 fair to the producers to be used as a basis of setting the
7 allocations. Different producers under the pricing that
8 we're now receiving for gas can make a decision from their
9 own strategies to curtail production, thereby affecting the
10 allocation amount -- nomination amount. If the
11 calculations are reduced as a result of some producers
12 wanting smaller nominations, then producers who choose to
13 continue to sell gas at a full-out level or up to their
14 level -- their allocations will allow -- would be
15 penalized, and even our own company might make a decision
16 at one point not sell to gas at some low price; but we
17 don't feel like making a nomination low, thereby an
18 allocation low should impact a producer who chooses to sell
19 gas.

20 Q. Do you have an opinion whether or not you would
21 be able to sell more gas with the higher allowable rates
22 you are recommending?

23 A. Yes, we will be able to sell more gas than the
24 estimates will allow.

25 Q. In fact, without prorationing at all you would

1 be able to sell substantially more gas, wouldn't you?

2 A. We would be able to sell more gas without
3 proration at all from existing wells, and we'd also be free
4 to drill wells more readily.

5 Q. As the prorationing system now works only those
6 better wells in the prorated pools are the ones that are
7 experiencing state order curtailment; isn't that correct?

8 A. That's true.

9 Q. In your opinion if the allowable limits that are
10 recommended by Unocal in these pools, if they were adopted,
11 would the correlative rights of any interest owner in the
12 pool be adversely affected?

13 A. No, they would not.

14 Q. You believe that adopting the recommendations of
15 Unocal -- would adopting the recommendations of Unocal
16 result in the waste of hydrocarbons in any pool?

17 A. No, it would not.

18 Q. If you would just again briefly summarize your
19 recommendation to this commission.

20 A. The recommendation would be to set the
21 allocations consistent with what we had in 1990, so that we
22 can produce at that level.

23 Q. Will Unocal be able to produce at that level if
24 the allowables will permit?

25 A. Yes, we will.

1 Q. Were Exhibits 1 through 7 prepared by you?

2 A. Yes, they were.

3 MR. CARR: At this time, if it please the Commission,
4 we would offer Unocal Exhibits 1 through 7.

5 COMMISSIONER LEMAY: Unocal Exhibits 1 through 7 will
6 be admitted to the record without objection.

7 (Unocal Exhibits 1 through 7 were
8 admitted in evidence.)

9 MR. CARR: I have nothing further on direct,
10 Mr. Chairman.

11 COMMISSIONER LEMAY: Thank you, Mr. Carr. Some
12 questions of Mr. West from the audience?

13 Yes, sir.

14 MR. CHAVEZ: Mr. Frank Chavez for OCD office, Aztec.

15 CROSS-EXAMINATION

16 BY MR. CHAVEZ:

17 A. Mr. West, in comparing the Basin Dakota
18 allowable -- I'm looking at the Basin Dakota allowables
19 that were assigned for that time period in April through
20 September in 1990, from Mr. Morrow's Exhibit No. 3. Do you
21 agree with his opinion that the allowables were too high
22 considering that the allowables assigned were 9.4 BCF when
23 the actual production was 7.2.

24 A. No, I wouldn't agree that the allowables were
25 too high and that's by the nature of the system. If you

1 were to reduce allocation to the point that sales would
2 always equal that level, with everybody trying to produce,
3 the good wells in the pool would be restricted to very,
4 very low percent of their capacity. And the reason why
5 that happens is because the poorer wells, if you set the
6 F1s and F2s where you have a lesser restriction on good
7 wells, you do have a abundance and an excess allowable in
8 the poorer wells. It's just the nature of the system.

9 The formulas that go into both the proration
10 rules as far as allocation and the formulas that are also
11 in the deliverability calculation on the testing wells is
12 such that it's not totally equitable between all wells in
13 the pool. In other words, if it were total equitable and
14 every well were allowed to make 85 percent of their
15 capacity, that would be an equitable system, but the one we
16 have may restrict good wells to 60 percent of their
17 capacity and not restrict poorer wells at all. It's just
18 the nature of the calculation.

19 MR. CHAVEZ: Thank you.

20 | COMMISSIONER LEMAY: Thank you, Mr. Chavez.

21 Additional questions of the witness?

22 EXAMINATION

23 BY COMMISSIONER LEMAY:

24 Q. Mr. West. I'm trying to get a feel here for the
25 difference between the allowable and the pool sales in the

1 Basin Dakota. At least from your company's perspective is
2 much of that difference a choice by operators not to
3 produce their wells because of price, therefore having the
4 capabilities of higher production and should still be
5 allotted that opportunity through the six-month allocation
6 period?

7 A. As I answered Mr. Chavez' question, that is part
8 of the issue. The other one is that in this time period,
9 as I testified, we do need to underproduce in this
10 particular six-month stretch in order to balance
11 overproduction we've had from the first part -- from the
12 previous winter and save allowable to use in the ensuing
13 winter.

14 Q. I guess that's what I am trying to get at, the
15 strategy has been historically to not use as big a
16 percentage of the market so to speak during the shoulder
17 months and summer months so that you can capture as large a
18 share of the market as possible in the winter when the
19 price is higher?

20 A. That is correct.

21 Q. Is that -- what you're saying then is the
22 allowable should be high enough to do that if you choose to
23 reverse that strategy -- I mean if you had the choice,
24 would you capture as much market as possible during the
25 summer and shoulder months as you could, if you weren't

1 curtailed in the winter?

2 A. That's kind of a dynamic question there as far
3 as what the strategy would be. Over the last few years
4 that we have been in the San Juan Basin, we have always
5 used the allocation allowed us that we have to manage our
6 production from summer to winter. In other words, we use
7 that as our vehicle for how much we produce in the winter
8 and how little we produce in the summer.

9 If we didn't have a proration system, we would
10 still probably swing, but the vehicle then would be our
11 projection of prices and also wells that might respond
12 better in the months that he think production -- or that
13 the price might be better. We'd shut in a well and
14 pressure it up and thereby be able to produce more gas.
15 It's kind of a confusing question what we would do without
16 proration, but with proration that's the only thing that's
17 really controlled our level of production.

18 Q. So it's a combination price and also saving
19 allowable for the time you think you can get the best
20 price?

21 A. That's right. We try to manage the allocation
22 process. Of course, the 12 times over production allowance
23 is the vehicle within the proration rules that allows us to
24 do that.

25 Q. We could still allow you to do that under our

1 current six-month proration period?

2 A. That's correct.

3 COMMISSIONER LEMAY: That is all I have. Thank you,
4 very much, Mr. West.

5 Any additional witnesses, Mr. Carr?

6 MR. CARR: That's my only witness.

7 COMMISSIONER LEMAY: Thank you. Mr. Kellahin.

8 MR. KELLAHIN: Mr. Chairman, at this time I would like
9 to call Mr. Louis Jones. Mr. Jones is a petroleum engineer
10 and the proration specialist for Meridian Oil Company,
11 Farmington, New Mexico.

12 LOUIS JONES,
13 the Witness herein, having been first duly sworn, was
14 examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. KELLAHIN:

17 Q. Mr. Jones, for the record, would you please
18 state your name and occupation?

19 A. I'm Louis Jones, regional production manager,
20 Meridian Oil Company, Farmington, New Mexico.

21 Q. Mr. Jones, summarize for us, if you will, your
22 past experience and expertise in handling the prorationing
23 matters for your company in the San Juan Basin?

24 A. I've been familiar with New Mexico proration
25 system since 1986, and have been involved in two committees

1 to rewrite the rules that are in place as we see them
2 today.

3 Q. As production engineer for Meridian and formerly
4 for Tenneco Oil Company in Denver, have you been actively
5 involved on a regular basis in the implementation of the
6 prorationing rules and procedures in handling your
7 production out of the Juan San Basin?

8 A. Yes, I am.

9 Q. Do you have some comments and suggestions to the
10 commission today concerning the levels of allowables to
11 establish for the April to September period of 1991?

12 A. First of all --

13 Q. Let me ask you if you have an opinion or
14 comments on that subject?

15 A. Yes, I do.

16 MR. KELLAHIN: We tender Mr. Jones as an expert
17 proration engineer.

18 COMMISSIONER LEMAY: His qualifications are accepted.

19 Q. (By Mr. Kellahin) Let me direct your attention
20 first, Mr. Jones, to the methodology applied by the
21 division to come up with the procedures for establishing
22 those allowables? Do you have any comments or
23 recommendations concerning the methods used?

24 A. Well, I have a few comments. First of all, I
25 think we're heading in the right direction. I think this

1 six-month allowable is going to help us plan for our
2 business. My hat's off to, of course, to Vic Clines, Jim
3 Morrow and the entire committee that helped put this
4 together. I'm extremely happy again with the methodology.

5 I just had a few comments where I thought one of
6 the pools may seem a little low versus historical
7 standards, and that's really all I wanted to say.

8 Q. Let's focus your attention on your expertise in
9 determining the historical production out of the various
10 pools. Let me ask you, first of all, to comment on the
11 Blanco Mesaverde pool.

12 A. What I have done is I've looked at the last
13 seven-year average of our entire pool allowable. I didn't
14 go back and look at the production, just the pool
15 allowable, and again the entire pool, doesn't include F1
16 and F2 and marginal, but just trying to get a good
17 baseline.

18 Q. Did you do this for each of the prorated gas
19 pools?

20 A. For three of them in the San Juan Basin
21 northwest portion of the state.

22 Q. Which three?

23 A. The Blanco Mesaverde, Basin Dakota and the
24 Blanco Picture Cliffs.

25 Q. What was the period of time applied by you for

1 the historical review of past production?

2 A. The last seven years for the Blanco Mesaverde
3 pool, the Basin Dakota pool, and the last five years for
4 Blanco Picture Cliffs simply because that's all the data I
5 had available to me.

6 Q. What did you find?

7 A. I found in the last seven-year pool allocation
8 or allowable for the Blanco Mesaverde 14,122 million cubic
9 feet of gas average per month, or 14.1 BCF per month over
10 that same April through September period of the last seven
11 years.

12 Q. For which pool, this is the Mesaverde?

13 A. Blanco Mesaverde pool. And the 1991 proposal
14 for this same six months is 14,379 or put another way
15 14.379 BCF, or within 2 percent of the historical pool
16 allowables. So I feel very good about the number for the
17 Blanco Mesaverde.

18 I want to point out, too, that over this last
19 seven-year period is that U.S. demand has stayed at least
20 flat or slightly up. I think that everyone is well aware
21 the California demand has increased during this period.

22 Q. Does Meridian have both the deliverability and
23 the market demand exceeding the allowable proposed to be
24 assigned for the Blanco Mesaverde pool?

25 A. We have certainly the capabilities to exceed the

1 allowables. The point I want to make is that the proposed
2 allowable at this time is reasonable, and I like the
3 methodology utilized.

4 Q. Let's turn your attention now to the Basin
5 Dakota pool.

6 A. Yes, sir. Over the last seven-year period the
7 same April through September time frame, the pool allowable
8 was 9.236 BCF per month. The 1991 proposal is 7.9623 BCF
9 per month, which is approximately 16 percent lower than
10 historical seven-year average.

11 Q. You listened to Mr. West's presentation on
12 behalf of Unocal where he proposes an adjustment, an
13 increase in fact, for the allowable assigned to the Basin
14 Dakota pool, did you not?

15 A. Yes.

16 Q. Do you have any comments with regards to the
17 level that Mr. West proposes the adjustment be made for the
18 Basin Dakota?

19 A. I had a few comments. First of all, I think
20 it's his Exhibit 3, Mr. West's, you will end up with
21 nonmarginal allowable under his scenario of 3.735 BCF again
22 for the nonmarginal wells. What he did is he switched
23 around marginal production and then suggested a slightly
24 higher administrative adjustment. You can achieve the
25 exact same thing by keeping the exact same methodology that

1 you've used on all the pools and add one more BCF of
2 administrative adjustment. That would give you -- again,
3 if you back into it, that would give you 2.755 plus 1.0
4 would give you 3.755, which is very, very close to his
5 recommendation.

6 And if you did that and then look at the total
7 pool allowable, that then would be 8.963 for the 1991
8 proposal, versus historical number over the last seven
9 years of 9.236, so very close. So I would agree with
10 Mr. West's suggestion, just another option on how to do it.

11 Q. If we utilize your option as opposed to
12 Mr. West's, and we go to Mr. Morrow's Exhibit No. 2,
13 Division Exhibit No. 2, and we look at row 3 where it has
14 the adjustment column, the adjustment line, and look over
15 to the first column for the Basin Dakota.

16 A. Yes.

17 Q. We've got 700,000 as the adjustment?

18 A. Yes.

19 Q. What would you put in place of that adjustment
20 level in order to more closely match the historical
21 production out of the Basin Dakota?

22 A. Matching the historical, which would still be
23 slightly under, along with matching Mr. West's proposal,
24 the administrative adjustment then would be 1.7 million in
25 that column you just described.

1 Q. Would that allowable of level allow the
2 operators, including Meridian in the Basin Dakota pool, a
3 fair and equitable opportunity to meet their market demand
4 or production out of that pool?

5 A. Yes, sir, it would.

6 Q. In your opinion would it violate potential
7 correlative rights of any other operators operating gas
8 wells in that pool?

9 A. No, sir.

10 MR. KELLAHIN: That concludes the examination of
11 Mr. Jones.

12 COMMISSIONER LEMAY: Thank you, Mr. Kellahin. Some
13 questions of Mr. Jones from the audience?

14 EXAMINATION

15 BY COMMISSIONER LEMAY:

16 Q. As I understand your testimony, Mr. Jones, then
17 you would say keep our system intact, but just use our
18 flexibility in the administrative adjustment column to
19 reflect more the historical averages from these pools?

20 A. Yes, sir.

21 Q. Have you noticed anything -- and this is part of
22 my ignorance -- but in the Basin Dakota pool to indicate
23 any poolwide decline in deliverability from the pool as a
24 whole versus its maybe ability to produce at this
25 historical average? What I am trying to do is compare

1 historical average to what might had been considered a
2 historical decline from the pool?

3 A. I don't have the evidence with me. I feel
4 somewhat comfortable that that deliverability still exists.
5 You can see that the production has been flat the last
6 couple of years. So I feel that the deliverability is
7 still there. I don't have the evidence to prove or
8 disprove that, Mr. LeMay.

9 COMMISSIONER LEMAY: Any other questions of the
10 witness? Yes, Mr. Chavez.

11 EXAMINATION

12 BY MR. CHAVEZ:

13 Q. Mr. Jones, looking at Mr. Morrow's Exhibit
14 No. 3, the same question I asked Mr. West before you: Do
15 you think that the Basin Dakota received too much allowable
16 during April to September of 1990?

17 A. It may have been -- it was slightly high versus
18 historical because it came out to be that -- over the 1990
19 9.7 BCF. The historical is 9.2, and the current
20 recommendation is 7.9 -- excuse me -- the recommendation by
21 Mr. Morrow at this time was 7.9. Of course, our
22 recommendation would be in the 8.9 range.

23 Q. Mr. Jones, do you believe that there should be a
24 closer relationship between the allowable and assigned and
25 the production from the pool?

1 A. Again, I think that depends, because it depends
2 on how much gas is being withheld from the market. There
3 are quite a few proration units, as you are well aware,
4 that will not make their allowable. So to try to match the
5 actual sales with allowables, the wells that can produce
6 and will continue to produce will continue to get farther
7 and farther overproduced.

8 MR. CHAVEZ: Thank you.

9 MR. STOVALL: Mr. Chairman, just one question.

10 CROSS-EXAMINATION

11 BY MR. STOVALL:

12 Q. Mr. Jones, in talking about withholding gas from
13 the market, is it correct the Dakota pool is the deepest
14 pool for all practical purposes in the basin, San Juan
15 Basin?

16 A. That is correct.

17 Q. And the replacement cost therefore probably the
18 highest; is that correct? Generally speaking.

19 A. Generally speaking.

20 Q. Generally speaking. I don't want to hold you on
21 a specific case.

22 A. I don't have my analyst with me.

23 Q. I'm really asking this out of curiosity, not
24 challenging your statements or anything. Do you have a
25 feeling that the operators who operate wells in the Basin

1 Dakota pool have tended to produce that gas last in these
2 low markets, historical last five years, producing the
3 shallower, cheaper to find gas in preference to Dakota gas?

4 A. I really don't have knowledge or the information
5 from other producers. I will say from this from Meridian's
6 standpoint -- and we are the number one producer of natural
7 gas not only in the northwest portion of the state but
8 state of New Mexico -- we have not done that.

9 Q. The reason I'm asking the question is you have
10 indicated -- both you and Mr. West have indicated that the
11 low production in the Basin Dakota pool -- the fact it's an
12 underproduced pool but that has been the market
13 consideration on company's parts as much as anything; is
14 that correct?

15 A. I would believe so. Because we have been
16 producing -- we have not shutting in our Dakota over and
17 above any other pool.

18 COMMISSIONER LEMAY: One quick one.

19 EXAMINATION (Resumed)

20 BY COMMISSIONER LEMAY:

21 Q. You mentioned, Mr. Jones, and you gave three
22 pools, Blanco Mesaverde, which I understand you said you
23 thought were pretty much on target; Basin Dakota which you
24 would like to see increased. How about Blanco Picture
25 Cliff; can you make any comments on it?

1 A. Yes, I will. In the last five-year historical
2 average was 1.183 BCF per month. The 1991 proposal is
3 1.238, within 6 percent, so I think it's very reasonable.

4 Q. Do you have any opinion as to what percentage
5 would put us on target, 2 percent, 6 percent? Certainly 16
6 percent was too high. Is there a range there that you --
7 put a limit on percentage variation that you consider on
8 target?

9 A. That would be a total judgment call, but I guess
10 5 percent would be a good number I could throw out.

11 COMMISSIONER LEMAY: Any additional questions of the
12 witness?

13 MR. CAMP: Is it possible that Gas Company of New
14 Mexico could just reserve any examination of this witness
15 and just prepare some written comments. Unocal and now
16 Meridian have put in this historical evidence as being
17 important, and we believe it's very important you take into
18 consideration the productivity capability of all this coal
19 seam gas that came on, take away capacity that has not
20 really dramatically changed out there. And the fact the
21 productive capacity in the northwest has dramatically
22 outstripped the demand. They're trying to use a historical
23 model here to maintain their share in light of the fact
24 that their proportion is a smaller proportion.

25 All we would like to do is be able to submit

1 some written data to show that although the Basin Dakota
2 may have historically produced this much, as clearly shown
3 by the nominations, they're trying to take their prorata
4 hit as demand is now a smaller percentage from the Basin
5 Dakota because of the increasing coal seam gas.

6 COMMISSIONER LEMAY: I think you're --

7 MR. CAMP: If we could just have a couple of days to
8 prepare written comments to that.

9 COMMISSIONER LEMAY: I would be happy to collect
10 written comments considering anything you have pertaining
11 to the proration system. I'm not sure that the concept of
12 coal seam gas taking away a market is something we will
13 consider in allocating allowables, because you're assuming
14 a static market. Then you get into arguments as to what
15 gas is being displaced, gas east of New Mexico? Is this an
16 incremental market that coal seam gas is satisfying? I'm
17 not sure coal seam gas per se has -- would be a factor in
18 our allocation system.

19 MR. CAMP: That was exactly the point. It's not a
20 static market. Production is outstripping demand in an
21 increasing level, and therefore a historical model may not
22 be accurate by saying it's been up here at 9.2 and now it's
23 down here. That may -- it is not a static market. It's
24 dynamic and their historical model may not be accurate.
25 That's the only thing we want to show.

1 COMMISSIONER LEMAY: I think we would be happy to
2 receive some comments. I will leave the record open for a
3 week, get them in there quick. You understand the time
4 frame we're operating under.

5 MR. CAMP: Yes.

6 MR. KELLAHIN: Mr. Examiner, I would like you to
7 reconsider that last statement. I move to object that it's
8 beyond the call of this case to introduce the concept of
9 the coal gas question into this proceeding. It's been a
10 well-known topic before you. If they are not prepared to
11 come forward and cross-examine these witnesses on the
12 allowable levels that have been set in the prorated gas
13 pools, I think they have waived that opportunity.

14 If you are going to take written documents on
15 that kind of topic after the commission hearing, then it
16 puts me at a terrible disadvantage where I cannot
17 cross-examine the authors of that letter; and if we're
18 going to have to reopen the case, then we will never set
19 the allowables for these prorated pools.

20 So I would ask you to reconsider your ruling and
21 determine and rule that Gas Company is out of order with
22 the request; that this case will be taken under advisement
23 at its conclusion today and will close the record.

24 COMMISSIONER LEMAY: Mr. Carr.

25 MR. CARR: Mr. LeMay, I would concur in the

1 statement -- the objection of Mr. Kellahin. I would point
2 out that if you do decide to accept additional testimony on
3 the issue of the role of coal gas as it relates to
4 production from prorated pools, we would feel that we would
5 also need an opportunity to respond. That raises an issue
6 that I submit is beyond the call of this case. You start
7 weighing the impact of coal gas with its relationship to
8 production from the prorated pools, we open a tremendous
9 box in doing that, and it's -- I would suggest that that is
10 a matter that should be addressed at another time.

11 COMMISSIONER LEMAY: I'd like to say something. Maybe
12 I did not make my answer to Gas Company's question very
13 clear. I said that we would consider coal gas impact on
14 the market in setting allowables in the San Juan basin. I
15 suggested, as a data collection or as useful information,
16 that if they had some information on coal seam gas or the
17 dynamic markets in California or anything else, that this
18 might be -- would be helpful in our analysis of the
19 markets, but certainly not in setting allowables per se.
20 And I left it open for seven days only to say that let's
21 get it in so we can look at it, and not as it affects
22 allowables per se. I'm not sure that I'm making myself
23 clear.

24 MR. STOVALL: Mr. Chairman, may I take a stab from the
25 division's standpoint?

1 COMMISSIONER LEMAY: Mr. Stovall, please do.

2 MR. STOVALL: I would concur, and make this very
3 clear, that under the allowable system allocations are made
4 on a pool-by-pool basis, not as they share a total market
5 available to the state or total interstate gas market on a
6 national basis. What the division seeks in this case is
7 information on a pool-by-pool basis, and although the
8 information was presented on a single spreadsheet for all
9 the pools, there is no intention to have a relationship
10 between the pools. So the calculation is on a pool-by-pool
11 basis.

12 Comments are just that, they are comments. They
13 are unsworn statements. They are opinions in a proceeding
14 of this nature. The division or the commission
15 historically accepts those. I think the commissioners can
16 understand the relative value of comments versus
17 evidentiary evidence, testimony that has been presented.
18 But I would suggest in the framework I wouldn't -- my
19 recommendation would be to the commission that it would be
20 fine to accept comments for a seven-day period. It does
21 not become testimony, and I would advise that in fact if
22 you are trying to compare nonprorated pools to market share
23 of prorated pools is not very useful to the division;
24 because, again, we are looking on an individual pool basis,
25 allowables being set for each pool based on all the

1 information that's available for that pool.

2 COMMISSIONER LEMAY: There, again, just to clarify, I
3 think we can collect comments, no matter what they are,
4 statements, from anyone; and therefore they become part of
5 the record. They're not an item that is subject to
6 cross-examination and we recognize that. Therefore we
7 place much less weight on the comments as compared to the
8 sworn testimony by witnesses. But in the framework of
9 wanting to collect market information, I welcome your
10 comments for that purpose. Is that clear or does that need
11 clarification?

12 MR. CAMP: That's what we had planned on doing. It
13 just seemed to us there were -- the testimony by Meridian
14 and Unocal was let's not really look at nominations right
15 now. Let's go back and look at history. That business is
16 a factor in this particular marketplace that we want to
17 address; why that change may have occurred if they're going
18 to bring it in and say it's relevant to look back at
19 history. We can explain why that history has changed.

20 If they're not looking at nominations, and
21 they're saying ignore the nominations right now and
22 basically base it on something based on a historical basis,
23 we just want to counter that. We will submit some other
24 information that will help the commission.

25 COMMISSIONER LEMAY: Again I appreciate that. This is

1 our first hearing on a six-month basis. I solicit any
2 comments on it only because this is a dynamic hearing
3 process as well as an evaluation of a dynamic market. Any
4 time we can get additional information understandably on
5 the market for our gas, we -- the division that Mr. Merrett
6 heads welcomes this information and values it.

7 I am not going to say that it is particularly
8 important to our decision on a pool-by-pool basis to assign
9 the allowables. As you know, and Mr. Stovall mentioned, we
10 don't -- our proration system does not compare pools. Some
11 states prorate on the basis of pool-by-pool comparisons.
12 We don't do that. We protect the correlative rights within
13 a pool, and that looks at a pool's historical market.

14 THE WITNESS: Mr. Chairman, I thank you for the
15 opportunity to come today and I'd just make a few
16 suggestions, a few comments. I do apologize, but I do have
17 a prior commitment, so if anyone wants to ask any
18 questions, I'd ask that they be asked now because I'm about
19 to leave.

20 COMMISSIONER LEMAY: Are there additional questions of
21 Mr. Jones? If not, he may be excused.

22 Mr. Kellahin, in your long list of companies
23 here do you have any other witnesses?

24 MR. KELLAHIN: I would like to call Mr. Zimmerman now,
25 Mr. Chairman.

1 MICHAEL ZIMMERMAN,
2 the Witness herein, having been first duly sworn, was
3 examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Mr. Zimmerman, for the record, would you state
7 your name and occupation?

8 A. Michael Zimmerman. I'm a gas distribution
9 specialist.

10 Q. Where do you have reside, Mr. Zimmerman?

11 A. In Midland.

12 Q. Have you on prior occasions testified before the
13 division examiner when they were discussing the topic of
14 setting minimum gas allowables in the Eumont gas pool and
15 the Jalmat gas pool and testified as an expert on behalf of
16 the your company as a gas marketing specialist?

17 A. Yes, sir, I have.

18 Q. Pursuant to your employment in that particular
19 field, have you continued to monitor not only your
20 production but other operator's production in the Eumont
21 and Jalmat gas pools?

22 A. Yes, I have.

23 Q. Do part of your duties include understanding and
24 following the commission or division decisions in
25 establishing allowables for the production out of those two

1 pools?

2 A. That is correct.

3 Q. Have you made yourself familiar with the
4 preliminary estimates of allowable levels proposed by the
5 division when it submitted its preliminary schedule to the
6 industry by a memo dated February 4?

7 A. Yes, sir, I have.

8 MR. KELLAHIN: Mr. Chairman, we tender Mr. Zimmerman
9 as an expert gas marketing specialist.

10 COMMISSIONER LEMAY: His qualifications are accepted.

11 Q. (By Mr. Kellahin) Mr. Zimmerman, let me direct
12 your attention to Exhibit No. 1. Would identify that
13 exhibit for us?

14 A. Exhibit No. 1 is simply a monthly summary of the
15 Conoco operated Eumont production. You will see the
16 production was down to the 200,000 MCF range in the early
17 summer of 1990. This was due in most part to the low
18 allowable. We had shut in the vast majority of the
19 nonmarginal wells to build up our allowables in the late
20 part of the summer, in June, July, August and September. A
21 low-pressure gathering system was built, and when the
22 nonmarginal wells were connected, they were brought back on
23 line; and as you can see production increased significantly
24 in the total pool there. And I simply just increased it by
25 10 percent assuming all wells would remain at all times.

1 Q. Turning to page 2 of Exhibit No. 1, would you
2 identify and describe the information contained on that
3 page?

4 A. Yes, that's just a brief summary of -- really a
5 graph. As I mentioned, the nonmarginal wells were shut in
6 at the time the lower gathering system was installed. We
7 have seen substantial production increase from both our
8 marginal and our nonmarginal wells.

9 Q. All right. Let's turn to the next display.
10 It's your graph of the nonmarginal wells.

11 A. This simply shows the allowable versus the
12 production in the Eumont nonmarginal market of the Eumont
13 wells. Once all the wells were brought back on line, they
14 have the capacity to significantly exceed the allowable
15 that was assigned to them.

16 Q. Let me have you summarize and try to put this in
17 perspective for the commission. The recent activity in the
18 Eumont wells, the Jalmat Pool, in which each of those pools
19 the -- after taking the evidence, the division entered
20 orders establishing a minimum allowable for those pools.
21 First of all, what was the minimum allowable established?

22 A. It was a minimum allowable of 600 MCF per day an
23 acreage factor of 1 for both the Eumont and Jalmat pools.

24 Q. What was the basic reason for making a minimum
25 allowable for those two pools?

1 A. The basic underlying reason was that the
2 allowables that were being allocated to these pools were
3 too low, and they were artificially withholding gas from
4 the market that the producers desired to produce.

5 Q. What has been accomplished with establishing a
6 minimum allowable for a proration unit as opposed to simply
7 adding an adjustment factor to the pool and assigning a
8 higher allowable to all the proration units?

9 A. The minimum allowable, especially for a
10 six-month period, will allow us as producers to more
11 effectively manage our production. Many of the spot
12 contracts are going away from month to month to a
13 six-month-type arrangement, and it's much easier to
14 negotiate those contracts and plan what you plan to produce
15 knowing that you have a minimum allowable in place.

16 Q. What, if any, benefits do the marginal proration
17 units have by way of receiving a minimum allowable?

18 A. A marginal proration unit now has the incentive
19 to have the production increased to make it a nonmarginal
20 proration unit knowing they can have 600 MCF per day to
21 help pay out that investment.

22 Q. Has the division in preparing Exhibit No. 1,
23 what was introduced earlier, to the best of your
24 understanding, appropriately incorporated the minimum
25 allowable in the Eumont and the Jalmat pools so that the

1 line or row represented as number 4 are the monthly pool
2 allowables; correctly incorporated the minimum gas
3 allowable concept?

4 A. Yes, sir, it does. It's actually -- if you will
5 follow on the top, line 8, 18,300 or 600 per month.

6 Q. The last row 8, the 18,300 represents what?

7 A. That's 600 MCF a day.

8 Q. That's after 35 point -- that's after a factor
9 number for the spacing proration unit for those pools?

10 A. Yes, I believe that it is.

11 Q. Let's go down to the final page of Exhibit No. 1
12 that you have before you today. Following the display is a
13 written summary of the concept of the graph and finally you
14 have a summary page.

15 A. Yes. We would also like to commend all of
16 parties involved in setting the six-month allowable and
17 also the minimum allowables. In summary, we are here to
18 show you that we plan to use the 600 MCF allowable to the
19 best of our benefit. I think we have shown the nonmarginal
20 wells clearly can produce more than the 600, and the
21 allowable books probably do not reflect this production as
22 of yet because of the months of lag between the actual
23 production and when the numbers come in and the allowables.
24 When the May books come out, I think you will see a
25 substantial increase in the production from this pool.

1 MR. KELLAHIN: Mr. Chairman, that concludes my
2 questions, and I move for the introduction of Conoco's
3 Exhibit 1.

4 COMMISSIONER LEMAY: Without objection Conoco Exhibit
5 1 shall be admitted.

6 (Conoco Exhibit 1 was admitted
7 in evidence.)

8 COMMISSIONER LEMAY: Are there any questions from the
9 audience for Mr. Zimmerman?

10 EXAMINATION

11 BY COMMISSIONER CARLSON:

12 Q. What percentage of the Eumont does Conoco
13 produce?

14 A. We're roughly 20 to 25 percent. We also have
15 approximately that same amount in nonmarginal proration
16 factors, 20 to 25 to 30 total nonmarginal proration
17 factors.

18 COMMISSIONER LEMAY: Commissioner Weiss

19 EXAMINATION

20 BY COMMISSIONER WEISS:

21 Q. Looking at Exhibit No. 1, where you have the
22 forecast for month number 11 in '90, is that history?

23 A. This was actual production through 12 of 90.

24 Q. Through 12?

25 A. Yes, sir.

1 COMMISSIONER WEISS: That's all.

2 COMMISSIONER LEMAY: Thank you, Mr. Zimmerman.

3 THE WITNESS: Thank you.

4 COMMISSIONER LEMAY: Mr. Kellahin, do you have any
5 other witnesses?

6 MR. KELLAHIN: I have no other witnesses,
7 Mr. Chairman. Thank you.

8 COMMISSIONER LEMAY: Is there anyone else that wishes
9 to provide testimony here today? If not, we will wind it
10 up with some statements.

11 MR. STOVALL: Before we take statements, I would like
12 to point out one thing which was covered -- that the
13 testimony of Mr. Zimmerman addressed and Mr. Morrow to a
14 certain extent. The two orders for the Eumont and Jalmat
15 pools were entered in the past few months based on
16 hearings. I would like to point out that the rule that
17 Mr. Morrow referred to was actually put in as a criteria
18 for the pool. Recognizing what we learned from those
19 hearings, that may become a significant factor in the
20 future. That if you refer to the rule they have the
21 authority referred to at this time.

22 COMMISSIONER LEMAY: Thank you very much. We will
23 accept statements from Amoco.

24 MR. EMMONS: Mr. Chairman, I am Larry Emmons for Amoco
25 Production Company. I would thank you for the opportunity

1 to present this statement. I would like to compliment the
2 division on its ability after the rules have been put in
3 place to actually get them to work. I'd like to compliment
4 Mr. Morrow, as well as the division, for all the additional
5 effort they put in to try to get this in place first.

6 I had a simple statement. However, that's been
7 expanded a little bit as I have listened to the testimony
8 today. But I would like to -- as it became aware to me and
9 it's obvious to the division, is that the California market
10 I think is expected to continue to grow over the next
11 several years. But the problem is that New Mexico gas is
12 in direct competition with other sources. Even within the
13 mainline that goes to the California market, you have to
14 look at five different categories of gas; that being your
15 prorated gas, your nonprorated casing head gas; the coal
16 gas, then you have also gas that is coming in from outside
17 of New Mexico into a mainline, which I am sure you're all
18 aware of.

19 These factors are putting limits on how much
20 prorated gas actually will leave the San Juan Basin or the
21 state of New Mexico. Therefore, we're concerned that if we
22 look strictly at what we think the market will bear, may
23 overestimate the amount of gas that can actually be
24 produced from that -- from New Mexico.

25 With that knowledge Amoco recommends that since

1 we're implementing a new set of rules to try to act on the
2 allowable problems and production problems we had in the
3 past, let's let those work. We're also entering a summer
4 period that is very similar to the summer period of the
5 previous year. It may be even poorer production due to the
6 seasonal demands. Therefore, it's best that we can go
7 ahead and make the allowables based on the last year's
8 summer production and crank in any upward administrative
9 adjustment. So essentially the April through September
10 allowable should be equivalent to the April through
11 September production from the previous year.

12 This allowable seems realistic since it will
13 represent a seasonal light period production, and it will
14 reflect that it may not be the true market demand that we
15 see in California, but it may represent the imposed market
16 demand based on the capacity constraints that we've had --
17 we have had before us. Should the production increase the
18 first part of this market -- in this summer period, you
19 have by the new rules the ability to bump up the allowables
20 later on in the period. We think it's better to start out
21 with a little lower number than what may actually be and
22 then bump it up, than to start with a higher number and
23 adjust it down. Then you have a tendency to impact your
24 markets.

25 I think that's also reflected by some of the

1 testimony we have seen today. That Mr. Merrett
2 represented -- showed that over the past three years in the
3 summer period that has continually grown in production.
4 However, if you look at Mr. Morrow's exhibit, -- Exhibit 3
5 I believe it is -- you can see that's not coming from the
6 prorated pools, and the prorated pool production has not
7 increased as near in the summer periods as the total
8 production from New Mexico. That's also reflected by some
9 of Mr. Morrow's statement.

10 He said approximately 45 percent of the prorated
11 pools -- the prorated pools represent 45 percent of the
12 production coming out of the state of New Mexico in
13 December of 1990. I think if you look at the 11 months
14 earlier in January, it will be closer to 60, 64 percent of
15 the prorated production represented the market share of New
16 Mexico. So you have seen a 10 to 15 percent drop in the
17 share of the production that the prorated pools have.

18 Therefore, I feel it may be unrealistic or we
19 may have unrealistically high allowables if you crank in
20 the administrative adjustments. Also you have new rules
21 that rely on a January allowable kickoff if you are
22 overproduced or underproduced.

23 It's just one of the things that -- that's
24 something that is new and we recommend that you
25 specifically look at this summer market period since you

1 are going to be assigning that allowable at this time.

2 By taking those and making those
3 implementations, I think you allow for a smooth transition
4 into the new rules by going for the six-month allowable by
5 giving the parties the ability of looking at production and
6 acting on their needs for the six-month period. Give the
7 producers the ability to produce the wells the way they see
8 to best produce those wells. Likewise, it's going to give
9 you the opportunity to see the impact.

10 I think you already started to do that when
11 nonmarginal wells were reclassified as marginal. So you
12 are seeing some of the benefits of changes that you have
13 made so far.

14 As to some of the concerns as to overproduced
15 wells getting more overproduced and therefore not being
16 able to maintain the same production level, I think Exhibit
17 7 of Unocal's exhibits only represents 20 percent of the
18 Basin Dakota pool. That seems to me in a proration you're
19 supposed to prorate production among your wells, among all
20 the operators, not necessarily to make sure every well is
21 able to produce out without having additional production.

22 Meridian looked at allowables and I would
23 suggest the OCD also looked at what the average production
24 was over that time. Because if you look at Exhibit 3 of
25 Mr. Morrow's exhibits, it shows that your production has

1 not really ever come very close to your allowable.

2 Thank you.

3 COMMISSIONER LEMAY: Thank you, Mr. Emmons.

4 Additional comments, statements for the record? Thank you.

5 Yes, sir.

6 MR. KENDRICK: Mr. Chairman, I would like to make a
7 statement in regards to the nomination El Paso Natural Gas
8 Company that was submitted yesterday. Those include only
9 commodity gas and no where in that is any transportation
10 gas.

11 COMMISSIONER LEMAY: Thank you. That is most helpful.
12 Are there any others that want to clarify their nominations
13 as El Paso has done?

14 We may have to make telephone calls to decide.

15 Yes, sir.

16 MR. KUSEK: James Kusek for Northern Natural Gas. I
17 was in the process of doing that, trying to clarify that.
18 I did not get -- the nominations were faxed today and I can
19 give them but I don't have the supporting detail like I
20 would like to have. I would like to give that --

21 COMMISSIONER LEMAY: I will be happy to incorporate
22 them into the record. Thank you. We can use those.

23 Additional comments or clarification statements?

24 If not, we will keep the record open for seven
25 days just to collect information; and as mentioned

1 previously, we weigh that information at a different value
2 than when they've been just comments or when the witness is
3 subject to cross-examination. Thank you. The case will be
4 taken under advisement.

5 (Whereupon, the hearing was concluded at the
6 approximate hour of 11:50 a.m.)

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


4 REPORTER'S CERTIFICATE

5 I, Susan G. Ptacek, a Certified Court Reporter and
6 Notary Public, do HEREBY CERTIFY that I stenographically
7 reported the proceedings before the Oil Conservation
8 Division, and that the foregoing is a true, complete and
9 accurate transcript of the proceedings of said hearing as
10 appears from my stenographic notes so taken and transcribed
11 under my personal supervision.

12 I FURTHER CERTIFY that I am not related to nor
13 employed by any of the parties hereto, and have no interest
14 in the outcome thereof.

15 DATED at Santa Fe, New Mexico, this 15th day of April,
16 1991.

17
18 My Commission Expires:
19 December 10, 1993

20 
21 _____
22 SUSAN G. PTACEK
23 Certified Court Reporter
24 Notary Public
25