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MR. STOGNER: Call next Case 8463.

MR. TAYLOR: The application of David Fasken for termination of prorationing in the Burton Flats Morrow Gas Pool, Eddy County, New Mexico.

MR. PADILLA: Mr. Examiner, I'm Ernest L. Padilla, Santa Fe, New Mexico, for the applicant.

I have an appearance in this case. Originally Mr. Sumner Buell made the application for the applicant.

MR. STOGNER: Call for any other appearances.

MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of Santa Fe, New Mexico, appearing on behalf of Cities Service.

MR. STOGNER: Any other appearances?

MR. KENDRICK: H. L. Kendrick, El Paso Natural Gas.

MR. STOGNER: Are there any other appearances in this matter?

If not, will all witnesses please stand to be sworn at this time?

(Witnesses sworn.)

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JAMES B. HENRY,

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. PADILLA:

Q Mr. Henry, for the record would you please state your name and where you reside and what your connection is with the applicant?

A My name is James B. Henry. I reside in Midland, Texas. I have a consulting engineering firm of Henry Engineering that represents Mr. Fasken in engineering matters and also we operate his producing properties. We do all of this drilling and take care of his properties on a long term retainer and have been in that relationship with Mr. Fasken and his family since 1964.

Q Will you tell us briefly what the purpose of today's hearing is?

A The purpose of today's hearing is to ask the Commission to rescind the prorationing of the Burton Flat Field, that is, the Burton Flat Morrow Gas Pool, in Eddy County.

We're asking that that be rescinded because we believe the field is over the hill and has reached a stage of depletion such that prorationing is no longer effective and is, in fact, having an adverse effect on the

1 production from the field.
2

3 Q Now, Mr. Henry, what is your experience
4 with the Burton Flats Pool and then also what is your exper-
5 ence with the Morrow formation in general in the area of
6 the Burton Flats Pool?

7 A Well, I've been associated with Morrow
8 Sand development in Eddy County for the last twenty years.

9 We have drilled and completed some fifty
10 wells in the Burton -- in the Eddy County Morrow trend.

11 We've been associated with Burton Flat
12 early on because of acreage in the proximity of the field.

13 I have drilled and completed five wells
14 in the field.

15 Q Have you previously testified before the
16 Oil Conservation Division or the Oil Conservation Commission
17 and had your credentials accepted as a matter of record?

18 A Yes, I have.

19 MR. PADILLA: Mr. Examiner, we
20 tender Mr. Henry as an expert petroleum engineer.

21 MR. STOGNER: He is so quali-
22 fied.

23 Q Mr. Henry, let me refer you to what we
24 have marked as Applicant's Exhibit Number One and have you
25 identify that and tell us what it contains.

A Exhibit Number One is a map of the Burton
Flat Morrow Gas Pool.

The area shaded in yellow is the acreage

1
2 included in that pool according to the Oil Conservation Div-
3 ision's nomenclature.

4 You'll note down here that this encompass-
5 es part of four townships, being Township 20 South, Range
6 27 East, Township 20 South, Range 28 East, Township 21
7 South, Range 26 East, and Township 21 South, Range 27 East.

8 With respect to Township 21, 27, in Sec-
9 tion 19 there are two wells in that section that are pro-
10 rated on the proration schedule in the Burton Flat Field
11 that are not included in the nomenclature.

12 There's also a window in Section 28 of
13 20, 28, that's excluded from the nomenclature.

14 Q Mr. Henry, you've labeled the wells in
15 that field with different colors. Can you explain to the
16 Examiner what your symbols mean?

17 A Okay. All of the wells that have been
18 circled and highlighted in the orange color are the marginal
19 wells in the Burton Flat Morrow Gas Pool.

20 You will note that some of these, up at
21 about 11:00 o'clock on the orange circle, have a little red
22 dot and those are the marginal wells in the Burton Flat
23 Field that do not have any allowable at all. They're listed
24 as marginal but on the January, 1985, proration schedule
25 they were devoid of allowable noted on there.

26 I might say that there are two red dots.
27 They are a little hard to tell from the orange dots.
28 There's one in Section 19 of 21, 27, in the section that's

1
2 prorated but not in the nomenclature, and there's one up in
3 Section 26 of 20, 27, and those are listed on the proration
4 schedule as new completions, and they've been carried that
5 way, I believe, the last three proration schedules, being
6 November, December, and January proration schedules.

7 The wells circled in blue, there are six
8 of them in the field, are nonmarginal wells that are under-
9 produced, indicating that they're not making their allowable
10 or at least are not being produced at their allowable.

11 The wells with the green hexagons, there
12 are six of them, represent the top allowable nonmarginal
13 wells in the field that are overproduced.

14 Q On an eyeball basis of most of the wells
15 on the -- shown on Exhibit One are marginal wells. Is that
16 --

17 A Yes, they are.

18 Q -- a correct eyeball view? Okay.

19 A I might point that there are -- in these
20 proration schedules included in the nomenclature there are a
21 lot of those that have never been drilled and some that have
22 -- many that have been abandoned.

23 Q Mr. Henry, while we're on Exhibit Number
24 One, would you point to the Examiner where other Morrow
25 Fields in relation to the Burton Flats Morrow Pool?

 A Yes. To the north of this field we have
an Angel Ranch Morrow Gas Pool that comes within one-half
mile of this field, and along the south line of Section 6 of

1
2 20, 28, and along the south line of Section 1 of Township
3 20, 27.

4 Q Is that a prorated gas pool, Mr. --

5 A No, it is --

6 Q -- Henry?

7 A -- not. It's a non-prorated Morrow gas
8 pool.

9 The East Burton Flat comes within a half
10 a mile of this field up in the northeast corner, Section 12
11 of 20, 28 is the East Burton Flat, which is a non-prorated
12 Morrow gas pool.

13 Down to the south, coming around the map
14 clockwise, or around the pool clockwise, in Section 23 and
15 Section 28 and Section 34, of 21, 27, the East Carlsbad Mor-
16 row non-prorated gas pool is contiguous to this pool.

17 On the immediate south, along the south
18 lines of Sections 32, 33, and 34, of Township 21, 27, the
19 field is contiguous to the South Carlsbad Morrow Gas Pool,
20 and over to the west, starting up in -- well, we start in
21 Section 2 of Township 21, 26, we'll find that the south line
22 and east line of that are contiguous with the Avalon Morrow
23 Field, and going on up into Township 20, 27, there's two and
24 a half miles of contiguous boundary there, being along the
25 boundary lines of Sections 22, 27, and 34.

23 Q Mr. Henry --

24 A And that is a non-prorated gas pool.

25 Q -- are all of those pools that you have

1 mentioned non-prorated?

2 A Yes, they are.

3 Q And they're producing from the Morrow
4 formation.

5 A They are producing.

6 Q Let's go on now to what we have marked as
7 Exhibit Number Two and have you tell us what that is and
8 what it contains.

9 A Okay. Exhibit Number Two is a recap of
10 the proration schedule data for November, 1984, December,
11 1984, and January, 1984.

12 If you look at the first line there, it
13 says the number of proration units per nomenclature is 126
14 proration units in this prorated area of the Burton Flat
15 Morrow Gas Pool.

16 You'll note that the sections along the
17 north line of Townships 21, 26, and 21, 27, are 900-plus ac-
18 re sections that have been elongated by the surveying in the
19 past and are now governmental sections but actually each of
20 those contains three proration units.

21 The proration schedules for November
22 listed 73 wells; the one for December '84 listed 72; and in
23 January, 1985, there were a total of 72 wells on the prora-
24 tion schedule.

25 I've broken those down into three cate-
gories and then I've broken down two of those categories in-
to -- into two sub-categories.

1
2 The three basic things here are the new
3 connections, which are two wells. If you'll follow the cen-
4 ter line of each of these columns of numbers you'll find
5 that there are two wells that are new connections in Novem-
ber, two in December, and two in January.

6 With respect to marginal wells there were
7 59 in November, 58 in December, and 58 in January, and the
8 non-marginal wells dropped down a couple of lines, there are
9 12 of those.

10 Within the marginal wells the upper num-
11 ber is the number that have allowables and the lower number
12 there are the marginal wells without allowables. So, as you
13 can see, the marginal wells without allowables have in-
14 creased from 8 to 12 during this three-month period and the
15 non-marginal wells with allowables have decreased corres-
pondingly.

16 Down in the marginal or non-marginal --
17 down in the non-marginal wells we find that we have two cat-
18 egories listed here, the underproduced and the overproduced
19 and starting out we have to -- in November, 5 underproduced
20 wells; December, 5 underproduced wells; and 6 underproduced
21 in January of '85, while the non-marginal overproduced wells
were 7, and 7, and 6 for those three months.

22 So it's indicating the -- from the prora-
23 tion schedule, that most of these wells are marginal and the
24 new connections will, I believe, go marginal, at least they
25 are not being produced at top allowable rates, and they are

1
2 generally in an overproduced category because they do not
3 have any allowable at all assigned to them on the proration
4 schedule.

5 The larger proportion of these wells, of
6 course, are marginal. There are very few left that are
7 still in the prorated category or that are being affected by
8 the prorating of this field.

9 Q Referring back now to Exhibit Number One,
10 Mr. Henry, what is your description of the wells that you
11 have in a -- well, in green in a hexagon? What --

12 A As you'll notice, those wells represent-
13 ing the non-marginal wells that are overproduced, indicating
14 that they have producing capacity in excess of the allow-
15 able, are widely scattered. There are no two of them closer
16 than a mile and a half to each other. You can -- they are
17 widely scattered. They are -- they're in all four of the
18 townships here and we think that these are isolated sand
19 lenses that are not being affected by prior depletion and
20 that they're very poor communication in this, as in all Mor-
21 row fields. We do not see that the Burton Flat Field has
22 any unique characteristics with respect to sand continuity
23 that's not present in most other Morrow gas pools, which are
24 characterized by limited capacity reservoirs, a multiplicity
25 of them that are very tortuously connected, if at all, over
any very large distance, and by very large distance I mean
over any more than one proration unit.

Q Is the David Fasken well in Section 1 of

1
2 Township 21 South, Range 26, typical of that description?

3 A Yes, it is. I'd like to refer to this as
4 a 281-acre non-standard unit in the north unit of this long
5 section, being Section 1 of 21, 26.

6 There are three marginal wells offsetting
7 it to the north that we operate for Mr. Fasken, being the
8 Maralo Federal 1 and 2 in Section 35 of 20, 27, and the El
9 Paso Federal No. 5, located in Section 1 of 20 --21, 26.

10 Now, this green highlighted well there,
11 the Gulf Federal No. 1 of David Fasken's, was the last well
12 drilled in that area, and it is the best well at the present
13 time.

14 I'd also like to point out that not high-
15 lighted immediately to the southeast of that well there is a
16 No. 3 Well that was drilled, we drilled for Mr. Fasken. We
17 completed it. It potentialled for 11,000,000 feet of gas a
18 day from the Morrow, or had a deliverability of over
19 11,000,000 on initial completion. It had produced, de-
20 pleted, abandoned in the Morrow and plugged back to a Canyon
21 zone, and this green hachured well, that Gulf Federal No. 1,
22 drilled in the other end of that old proration unit, is a
23 replacement well for that proration unit, and found essen-
24 tially virgin pressure.

25 Q Looking at this particular area and com-
paring the David Fasken wells in Sections 1 and 35, how do
those wells compare with the wells that David Fasken oper-
ates in the Avalon Field?

1
2 A They are very similar wells. We operate,
3 immediately to the west of Section 1, three wells in Section
4 2 and three wells in Section 3 for Mr. Fasken, and they are
5 prorated in the Avalon -- not prorated, they're nonprorated
6 wells in the Avalon Morrow Pool, and the -- while the sands
7 are hard to correlate across here, there are occasions when
8 you can correlate a little stringer here and there, but we
9 do not see any really effective communication between those
wells.

10 Q Let's go on now to what we have marked as
11 Exhibit Number Three and have you tell us what that is and
12 what it contains.

13 A Okay. In Exhibit Number Three in the
14 first column here I have reproduced the last column of Exhi-
15 bit Number Two for clarification here, and I have in the se-
16 cond column labeled a percent of field, and what I'm trying
17 to show here is that of the 126 proration units in the Bur-
18 ton Flat Field, and of course that represents 100 percent of
19 the field, the active wells in there are 72 active wells,
20 which represents 72 proration units, or really 70 -- yeah,
21 72 proration units for those, would be 57.1 percent of the
22 field now has an active well of any kind in it, which means,
of course, the balance, or the 42.9 percent of the field has
either been abandoned or never drilled.

23 There are two new completions in the
24 field. They represent 1.6 percent of the proration units in
25 the field.

1
2 There are 58 marginal wells in the field,
3 which represent 46 percent of the total field area.

4 There are within that 36 percent of the
5 proration units in the field have some sort of marginal al-
6 lowable. 9-1/2 percent do not have any allowable, of the
7 wells that are on the proration schedule.

8 Of the non-marginal wells there are 9-1/2
9 percent of the field covered by those wells and only 4.75
10 percent are overproduced, indicating that they have ability
11 to make their allowable or have been produced, at least.

12 Q Is that all you have on Exhibit Number
13 Three, Mr. Henry?

14 A Yes, it just shows the percentages of
15 those items in the field.

16 Q Let's refer now to what we have marked as
17 Exhibit Number Four and have you tell us what that is and
18 what it contains.

19 A Exhibit Number Four is a comparison of
20 the gas nominations for the Burton Flat Morrow Gas Pool com-
21 pared with the gas production and with the overproduction
22 status of the field as reflected on those proration sched-
23 ules.

24 Now the gas nominations at the hearing
25 and those listed on the proration schedule are very, very
slight discrepancy. I don't know what -- do not know what
accounts for that, but these are the ones that came from the
Statehouse Reports, I believe, is where most of these came

1
2 from as to the gas nominations.

3 They -- they check very closely with
4 those on the proration schedule.

5 Q What conclusions do you draw from that
6 Exhibit Number Four?

7 A You'll notice that beginning in Septem-
8 ber, 1984, the gas nominations were 696,410 mcf per month.
9 The gas production was only 530,454, and you'll notice the
10 similar comparison on down through there, that the gas pro-
11 duction is following a trend substantially lower, by about
12 25 to 30 percent lower than the gas nominations, which indi-
13 cates to me that the field is being restricted here by the
14 shut-in overproduced wells to producing less than the demand
15 for gas. The only thing that has worked to advantage here
16 is to reduce this overproduction figure and the field got in
17 this status, of course, earlier than this by being overpro-
18 duced, which indicates that prior to September there was a
19 demand for gas greater than the allowable or the wells
20 wouldn't have been overproduced.

21 Q Does that conclusion unduly restrict
22 David Fasken's ability to produce out of his well in Section
23 12?

24 A Yes, it reduces David Fasken's well and
25 all the other nonprorated, or excuse me, nonmarginal wells
in the field, and we do not see that it serves any purpose
to continually restrict that well when the gas takes have
been above the allowable. The well was shut in temporarily

1
2 to reduce that allowable for about three months. We now
3 have another exhibit we'll show that shows that this demand
4 has now increased due to a request from the pipeline.

5 Q You're referring to Exhibit Number Five,
6 is that correct?

7 A Yes, that is.

8 Q What does that show?

9 A That letter -- that exhibit is a repro-
10 duction of a memorandum from Mr. Stamets issuing a morator-
11 ium on the wells shut in for overproduction in fields in New
12 Mexico, and you'll notice on the third line, second listed
13 field down in the subparagraph, that Burton Flat Morrow is
14 included in this.

15 So the field is not being produced at the
16 nominations. The make-up of the overproduction is working
17 against the oil producers here and against the pipelines in
18 that they'd requested additional gas from the field.

19 And the last paragraph of that takes note
20 that the overproduction during this moratorium will be accu-
21 mulated and serve to shut the well in further when it is --
22 when this 90-day moratorium is over we'll be in a substan-
23 tially overproduced position.

24 Q When, Mr. Henry, was the Burton Flats
25 Morrow Pool originally prorated?

A It was prorated in 1974. The date of
that order, I believe, was January the 16th.

Q I've got a copy here.

1
2 MR. PADILLA: Mr. Examiner, we
3 request the Division take administrative notice of Order No.
4 R-4706.

5 MR. KELLAHIN: Excuse me. Do
6 you have extra copies of those orders available for us?

7 MR. PADILLA: Certainly.

8 MR. STOGNER: This Examiner
9 will take administrative notice of the said order.

10 MR. PADILLA: I've included ex-
11 tra copies, Mr. Examiner.

12 MR. STOGNER: Okay.

13 Q Mr. Henry, what conditions existed in the
14 Burton Flats Morrow Pool that do not exist today in respect
15 to this case?

16 A At the time the field was prorated there
17 were six wells in close proximity to each other producing in
18 the Burton Flat Field. That's set out in Finding Number
19 Nine of the Commission in respect to that case, and at that
20 time the wells were producing according to Finding Number
21 Nine 29,300 mcf per day. That extends to 879,000 mcf per
22 month, and you'll note back on Exhibit Number Four that that
23 is about the present nominations for 126 proration units.

24 So the field at that time had some very
25 high capacity wells.

26 Now, I think that the Commission took
27 note of that and the fact that at that time, as set out in
28 Finding Number Three, there were three pipelines in the

1
2 field, and to assure ratable take at this early stage the
3 Commission prorated the field and I think very wisely did
4 so. At that time there was a need for prorationing in the
5 field and we don't question that at all.

6 Our point now is that this field has out-
7 lived its necessity for that prorationing.

8 Q And is that because of the great number
9 of marginal wells in the field?

10 A Great number of marginal wells and the
11 fact that there's more demand for gas than the field is able
12 to produce at the present time.

13 And that's a very unusual condition in
14 these days of excessive gas production.

15 Q Mr. Henry, do you have anything else to
16 add to your testimony?

17 A No. I might take note of the other find-
18 ings in that case that set out that the -- particularly
19 Finding Number Twenty -- that the stringers of sand in this
20 field are not continuous across the pool but are intercon-
21 nected by the perforations in various completions in the
22 pool.

23 That was a finding of the Commission
24 there and they -- this was a Commission-called hearing and
25 the Commission's engineer, Mr. Nutter, and their geologist,
Mr. Ulvog, both concurred in the fact that these were dis-
continuous stringers and the prospect of their being inter-
connected at the wellbore represented that possibility of

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continuity.

I would submit to you now the high capacity wells are separated by more than a mile distance and I think you would find that it is very unlikely that any of the high pressure, or the overproduced nonmarginal wells have the same sand stringer productive in them.

MR. PADILLA: Mr. Examiner, we pass the witness for cross examination.

MR. STOGNER: Mr. Padilla, at this time would you like to submit the --

MR. PADILLA: Certainly would. Offer Exhibits One through Five, Mr. Stogner.

MR. STOGNER: Is there any objection?

If not, these exhibits will be admitted into evidence.

Mr. Kellahin, your witness.

MR. KELLAHIN: Thank you, Mr. Examiner.

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Henry, you're a petroleum engineer, are you not, sir?

A Yes. I am.

Q What's your relationship to Bill Henry? He's your brother, isn't he?

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A He is not.

Q You're really not related?

A We're friends. Our relationship is friends.

Q All right. How long have you been involved, Mr. Henry, in the Burton Flats Morrow Gas Pool in Eddy County, New Mexico?

A I've been involved with it since its inception of drilling and the -- we've had an ongoing exploratory program in Eddy County since 19 -- about 1964 that I've been associated with it. Our client had some association with the Eddy County Morrow prior to that time and some non-operated wells, going back, I believe, to about 1961.

In connection with my retainer I have maintained a file of all the Morrow completions in Eddy County. We order all the logs. We review all the published data and any other data we have access to, to study the completion techniques and the producing trends of the Morrow, and so very early on, as fast as the logs were released we've acquired those and studied Burton Flat Field.

I drilled the first well in the Burton Flat Field in about 1974.

Q You said that you thought originally back in 1974 that the conservation practice of prorating this pool was a good idea then.

A Yes.

Q As a petrolroleum engineer, Mr. Henry,

1
2 would you describe for us what elements are necessary, in
3 your opinion, to establish prorationing in a gas pool?

4 A I would refer back to the transcript of
5 the original hearing and say that I concur with the four
6 reasons that Mr. Nutter set out in there as to why this
7 field should be prorated, and --

8 MR. STOGNER: Mr. Henry, what
9 case number is this?

10 MR. KELLAHIN: Excuse me, Mr.
11 Examiner, for your convenience we'd like you to take admin-
12 istrative notice of Case 5111, I believe is the right por-
13 tion.

14 A I have an excerpt from it here. I do not
15 have the case number.

16 Q All right. The original case in '74 was
17 a consolidation of two cases, one for the Strawn Gas Pool;
18 the other for the Morrow Gas Pool. The testimony of Mr.
19 Nutter, I think, in this transcript applies to both, and for
20 your convenience, sir, in order to follow Mr. Henry, if you
21 --

22 A I found the case number, Mr. Examiner.
23 It's 5111.

24 MR. STOGNER: All right, this
25 hearing will take administrative notice of Case Number 5111.

Now what page are you on now?

26 A I'm referring to page 36 and I'm saying
27 that I concur with what Mr. Nutter said in that case, that

1
2 the first of these -- in answer to a question, what are the
3 principal factors that the Commission considers in deter-
4 mining whether gas prorationing is necessary, Mr. Nutter's
5 reply was, the Commission has four basic parameters for de-
6 termining whether to institute gas prorationing in any given
7 gas pool.

8 The first of these is whether the pro-
9 ducing capacity of the reservoir is in excess of the appar-
ent market demand for the reservoir.

10 The second parameter is whether there is
11 in the gas pool more than one purchaser.

12 The third parameter considers whether
13 there are nonstandard proration units in the field; that is,
14 units which contain either more or less acreage than the
standard units for the pool.

15 And fourth, the fourth basic considera-
16 tion is whether there are unorthodox locations which have
17 been approved in the pool and which have penalty factors ap-
18 plied to them because of their unorthodox locations.

19 I believe that I could adopt those rea-
20 sons as my own.

21 Q Is it not a fair statement, Mr. Henry, to
22 say that as a conservation practice this Commission, and
23 other Commissions in gas pools, will address prorationing
24 when the supply or the ability of the wells to deliver gas
to the market exceeds the market?

25 A That's correct.

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Q That is one situation in which a conservation commission considers gas prorationing.

A I would think that's one that Mr. Nutter said right here.

Q In addition, when there is a greater market than a supply, the Commission can also consider that gas prorationing may be necessary for a pool in order not too quickly to expend the energy of the reservoir by producing the existing wells too fast.

So in either situation we can see conservation in gas prorationing, can we not?

A I would say that if the supply of gas available for sale exceeds the market, then it needs to be prorated.

Q All right, and what if the supply of gas does not exceed the market?

A If the supply of gas does not exceed the market, then I do not feel that prorationing, that factor in prorationing, to be taken into consideration.

It would not be a criteria for necessarily prorating the field.

Q The existence of multiple pipeline purchasers in '74, I believe you said there was three?

A Yes.

Q How many pipeline purchasers are there now? I believe there are nine, Mr. Henry.

A There are ten in there now.

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Q All right.

A There -- and I believe that three of these, Cities Service Oil Company, Monsanto Company, and Harvey E. Yates, I do not believe are more than gatherers in here that resell to other pipelines. I cannot speak specifically to that, but that's my impression because there are areas where we're listed as a pipeline, that is, David Fasken is listed as a pipeline, and his sole purpose is to gather and resell the gas at a common sales point.

So as far as the real pipelines in there now, there are Cabot, El Paso Natural Gas, Natural Gas Pipeline Company of America, Llano, Incorporated, Transwestern Pipeline, Gas Company of New Mexico, and Phillips Petroleum.

It's my understanding that Phillips is a low pressure line and it takes gas from wells that are not capable of producing into a high pressure line.

Q I believe you told us that there are 72 proration units currently in the pool.

A Yes.

Q Within the limits of the pool are there any proration units that have not in the past or now have wells in this pool?

A Yes. There are 54 of them that do not now have an active well.

Q All right.

A In the Morrow. In the Morrow, I'm saying.

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Q Yes, sir, I'm concerned about the Morrow.

A Okay.

Q So within the pool we've got 54 proration units that don't have producing Morrow wells on them.

A That's correct.

Q What portion of the current allowable for this pool can be produced by the nonmarginal wells?

A What percent can be produced?

Q Yes, sir.

A I do not have the capacity data on the wells.

The David Fasken well is today producing at 2-1/2-million feet a day and I do not have the -- the back pressure test, nor the deliverability test of the other operators' wells.

Q Of the 72 proration units, what portion of those proration units are nonmarginal, meaning nonmarginal underproduced and nonmarginal overproduced?

A They're shown on Exhibit Number Four, excuse me, Exhibit Number Three.

Q And we have a total of twelve.

A Yes. Six underproduced category and six in the overproduced category.

Q And we do not know, or we haven't made the study to determine, what the capacity of those twelve wells are to deliver what portion of the allowable assigned to the pool.

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A No, we have not.

Q Would the fact that the pool currently cannot deliver the amount of gas allocated to this pool under the allowable, would that not be a factor that would encourage operators to go out and further drill in this pool?

A If they were assured that they could produce the wells at capacity, that would be a factor.

To go out there and drill a well that's going to be artificially restricted, I would say no.

As a matter of fact, we have done that very thing here with the Fasken Gulf Federal No. 1 Well that I referred to in Section 1 of 21, 26. That was the specific reason for drilling the well.

Q Can you tell us which of the marginal wells in the pool will be abandoned without the benefit of the marginal well status allowed by gas prorationing rule?

A I'm sorry, I didn't follow your question.

Q Yes, sir.

A Would you state that again, please?

Q Yes, sir. Will the elimination of gas prorationing have any adverse effect on marginal wells --

A No.

Q -- that are now marginal because of the rule?

A No.

Q Why not?

A Wells would be allowed to produce at ca-

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2 capacity.

3 Q Only so if -- only so long as we have a
4 condition where the market demand exceeds the current capa-
5 city of the pool to produce.

6 A Not necessarily.

7 Q All right, if the deliverability of the
8 pool wells exceeds the market, then in that situation there
9 would be an effect on marginal wells.

10 A In the -- yes, in that that has been ad-
11 dressed by us specifically in the Avalon Morrow Field
12 immediately to the west. We've seen no adverse effect from
13 this in an identical situation.

14 The El Paso Gas Pipeline Company that's
15 connected to our wells tells us they only have a market for
16 so much at their California border and when the gas -- we
17 obviously can't sell them more gas than they can sell, and
18 they call us up on Thursday and, as an example, and tell us
19 they'd like the wells shut in till Monday, and we shut them
20 in till Monday and open them back up, and this goes on with
21 respect to marginal wells; they occasionally give us a
22 schedule of which wells they'd like to have shut in and they
23 try to rotate those wells, and -- that's between the produ-
24 cers, and I believe that same thing would work with any
25 pipeline in any field, and I might say that I don't see any
problems with that in any of the other nonprorated fields.

26 Q Can you tell us how many times overpro-
27 duced the Fasken's Well is?

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2 A It's overproduced in January the 1st
3 about 400,000. I believe it's on the proration schedule.
4 Just a moment and I'll read that to you.

5 MR. STOGNER: Let the record
6 also show that we will take administrative notice of the
7 January, 1985, proration schedule.

8 A Okay, that proration schedule shows that
9 the Fasken well, has an overproduced status of 349,911 mcf.

10 Q And El Paso is the gas purchaser for the
11 production from that well?

12 A Yes, they are.

13 Q Can you identify for us, Mr. Henry, the
14 gas purchaser for the nonmarginal, underproduced wells?

15 A In the Burton Flat Field?

16 Q Yes, sir, in the Morrow Field.

17 A Okay. Okay, the Mobil Producing Texas
18 and New Mexico Federal 12 Com Well is connected to Gas Com-
19 pany of New Mexico.

20 The Monsanto (not understood) Federal is
21 connected to Transwestern.

22 The Cities Service Tracy Com A No. 1 is
23 connected to El Paso.

24 The Cities Service Government AG-1 is
25 connected to El Paso.

The Elizondo A Federal No. 3 is connected
to El Paso. Those are all Cities Service wells.

And the Texas Oil and Gas Pioneer Federal

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2 -- I'm sorry, that well is a new connection and it doesn't
3 apply.

4 I believe that covers the six wells. Did
5 I cover them all?

6 Q No, sir, I end up with five.

7 A Beg pardon?

8 Q I ended up with five. GasCo's got the
9 Mobil Texas Well.

10 A TXO Pioneer Federal, yes, that's the one.
11 It's connected to Cabot Pipeline.

12 MR. STOGNER: Mr. Henry, is
13 that the Challenger Well or the Pioneer Well?

14 A It's the -- I'm sorry, it's the Challen-
15 ger Well, it is.

16 MR. STOGNER: Okay.

17 A I beg your pardon. They're in the same
18 section but it is the Challenger Well. That is the Texas
19 Oil and Gas Challenger. I'll stand corrected.

20 Q Let me direct your attention, Mr. Henry,
21 to the three Cities Service wells connected to El Paso --

22 A Okay.

23 Q -- that are nonmarginal and underproduced,
24 in relation to the Fasken well that is connected to El Paso
25 that is nonmarginal and overproduced. What causes that to
happen, do you know?

A I do not have any idea.

The Fasken well is overproduced because

1
2 the -- as long as El Paso would take the gas we sold it, and
3 until we reached the overproduced status, which the Commis-
4 sion shut us back because we had exceeded the limit on the
5 old production.

6 Q Some of these nonmarginal wells in an un-
7 derproduced status have been shut in for some time, have
8 they not?

9 A I do not know.

10 Q All right, let's look at the proration
11 schedule on the Mobil Texas 12 Com Well.

12 A Just a moment.

13 Q All right, sir.

14 A Mobil Texas Federal 12, is that the one
15 you're asking about?

16 Q Yes, sir.

17 A All right.

18 Q Can you tell whether or not the produc-
19 tion of that well's been shut in?

20 A The well is underproduced by 287,006 mcf
21 and it did not produce any in November and that's the last
22 record I have on it, is what's in the proration schedule,
23 and I would assume, being underproduced and no production,
24 that the well's not capable of production. But I would --
25 that would be the only logical reason I could see for it.

26 Q When we use the phrase "ratable take",
27 Mr. Henry, what does that mean to you?

28 A Ratable take means to me that it has been

1 taken in conformance with the proration schedules.
2

3 Q Has El Paso, in this pool, taken ratably
4 between the Cities Service well and the Fasken well?

5 A I don't know what the Cities Service sta-
6 tus was, whether they were available for sale or not.

7 El Paso furnished us, and I assume would
8 furnish any other gas purchaser, a schedule in which they
9 show the number of days that the well is open to the pipe-
10 line for production. If you would refer to that you could
11 find out whether it was produced or not and Cities Service
12 would have that in their records.

13 We have a similar form in our records,
14 and the days that they are open to produce, we produce, and
15 when they -- El Paso has us shut in, we shut it in.

16 Q What will be the effect, if any, of the
17 elimination of prorating in this pool on ratable take?

18 A At this point I see only 4.5 percent of
19 the field, or six wells, that are being prorated at all.
20 The unproduced nonprorated wells are producing at their ca-
21 pacity. The nonmarginal wells are producing at their capa-
22 city. The overproduced wells are the only ones being pro-
23 rated and there's demand for that gas as evidenced by the
24 fact that they are overproduced, and to me it seems undue
25 restriction on those wells, that everything else in the
field is allowed to produce at capacity. We're being, we're
discriminating against the good wells in the field, as I see
it at this point in time; not intentionally by anyone, but

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2 it's something that has come about as an historical accident
3 here, that this field has gradually outlived its need for
4 prorationing.

5 Q How many different pipeline companies are
6 taking the gas from the twelve nonmarginal wells?

7 A Well, the -- back to the statistics I
8 have would be for the November proration schedule in 1984,
9 and at that time there were seven overproduced wells in the
10 field and three were overproduced on El Paso connections,
11 one was overproduced on a Llano connection, two were over-
12 produced on a Natural Gas Pipeline connection, and one was
13 overproduced on a Transwestern connection.

14 I did not extend this for the last prora-
15 tion schedule and there's been a change of one in those
16 times as to which wells were overproduced, and I'm not sure
17 which -- which well that was. We can figure it out, if you
18 like.

19 Q Will the gas proration schedule also tell
20 us which wells are split connections? In other words, which
21 wells have production that is taken by more than one pipe-
22 line?

23 A The split connections are listed on the
24 proration schedule.

25 Q All right, and we have in this pool those
type of connections made.

A There are. There's even a multiple well
unit up in Township 20, 27, which there are two wells on one

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proration unit.

Q Do you know what portion of the allowable set for the Burton Flats Morrow Gas pool is made up of nominations by the various pipeline purchasers?

A I do not have a breakdown by -- by purchaser of that.

Q Is there a schedule or a compilation of that information at the Oil Conservation Division office?

A I do not know. I would assume so but I don't know that for sure.

Q Have you made any determination of why the underproduced nonmarginal wells are not in an overproduced status?

A No.

Q You don't know if that's a factor of capacity or whether it's simply compliance by the operator with prorating?

A I could direct your attention to the fact that there -- with respect to the Mobil well that you mentioned earlier connected to the Gas Company of New Mexico, it has a zero allowable, or it had zero production in November. It has an allowable, top allowable assigned to it for January and it had no November production, whereas the non -- or whereas the marginal wells showed November production. So you have to conclude, if they're taking ratably from the field with respect to their connections, that natural gas -- Gas Company of New Mexico was not offered any gas.

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And I don't know about the Cities Service wells there. I believe Mr. Motter could probably tell us about that.

Q You made reference to a particular finding in the Division Order R-4706 that established gas prorationing and you made reference to Finding Twenty.

Are you proposing or have you proposed in the past any other type of allocation formula for prorationing other than the straight acreage formula adopted and used for this pool?

A I've never proposed any, not even that one.

Q With regards to the possible methods of allocating production under a proration formula, do you believe the straight acreage formula used by the Commission over these years is the one that's most equitable if prorationing is to be applied?

A If you'll read all the findings, of the Commission, and I don't have the specific ones here, they adopted that as a compromise, the fact that the stringers were discontinuous, they were not uniform. The, one of the findings were, I believe, that you couldn't -- a number of things that you couldn't use for prorationing, one of which was acre feet, and if you'd like, we can review those here.

Q Well, let's start with the first one, Mr. Henry.

I think one of them was an acre foot, in

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2 other words effective feet of pay and the pore volume was
3 one of the possible ways to develop a formula that Mr. Nut-
4 ter discussed back then. He said there wasn't enough infor-
5 mation data to make that work.

6 A That's my recollection of his testimony.

7 Q Is that still true today?

8 A Yes, that is more true today than at that
9 time because at that time there was the prospect that they
10 would find a large, continuous sand. We all had that dream
11 early on in the Morrow development, that we were going to
12 somewhere find that giant field that was interconnected and
13 to date it has eluded all operators that I know anything
14 about.

15 Q One of the other possible choices Mr.
16 Nutter discussed in that hearing was past production and
17 pressure decline from the wells as a way to develop a for-
18 mula for proration.

19 A Has that premise changed or has addi-
20 tional data been developed from which you could now prorate
21 the pool based upon such a formula?

22 A No, you could not, because the perfor-
23 mance of the wells indicate individual reservoirs in more
24 cases than multiple well reservoirs of any sort in here, and
25 by multiple I mean as many as two wells in the same reser-
voir, and possibly here we'd have two or three wells in the
same reservoir, but not anything on a widespread basis, and
to that extent we don't know what extent perforating those

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2 in the wellbore communicated those to those stringers.

3 Q I believe Mr. Nutter talked about another
4 possible formula based upon deliverability of the wells.

5 A Yes.

6 Q Would that be possible to do now in order
7 to improve upon the proration formula?

8 A I think that at this time the deliverabi-
9 lity is a measure of the well's capacity to produce.

10 I'm not proposing that the very low capa-
11 city wells be shut in in proportion to the high capacity,
12 and I believe that's what your question is directed to.

13 Q And I believe --

14 A And I think there are some thresholds
15 production that we should not go below in here to maintain
16 an economic rate of recovery, particularly in view of the
17 Natural Gas Policy Act that allows special treatment for
18 marginal wells with respect to price, and with respect to
19 enhanced recovery operations.

20 We have installed a large number of field
21 compressors here to take gas from these lower wells, and
22 some of them have two and three stages of compression, two
23 or three compression points prior to going into the pipe-
24 line, and in those cases now it's a very complicated system
25 to balance and El Paso asking us to change the flow rate two
or three times a week, all we're doing is venting gas be-
cause the compressors are down, and I do think those should
be taken into account and I do not believe that there should

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2 be anything here other than the capacity to produce by eli-
3 minating proration and letting this thing operate as the
4 other fields that are nonprorated operate.

5 Q Let me make sure I understand what you've
6 told us about the possibility of putting into the proration
7 formula a factor based upon deliverability as a way to im-
8 prove the formula, thereby helping Mr. Fasken and protecting
9 the correlative rights of others.

10 A Can we --

11 Q I don't know --

12 Q Can we modify the proration formula to
13 include a deliverability factor that will help Mr. Fasken?

14 A I have not made a study of that and
15 wouldn't be in a position to respond.

16 Q The last choice Mr. Nutter gave us was,
17 the one I posed to you earlier, that he came to the conclu-
18 sion that straight acreage as the basis from which to make a
19 proration formula was the only one that was reasonable at
20 that time.

21 A I believe it was reasonable then. I
22 think that certainly the spacing poses some orderly develop-
23 ment, which I think is good.

24 However, I would like to say this, that
25 everyone has had an opportunity to drill their wells. If
26 they didn't like the well they got on their proration unit,
27 they could plug it and drill them another one.

28 So that everyone's been afforded an op-

1
2 opportunity to develop his gas reserves here under proration,
3 or under the field rules that have been established, and I
4 believe now that in that scenario that capacity to produce
5 is a measure of what's left out here in this mostly marginal
6 gas producing area.

7 Q Are you telling me that this pool is fully
8 developed?

9 A No. I've never indicated that.

10 Q Mr. Henry, are you participating on behalf
11 of Mr. Fasken or on behalf of any of your other clients
12 in the Proration Gas Study Committee that the Oil Division
13 has established with the industry to study this pool and
14 other pools?

15 A No, I'm not.

16 Q To make sure I understand, Mr. Henry, if
17 the Commission agrees with you and eliminates gas prora-
18 tioning in this pool, will the absence of prorationing from
19 the pool, in the absence of that, will each of the pipelines
20 be taking gas from the Burton Flats wells so that each well
21 will have an equal opportunity to produce its fair share of
22 the gas in that pool?

23 A I have no knowledge nor control over
24 their gas takes.

25 Q All right. Is the market demand for each
of the pipelines the same or similar within each month?

A I have no knowledge of that; however, I
might say that in the other nonprorated fields in the state,

1 they're operating satisfactorily, at least the ones that we
2 participate in that I have -- have knowledge of.

3 Q So I have found them all on my map, Mr.
4 Henry, would you identify again for us the four, is it, Fas-
5 ken wells in the pool?

6 A Yes.

7 Q Would you tell me, sir, which ones those
8 are again?

9 A Okay. They're in -- in Township 20, 27,
10 they are in Section 35, the Maralo Federal No. 1 and Maralo
11 Federal No. 2.

12 In Section 1 of 21, 26, the north prora-
13 tion unit, and these are east/west proration units in this
14 long section, the Gulf Federal No. 1 and the proration unit
15 immediately below that would be the David Fasken Gulf Fed-
16 eral No. 5.

17 There's an abandoned Morrow producer in
18 the east end of the north proration unit in that section,
19 the David Fasken El Paso No. 3. It's been abandoned in the
20 Morrow and plugged back to the Strawn.

21 Q Thank you, Mr. Henry, I have no further
22 questions.

23 MR. STOGNER: Mr. Padilla,
24 would you redirect?
25

REDIRECT EXAMINATION

1
2 BY MR. PADILLA:

3 Q Mr. Henry, Mr. Kellahin has asked you
4 questions concerning improvement of the proration formula
5 for the Burton Flats Morrow Pool, and he has suggested in-
6 cluding the deliverability factor in this questioning.

7 In that regard, in general and in consid-
8 ering the nature and status of this field now, would a de-
9 liverability factor in effect, and as a practical matter,
10 result in de-prorating the pool?

11 A Without making a study of it I would not
12 offer an opinion on that because I do not know what the de-
13 liverability is 68 of the 72 wells are.

14 With respect to our four wells I don't
15 see it would offer any big problem but I do not have a -- I
16 think we would need to address this by running a deliver-
17 ability test on all the wells in some reasonably short time
18 frame so they could be compared.

19 Q What effect would prorating -- or de-
20 prorating the pool have on the administrative burden of the
21 Oil Conservation Division?

22 A Well, I think it would reduce it in that
23 they would not have to keep up with the gas nominations, the
24 gas nomination hearing, and the accounting necessary to keep
25 the proration schedule up to date, and the status of the
wells up to date.

Q Now let me refer you to page 36 of that

1 transcript which has been taken into consideration by the
2 hearing examiner regarding Mr. Nutter's testimony.

3
4 On that page, beginning approximately the
5 middle of the page, is listed certain parameters for gas
6 prorationing.

7 Would you discuss each of those parame-
8 ters and tell us how you believe -- whether they apply or
9 don't apply to the situation today in the Burton Flats Mor-
10 row Pool?

11 A Well, the first one of these is that he
12 stated that -- the first of these is whether the producing
13 capacity of the reservoir is in excess of apparent market
14 demand for the gas.

15 Today the reverse of that is true and I
16 think that negates the other three points.

17 Q In the Morrow Pool would you consider
18 this the overwhelming factor in considering prorationing?

19 A Yes, I would.

20 Q And why is that?

21 A The Morrow formation is composed of len-
22 ticular sands in what geologists describe as a mud delta,
23 which means that the predominant deposition during Morrow
24 time were muds and shales, discontinuous lenses of sands,
25 and certain depositional environments that were favorable to
the sand accumulation.

Had this been the reserve, had this been
a sand delta, we would have had another Middle East reser-

1
2 voir here, but the discontinuity of these sands, in my judg-
3 ment, overrides all other consideration. We've never ob-
4 jected to wells being moved off pattern. Things here -- my
5 own view is that if a guy can find -- an operator can drill,
6 complete a Morrow completion, he should be entitled to pro-
duce the sands. They're that hard to find.

7 Q Isn't it typical to have numerous unor-
8 thodox locations for Morrow pools?

9 A It is, both for topography in the area
10 and also for sand trends. We certainly go in here and de-
11 lineate sand trends as best we can. The overriding success
12 of Morrow development rests in statistics, in my judgment.

13 Q With respect to the second parameter
14 listed by Mr. Nutter and testified to by Mr. Nutter, what
15 nonstandard proration units are there in the Burton Gas Mor-
row Field?

16 A There are seven nonstandard proration
17 units in the Burton Flat Morrow Field.

18 Q Now let me ask you a question that I've
19 -- I think I've asked before with respect to the David Fas-
20 ken well in green.

21 Does the size of the proration unit make
22 any difference with respect to the five wells that David
Fasken has drilled in Sections 35 and 1?

23 A I do not believe it has any practical ef-
24 fect on it. There are two nonmarginal overproduced wells
25 that are located on these seven nonstandard units and only

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2 one marginal well, and the other four have been abandoned,
3 and I do not see that that acreage factor in there has ever
4 been any significant factor here in the production from
5 these wells.

6 Early on, in the very early development
7 of the first six to ten wells that were in consideration for
8 the original field rules there were some of those wells that
9 were restricted because of that and at that time I believe
10 it was a valid thing to do.

11 Q Mr. Henry, can you tell us whether there
12 are more than one purchaser of gas in the pools that adjoin
13 the Burton Flats Morrow Pool?

14 A Yes, there are; almost these same produ-
15 cers gather in one or more of these offset -- same -- same
16 purchasers, excuse me.

17 Q Does that effect the method by which the
18 producers and the pipelines produce or take for a pipeline
19 purchaser?

20 A Well, the only thing I see that the pro-
21 rationing does is to give the purchaser another crutch under
22 which to manipulate take or pay provisions of the contracts
23 that might be involved in those wells.

24 I don't see that it has real practical
25 effect on it.

26 Q How many purchasers are -- do you know of
27 that take gas from the Avalon Field, Morrow.

28 A I did not make a study of that and the

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wells that I operate in Avalon all goes to El Paso, because they were farmouts from El Paso and the farmout agreement came with the gas contract affixed to it.

Q Isn't El Paso in effect the David Fasken well in Section 1, depicted in green, the same as your wells in the Avalon Field?

A They have been, yes.

MR. PADILLA: I believe that's all I have.

A Except the Avalon wells are still producing and this one is shut in by the Commission, or was shut in by the Commission and will be later on as it accumulates its overage and the emergency provisions of this 90-day moratorium are eliminated.

MR. PADILLA: I believe I have no further questions, Mr. Examiner.

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Henry, your Gulf Federal Well No. 1, is it shut in presently?

A No. It was shut in until we received Mr. Stamets' memorandum, except that we did ask the Commission, and they did grant us a 500 mcf per month allowable, just to let us turn the well on and unload it once a month.

Q This letter from Mr. Stamets, is that the one dated July the 3rd, 1984, to you?

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A No. It's dated January the 3rd, 1985.

In fact El Paso brought this to our attention and asked us to turn the well on before we received the letter, and we held it up till we did receive the letter.

Q What is your acreage factor on your Gulf Federal Well?

A It has 281 acres in it and the factor is

Q When did this particular well become six times overproduced and flagged for shut-in by the Commission?

A We received notice of it in late summer or early fall of 1984, and I do not know the exact date.

Q Was that well shut in then?

A Yes.

Q It was --

A We did ask for the 500 mcf per month from the Commission to allow us to unload the well and they did grant it.

Q Now that was by letter dated June 29th of 1984 from Henry Engineering to the Commission, is that correct?

A That's probably correct. I do not have that letter with me and I couldn't testify about the date.

Q In the --

A We did -- we did request it and about that time.

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2 Q Was it approved, your request of produc-
3 ing 500 mcf a month?

4 A It's my understanding that it was.

5 MR. STOGNER: I'll take admin-
6 istrative notice of the letter from Henry Engineering dated
7 June 29th, 1984, and its subsequent approval, a letter from
8 Mr. Harold Garcia dated July 3rd, 1984.

9 Q Mr. Henry, do you know how many other
10 wells in this particular pool are six times overproduced and
11 are flagged for shut-in at this time?

12 A There are some that have overproduced
13 status and are not producing on the January schedule.

14 I believe there are -- just a moment and
15 let me peruse this schedule.

16 The Exxon Corporation Burton Flat Federal
17 Com. No. 1-E, connected to Llano, on -- toward the bottom of
18 page 10 on the proration schedule in the lefthand column, it
19 is -- has no production in November and shows 234,638 mcf
20 overproduced and it's my understanding that that well is
21 shut-in for that reason.

22 Q That particular well I show has an ac-
23 reage deliverability factor of .93 with 296 acres dedicated
24 to it.

25 A Yes, 298 acres.

Q For the sake of time, let's move over to
the Northern Natural Pipeline Company of America, which
shows to have two wells --

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2 A I don't have that on my -- I have a
3 Natural Gas Pipeline.

4 Q Are you looking at the January, 1985,
5 proration schedule?

6 A Right. I have a Natural Gas Pipeline
7 Company but not a Northern Natural.

8 Q I'm sorry. I'm sorry, that was my mis-
9 take.

10 Natural Gas Pipeline Company of America,
11 I apologize.

12 The Cities Service well has 320 acres de-
13 dicated to it and the Yates Petroleum Corporation has --

14 A Now, that well is still producing. It
15 produced in November despite the fact that it's 356,545 mcf
16 overproduced and it's still producing in November.

17 Q Do you know if they got the same kind of
18 request to produce 500 mcf per month until overproduction is
19 made up?

20 A I don't know that. Apparently not. They
21 produced 30,343 mcf in November, according to this proration
22 schedule.

23 Q Let's move on down to the Yates Petro-
24 leum. I have 324 acres dedicated to that, so we essentially
25 have four wells six times overproduced ranging in different
acreage factors, is that right?

A That's right.

Q So by this we can tell that the acreage

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2 factors really has no effect on those wells that are six
3 times overproduced, is that right?

4 A I don't see any -- anything unique about
5 them.

6 Q So because your well has .88 acreage de-
7 dication to it really makes no difference since it would be
8 six times overproduced even if it had a 100 percent acreage
9 factor, is that right?

10 A That's right.

11 The Yates Petroleum well I see didn't
12 have any production in -- in November and it was about the
13 same amount of overproduction as Cities Service, almost
14 identical, and Cities Service was still producing. Yates
15 was shut in and I don't know what the difference there is.
16 The status is about the same.

17 Q Now we alluded to the Avalon Pool to the
18 west of your wells several times today. Does that pool abut
19 with the --

20 A Yes, it does. There are about five miles
21 contiguous boundary there.

22 Q Can you tell me which ones are sections
23 that abut that one?

24 A All right. Starting in Township 20, 27,
25 with Section 22. Starting in the center of the east line of
26 22, going south 2-1/2 miles to the township boundary, making
27 about a third of a mile east excursion along that boundary,
28 going a mile and a half south along the common boundary be-

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2 between 2 -- Section 2 and Section 1; and then going west
3 along the south boundary of Section 2 for one mile, and I
4 believe that's 2-1/2, 3-1/2, 4-1/2, 5 miles of contiguous
5 boundary.

6 Q Do you know how many pipelines purchase
7 out of the Avalon Morrow Pool?

8 A No, I do not. We sell all of our gas to
9 El Paso and I do not know what other ones are in there.

10 We have a -- in the Catclaw Draw Field
11 Gas Company of New Mexico and at one time Llano had some
12 connections in Avalon. I don't know if those wells have
13 been abandoned or not.

14 Q How many wells does David Fasken have in
15 the Avalon Morrow Pool?

16 A We have six.

17 Q Are they on the eastern boundary of the
18 Avalon Morrow or are they --

19 A Yes, they're all in Sections 2 and 3 of
20 21, 26, and three of them are proration units -- three of
21 the proration units abut and are continuous through the Bur-
22 ton Flat Morrow Gas Pool.

23 Q Do you know how many plugged and aban-
24 doned wells there are in the Burton Flat Morrow Pool?

25 A No, I don't.

Q You said you all had -- I'm sorry --
David Fasken had one in the north part of Section 1. Did
that have substantial production or was that dry and aban-

1 of this witness?
2

3 MR. STOGNER: I have no further
4 questions of Mr. Henry.

5 Are there any other questions
6 of this witness?

7 MR. CHAVEZ: Yes.

8 MR. STOGNER: Mr. Frank Chavez
9 of our Aztec District Office.

10 QUESTIONS BY MR. CHAVEZ:

11 Q Mr. Henry, I have experience with prora-
12 tion units. I have some questions to clarify some things
13 that you have mentioned.

14 As far as acreage factor goes, a well
15 which has an acreage factor of .5 would receive approximate-
16 ly half the allowable of a well with an acreage factor of 1,
17 is that correct?

18 A It would receive exactly that under this
19 proration formula.

20 Q Okay, so wells of equal capacity would
21 not be allowed to produce the same amount of gas, is that
22 correct, or would not receive the same allowable.

23 A That's correct.

24 Q If an operator has a smaller amount of
25 acreage than what is standard for the pool, then he's aware
of that at the outset of proration and understands that his
allowable will be less than if he had the full acreage, is

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that correct?

A That's correct.

Q Recognizing that, then, an operator has to follow that throughout the production of the well so that he doesn't become overproduced, is that correct?

A This is true if you're in a field in which the communication within the reservoir is without any restriction.

That's assuming a continuous homogeneous reservoir.

Q But regardless of the assumptions of the reservoir, proration rules say that you will receive less and you have to monitor that.

A Yes. We have received less allowable than the other wells by our acreage factors.

Q Reclassification once a year moves marginal wells -- or moves wells between marginal and nonmarginal classifications, is that correct?

A I'm not sure. I do not know what the Commission rule does.

Q Well, then is it possible that some of the wells which are now classified as marginal may be reclassified as nonmarginal?

A That's a possibility (not clearly understood.)

Q Would you consider marginal wells to be low capacity wells versus nonmarginal wells being high capa-

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2 city wells?

3 A Yes.

4 Q So that the actual difference between a
5 marginal and nonmarginal well would be 1 mcf --

6 A Yes.

7 Q (Not clearly understood.)

8 A Yes.

9 Q Therefore Exhibit One that shows -- in
10 which you mentioned the distance between the nonmarginal
11 wells and the marginal wells doesn't necessarily indicate
12 that a marginal well offsetting a nonmarginal well may be
13 very close in capacity to it, is that correct?

14 A Well, I made that statement with respect
15 to the overproduced nonmarginal wells, indicating these that
16 -- these in here that have very high capacities -- anoma-
17 lous, they're an anomalous occurrence with respect to that
18 (not clearly understood) well.

19 Q Well, you testified that you were not
20 aware of producibilities of the other wells in the pool.

21 A I'm aware of their overproduction.

22 Q But as far as the capacity of the mar-
23 ginal wells which are offsetting the overproduced nonmargi-
24 nal wells, you're not aware of whether they're high capacity
25 also.

26 A Well, I've looked at them on the prora-
27 tion schedule and they're in general, very few of them ap-
28 proach the nonmarginal wells.

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2 Q But some do and might be classified as
3 nonmarginal?

4 A I'd have to look at the proration sche-
5 dule and I have not made a study of that so I don't -- my
6 question -- answer to that is I don't know.

7 Q Your exhibit of allowable versus produc-
8 tion starts in September of '84.

9 A Yes.

10 Q Do you have -- did you examine the allow-
11 able versus production for the entire year, including the
12 summer months?

13 A No.

14 Q Are -- are the summer months in this area
15 of this pool generally lower demand months?

16 A They are in some fields that we operate
17 out here, and that was negated in our particular case here
18 when the summer Olympics brought on a demand for gas in
19 Southern California and then El Paso took a large amount of
20 gas during the late summer when the moratorium on burning
21 fuel oil was in force in the Los Angeles Basin during the
22 Olympics.

23 Q Would it be fair to say that a year's
24 worth of production versus allowable ought to be considered
25 rather than the higher demand months started in the autumn
when the Commission considers whether or not they're going
to discontinue proration within a pool?

A I wouldn't have any problem with that.

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2 Q If I understood you correctly, you were
3 saying that there being some overproduced wells within this
4 pool indicated the pipeline needed more gas and therefore
5 proration should be eliminated.

6 Was that one of the criteria, if I under-
7 stood you correctly?

8 A That is, yes.

9 Q If all the wells were overproduced, would
10 also indicate the same thing, that the pipeline needed more
11 gas and therefore proration should be discontinued?

12 A No, not in and of itself, but in this
13 particular case in the scenario we have here, the large num-
14 ber of marginal wells that obviously can't make that up and
15 the very small number that are being prorated at all, then I
16 think in this case that elimination of prorationing would
17 take this into account. In a general case it would not ne-
18 cessarily do that, but in this particular case it does.

19 Q Well, is there some number of wells that
20 you consider a small enough number of nonmarginal wells that
21 could be used as criteria in determining whether a pool
22 should be de-prorated?

23 A I don't think so, but I think 4-1/2 per-
24 cent of the field being prorated is not -- is well within
25 the category which should be eliminated.

26 Q Is the pool presently underproduced or
27 overproduced?

28 A It's overproduced.

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Q Is that an indication to you that the wells are capable of making more --

A Yes.

Q -- than pipeline demand?

A Yes; not more than the pipeline demand but more than the pipelines are taking.

They're nominating it but if nominations are synonymous with demand, then they're nominating enough gas, only it's not taking that much gas.

Q Is -- would you consider takes to be more -- closer to demand or nominations?

A Well, I don't know, because we as producers are at the mercy of the pipeline on nominations.

The pipelines nominate without ever consulting us for the field. We assume that they base that on demand. I believe they forecast their demand.

In this field they continue to forecast for more gas than they're actually taking, so it seems to me that if we were not shut in by the Commission for overproduction, we could meet that demand.

Q Are you --

A That's reflected in their nominations.

Q Are you aware that nominations are balanced against actual takes so that the volume of production is distributed back to the wells on the basis of the total production from the pool?

A No, I don't see that in the statistics

1 I've accumulated here for these three months.

2
3 When is that done?

4 MR. STOGNER: Can you tell us?

5 MR. HAROLD GARCIA: It's done
6 on a monthly basis and one final balance at the end of a
7 proration period.

8 A Well, if you'd refer to my -- my Exhibit
9 Number -- Exhibit Number Four, for three months they have
10 been out of kilter there and the nominations are substan-
11 tially higher than the takes.

12 Q At the end of the year when -- well,
13 you're not aware of the reclassification process that takes
14 place at the end of each proration year, is that correct?

15 A I have studied it in the past and I
16 can't remember all the procedure in it, but I have looked at
17 it and know that there is such a procedure, but I don't know
18 the details of it. Right at this moment I can't give you
19 those details.

20 Q Mr. Henry, who is responsible for moni-
21 toring allowables and assuring the wells do not overproduce
22 the allowables assigned by the Commission?

23 A You mean who in --

24 Q Between the pipeline and the operator,
25 who is responsible for producing the wells?

A Well, the ultimate responsibility is with
the producer.

Q When were you first aware that the David

1 Fasken well shut in overproduced was overproduced?

2 A When -- when the Commission called and
3 asked us to shut it in.

4 Q Had it been overproduced before then?

5 A Yes.

6 Q Did David Fasken take any measures to re-
7 duce the production from the well --

8 A No, sir.

9 Q -- to produce the allowable only?

10 A No, sir. As long as the pipeline would
11 take it, we -- we sold them gas, recognizing that if it were
12 overproduced to a certain point we would be shut in, but our
13 -- we wanted to -- I can't think of a better place to be in
14 than an overproduced position when the Natural Gas Policy
15 Act expired and we became nonregulated pricing.

16 Q Has the allowable assigned to the well by
17 the Commission proration schedule been a just and equitable
18 amount of the gas that should have been produced from those
19 wells?

20 A Not in recent months, I do not believe
21 so. That's the reason we called this hearing and came to
22 seek a remedy.

23 MR. CHAVEZ: That's all the
24 questions I have.

25 MR. STOGNER: Any other ques-
tions of Mr. Henry?

Being none, we're now ready for

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closing statements.

Mr. Kendrick, we will start with you.

Mr. Kellahin, and Mr. Padilla.
Mr. Kendrick.

MR. KENDRICK: Are you sure that you would not like a coffee break first?

MR. STOGNER: Do you plan to be that long?

MR. KENDRICK: No, sir.

MR. STOGNER: Mr. Kellahin, do your comments extend over a five minute period?

MR. KELLAHIN: I don't think so, Mr. Examiner. It depends on what Mr. Kendrick says.

MR. STOGNER: Well, at that time I'll answer your question again.

MR. KENDRICK: Mr. Examiner, El Paso takes the position that proration is needed in pools that have more than one purchasing pipeline, and as has been displayed here today, this pool certainly has more than one pipeline. It has more pipelines today than at the time when proration was instigated for the pool.

When you have half as many pipelines as you have producers, certainly problems may exist between ratable take between various pipelines and various producers.

The witness has testified that

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2 he has looked at nominations versus takes in the pool for
3 what might be considered the winter months of 1984 and 1985.
4 Certainly in those times that the nominations are the best
5 estimate that the pipeline company has of what it expects to
6 sell on the other end of its pipeline.

7 If we are able to sell more
8 gas, we will take all the gas we can.

9 If we're not able to sell the
10 gas, we will have to cut back somewhere.

11 This has been done in all areas
12 of the State of New Mexico, Texas, Oklahoma, wherever we
13 produce or take gas into our pipeline.

14 The wells are affected by pro-
15 ration in this pool. The takes and nominations of gas for
16 all pools in New Mexico should be balanced at the end of the
17 prorotation period, which establishes a net pool status of
18 overproduced or underproduced, not just what has happened in
19 a three-month period. So certainly a twelve-month period
20 would be more adequate in determining what the pool status
21 is as being overproduced or underproduced.

22 Acreage factors for allowables
23 for wells on 100 percent acreage allocation certainly is a
24 factor in the well and in the case of one well in question
25 today, that has been questioned, the one well operated by
Mr. Fasken, the Gulf well in the January schedule of 1985,
had the allowable been calculated at a full acreage allow-
able with an acreage factor of 1, the well would presently

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2 be 3.74 times overproduced.

3 Had it been given a full ac-
4 reage allowable for January, using that month alone, not
5 counting what the allowable would have been increased in
6 previous months, the well would be only 7.69 months overpro-
7 duced.

8 So the allowable that it has re-
9 ceived may be an adequate allowable, but it has exceeded its
10 six times monthly allocation.

11 El Paso would believe that pro-
12 ration should be continued in this pool and other pools in
13 the State of New Mexico.

14 One further statement: Evi-
15 dence has been heard in this case as what would de-prora-
16 tioning have on the work to be done by the Oil Conservation
17 Division.

18 What work is done by the Oil
19 Conservation Division, it is my understanding, should be to
20 protect correlative rights and prevent waste in the State of
21 New Mexico. Whether this lessens their work or increases
22 their work, I do not believe is the question today.

23 MR. PADILLA: May I make a mo-
24 tion, Mr. Examiner?

25 I move that Mr. Kendrick's
statement, with all due respect to Mr. Kendrick, be stricken
from the record of this hearing.

If the Commission or the Exa-

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2 miner wants to consider his statement as Mr. Kendrick as an
3 interested citizen, so be it, but El Paso obviously has no-
4 tice of this hearing. If they want to object to the hearing
5 and the application, they should put on a case as Cities
6 Service, or appear through counsel as Cities Service has
7 done.

8 MR. KELLAHIN: Mr. Examiner,
9 we would resist striking Mr. Kendrick's statement. To
10 strike it would be inconsistent with the custom and practice
11 of this Division and Commission for the last forty years, to
12 allow operators, interested parties, to participate in an
13 open and public hearing.

14 You have encouraged and you
15 continue to solicit an accept at all hearings statements by
16 anyone wishing to make such a statement. You judge those
17 statements for what they're worth and Mr. Kendrick's state-
18 ment is entitled to be made a part of this record.

19 MR. STOGNER: Mr. Padilla, I'm
20 going to overrule your motion and keep Mr. Kendrick's state-
21 ment on the record.

22 Mr. Kellahin.

23 MR. KELLAHIN: Mr. Examiner, I
24 think one of the single most important conservation practice
25 of this Division, or any Division, is the prorationing of
gas and oil pools.

We hear cases about unorthodox
locations that are major, important issues between those two

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2 operators and you decide those kinds, but I can't think of
3 any other kind of case that is as complex and as important
4 not only to the operators within a pool but to the citizens
5 of this state, to the pipelines, to the income resulting
6 from production from our gas pools. It is very complex.

7 We have seen that system oper-
8 ate for some ten years in the Burton Flat Morrow Pool and
9 because in the last three months it happens to impact Mr.
10 Fasken, a system of proven conservation practice, he now,
11 having ignored those rules for all this time, having disre-
12 garded the impact it will have upon him and his production,
13 having sold what he can to El Paso simply because they'll
14 take the gas, he's now faced with the possibility to shut-
15 ting in till he's balanced his well, he now wants to scrap
16 the whole system. That is not what the substantial evidence
17 has shown. What this evidence shows you is that you cannot
18 grant this application.

19 Mr. Henry has told us a number
20 of things today but what is important is what he has not
21 told us, what the evidence has not shown us.

22 We have found out that Mr. Nut-
23 ter and the Commission established prorationing in this pool
24 some ten years ago and one of the fundamental exhibits in
25 that hearing was his Exhibit Number B, which I showed to
you, and it shows of those wells for which Mr. Nutter calcu-
lated the deliverary capacity, there is a great range of ca-
pacity of those wells to deliver into the pipeline.

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2 That was one of the fundamental
3 elements that set forth the gas prorationing in this pool,
4 to create a situation in which the pipelines will take rat-
5 ably from wells so that operators' correlative rights are
6 protected and so that one very prolific well at whatever lo-
7 cation it may be will not capture more than its fair share
8 of the market.

9 Mr. Henry tells us that the de-
10 mand for production from this pool is now greater than the
11 supply from the wells in that pool. He demonstrates that by
12 an exhibit that represents only three months out of ten
13 years to show that at least temporarily and for now the no-
14 minations exceed the production.

15 My response is, so what? That
16 is not enough. You need to have not only one year of pro-
17 duction, you need to examine ten years of production to see
18 whether or not this is a temporary situation that is going
19 to change.

20 We contend that this informa-
21 tion is inadequate to justify the scrapping of prorationing.

22 The consequence of scrapping
23 prorationing may be that those 54 proration units that Mr.
24 Henry says are not producing wells, the fact that those pro-
25 ration units will be allowed an opportunity to drill wells
in order to increase the supply from the pool in order to
cover the nominations is certainly an incentive to further
explore and develop the pool.

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2 There is no testimony here that
3 the pool is fully developed; that it is now in its final
4 stages of depletion, and that we can scrap the system. That
5 is not what you've heard. Until you see a prorated pool
6 that is consistently as a pool underproduced, then you have
7 to continue prorating, so long as you see multiple pipe-
8 lines. And we're not talking about two or three. We have a
9 big bunch; there's ten of them in there. We do not know
10 that those pipelines are taking ratably or would take rat-
11 ably in the absence of prorating. You cannot take that
12 risk.

12 The testimony is that this pool
13 is overproduced now. That in and of itself ought to require
14 you to continue prorating until it's proven otherwise.

14 What else do we not know? We
15 do not know the capacity of the twelve nonmarginal wells and
16 what percentage of the allowable they will take from the
17 pool. We do not know what effect that share of the allow-
18 able will have on the non -- on the marginal wells, whether
19 those marginal wells will be prematurely abandoned or not.

20 I've already told you we don't
21 know if it's a temporary condition or not. We don't know
22 whether or not the 54 proration units are going to be drill-
23 ed.

23 I think by the elimination of
24 the proration we will find something that we do know, that
25 it will encourage pipelines to take nonratably, that they

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2 will be, human as they are, some people say they're inhuman,
3 but the fact of the matter is they will go to the high capa-
4 city wells and they'll take that demand first. It's a nat-
5 ural consequence of nonprorated pools to allow that produc-
6 tion to be taken under a system that is similar to a rule of
7 capture. And that's exactly what we don't want in this
8 pool.

8 Because there is a multitude of
9 things that we do not know about the basis for which to
10 scrap prorating, this is a perfect topic for the Oil Con-
11 servation Division's Prorating Gas Study Committee. It
12 is one in which I encourage Mr. Henry and his client to par-
13 ticipate, to bring their concerns and problems about this
14 well and this pool for that study. This is not a problem
15 that's isolated unto itself. It is one the Commission is
16 well aware of and had been involved in for more than a year,
17 and we would say that you either continue this case or dis-
18 miss it; continue it and direct it under some type of letter
19 to that study committee and ask them to address this prob-
20 lem.

20 We urge you, Mr. Examiner, not
21 to fix something that's not proven to be broken. You set a
22 terrible precedent by trying to orchestrate a solution for
23 Mr. Fasken's one well that will be used as a stumbling block
24 for all the prorated gas pools. You set in motion a prece-
25 dent that will be used by every other operator in all the
rest of the prorated gas pools to scrap prorating because

1 he's got a well that's overproduced.

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3 We suggest that you do not have
4 sufficient evidence to grant this application and it ought
5 to be denied.

6 MR. STOGNER: Thank you, Mr.
7 Kellahin.

8 Mr. Padilla.

9 MR. PADILLA: Mr. Examiner, you
10 have evidence here today that El Paso, at least El Paso Na-
11 tural Gas, makes no distinction between the wells of David
12 Fasken in the Burton Flats Morrow Pool and the Avalon Morrow
13 Pool.

14 I think it's very easy for the
15 opponents in this case to take potshots without putting on
16 any testimony regarding deliverability of the wells. We
17 have shown that the great majority of the wells are nonmar-
18 ginal -- are marginal and that they are not calculated for
19 allowable purposes or proration purposes.

20 We have isolated six wells that
21 are overproduced and we have also shown that those wells, at
22 least with respect to the Fasken Well in Sections 35 and
23 Section 1 are not continuous and in communication with each
24 other.

25 That is the nature of the Mor-
row formation and it's no different between the Avalon and
the other four surrounding fields that -- Morrow fields that
are not prorated that Mr. Henry has testified to. There is

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2 actually no difference between prorated and nonprorated
3 fields here other than the fact that six wells are being di-
4 scriminated against and the fact the correlative rights are
5 being impaired.

6 In reverse, we generally have
7 the situation where marginal wells are allowed to produce
8 because of the marginal nature. In this case we're penal-
9 izing high capacity wells where there's no -- has been no
10 showing by the opponents that those wells are connected to
11 the rest of the field.

12 The Finding Number Twenty of
13 the original order issued by the Commission in this case in-
14 dicates it is as true then as it is now that the stringers
15 are not continuous and you have different sand lenses.

16 Certainly the opponents have
17 not put on testimony that the -- by virtue of further devel-
18 opment of that field that you now have a homogeneous, con-
19 tinuous reservoir under which ideal proration would exist.
20 We would concede that if it were homogeneous reservoir, con-
21 tinuous reservoir, that prorationing would be appropriate,
22 but there is no distinction on the west line of that sec-
23 tion, on the west boundary of the Burton Morrow Pool and the
24 Avalon, to make any distinction as to why the Morrow on the
25 west and the Morrow on the east should be separated at all.

26 The fact is, and it remains,
27 that the difference between the field in 1974 when prora-
28 tioning was established, is that we have had a complete 180

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take place there.

The point now is that we have a high demand, lower takes whether El Paso wants to admit it or not. In addition to that we have -- in 1974 we had six high capacity wells. At that time prorationing seemed to be the appropriate thing, because we did have a developing field.

There's been no showing by the opponents here that that field is continuous and should be continued to be prorated.

Mr. Kellahin says that the OCD takes a risk of throwing this thing into the rule of capture situation. In fact you have 320-acre spacing and on a non-prorated basis each well is going to produce as much as it can based upon market demand and there's no difference between what El Paso's doing now and what would take effect if proration would be eliminated.

That's all.

MR. STOGNER: Thank you, Mr. Padilla.

Mr. Kellahin, Mr. Padilla, would you please submit to me in twelve days a rough draft of a proposed order? I suspect they'll probably be very different.

Is there anything further in Case Number 8463?

Being none, this case will be

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taken under advisement.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 8-133 heard by me on 30 November 1935.
Michael J. ..., Examiner
Oil Conservation Division