

## NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARINGSANTA FE, NEW MEXICOHearing Date JANUARY 7, 1986 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
Les Clement	O.C.D.	ARTESIA
Danell Moore	O.C.D.	Artesia
Mike Williams	O.C.D.	"
Karen Gubney	Kellahan + Kellahan	Santa Fe
Tracy L. Coe	Byram	Santa Fe
William J. East	Tampbell and Back	Santa Fe
Luzon Reno	Southern Union Exploration	Santa Fe
Mark Costello	Chevron U.S.A.	Houston TX
Warren Curtis	Northwest Pipeline	SLC Utah
Paul Coater	Kode-Low Firm	Santa Fe
JOHN F. NANCE	EPNG	E. PASO
H. L. KENDRICK	EPNG	E. PASO
Marta Henderson	ARCO Oil + Gas	Midland
Bob Gibb	TENNCO Oil	DENVER
J.P. Bobe Kendrick	El Paso Natural Gas	El Paso
Larry Larson	NWP	SLC
Brent Hale	NWP	SLC
Del Drape	NWP	SLC
...	...	Santa Fe

NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date JANUARY 7, 1986 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
TED DUFF	UNION OIL	MIDLAND, TX
B. KEITH McKEEL	UNION OIL	MIDLAND, TX.
LEE POWELL	AMOCO PRODUCTION	HOUSTON, TX
John F. Eichelmann	EPNG	Santo Fe, N.M.
Awen Hoff	Hinkle Law Firm	Santa Fe, N.M.
Wilson E. Gott	Self	Houston, TX
Dan Antin	Cons. Engr	Santo Fe
DAVE TINSLEY	SELF	HOUSTON, TX
Grant L. Padick	Padick & Snyder	SF
W. F. Kellohim	Kellohim & Kellohim	S. F.
Scott Hall	Campbell + Jack	SF
Don Jemke	Union Tx Petrol	Midland, TX
Paul Small	GAS CON. B. CO.	ALB
Marie Wheeler	APACHE CORP	HOUSTON, TX.
NEWTON L. LONG	Hinkle Law Firm	S.F.
Jim Joyce	TEXAS A&M	MIDLAND TX

PHILIPPE R. PERON

UNION TEXAS PET.

MIDLAND TX  
Colesburg

~~Joe~~ Joe

Joe & Pearson

DAVE BONEAU

YATES PETROLEUM

ARTESIA

Randy G. Patterson

✓

✓

Louis J. Mizzullo

NEARBURG Prod. Co.

MIDLAND

Charles E. Nearburg

"

Dallas

Tim MacDonald

"

DALLAS

Bill Sullivan

ANADARKO

MIDLAND

Richard Erickson

Anadarko

Midland

John F. Eichelmann

El Paso Natural Gas Co.

San Antonio

## NEW MEXICO OIL CONSERVATION COMMISSION

## COMMISSION HEARING

SANTA FE, NEW MEXICOHearing Date FEBRUARY 26, 1986 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
Karen Quinby	Kellahan + Kellahan	Santa Fe
Les Clements	N.M.O.C.D.	ARTESIA
Wasson Curtis	Northwest Pipeline	Salt Lake City Utah
Paul Cooter	new Pipeline	Santa Fe
William F. Fair	Sampbell + Black, P.A.	Santa Fe
LORI KOMATAR	NORTHWEST PIPELINE	SALT LAKE CITY
R. H. Babe Kendrick	El Paso Natural Gas Co	El Paso
MARTY BOYS	Tenneco Oil Co	DENVER
Bob Libb	Tenneco Oil Co	Denver
Ken Russell	Tenneco Oil Co.	Farmington, N.M.
<u>Melba Carpenter</u>	OCD	
Frank Chavez	OCD	Holbrook
Alice Duggan	OCD	Aztec
Herald Garcia	OCD	Aztec
Bob Walker	Northern Natural Gas	S.F.
Mike Lambert	GCNM	Midland, TX
Tommy Sanders	GCNM	ALBQ, NM.
Joe Rush	Meridian Oil Inc	" "
John F. Eichmann	El Paso Natural Gas Co	Denver
CHARLES G. GILSON	OCD	Santa Fe Aztec

## NEW MEXICO OIL CONSERVATION COMMISSION

## COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date FEBRUARY 26, 1986 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
David & Boyer	NMOCB	Santa Fe
ROGER ANDERSON	NMOCB	SANTA FE
John Bridges	El Paso Natural Gas	El Paso
W. J. P. Conner	Montgomery & Andrews	Santa Fe
W. J. Kellohim	Kellohim & Kellohim	Santa Fe
Tracy Le Cocq	Byram / KBIM-TV	Santa Fe
O. C. KENNEDY	INDEPENDENT	ALBQ
J. E. Chandler	TEXACO	Denver, Colo.
W. B. McCoy	Spink	Santa Fe
Chad Dabner	Dukein, Fink + Vonder	Albany
Ben Wood	TXO	MIDLAND
Dan Turner	Cons Euge	SF
J. K. Bourgeois	TXO	MIDLAND
Andrew T. Otter	TXO	Midland
Joseph S. Sprinkle	self	Denver
Ben Wood	TXO	Midland

## NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARINGSANTA FE, NEW MEXICOHearing Date NOVEMBER 19, 1985 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
Les Clemente	N.M.O.C.D.	ARTESA, N.M.
Danell Moore	NMOC D	Artesia, N.M.
H. R. Babe Kendrick	El Paso Natural Gas	El Paso, TX
W. J. Kelleher	Kelleher Kelleher	Santa Fe
<del>Sam Miller</del>	Citrus Service Coils & Gas	Midland, TX
AR Kendrick	Sour Corners Gas Prod	Aytec, NM
Bob Huber	Byrum	Santa Fe
Paul Cooter	Rodex Law Firm	Santa Fe
Warren Curtis	Northwest Pipeline	Salt Lake City
DAVE JENSEN	Rodex Law Firm	Santa Fe
Susan Reno	Structure Union Expl	Albany
Marta Henderson	ARCO OIL + Gas	Midland
Del Drayson	Northwest Pipeline	Salt Lake, UT
Larry Larson	Northwest Pipeline	Salt Lake, ut.
Don <del>Miller</del>	Cross Engr	Santa Fe
Mafie Wheeler	GCMN	Albany
Gloria Perez	"	"
Paul Molto	"	"

NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date NOVEMBER 19, 1985 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
<i>Bob Enfield</i>	<i>self</i>	<i>Santa Fe</i>
<i>B. Chang</i>	<i>OCD</i>	<i>Albuquerque</i>
<i>H. Darcin</i>	<i>OCD</i>	<i>S.F.</i>

1 STATE OF NEW MEXICO  
2 ENERGY AND MINERALS DEPARTMENT  
3 OIL CONSERVATION DIVISION  
4 STATE LAND OFFICE BLDG.  
5 SANTA FE, NEW MEXICO

6 19 November 1985

7 COMMISSION HEARING

8 IN THE MATTER OF:

9 Application of the Oil Conservation Commission on its own motion to rescind Order No. R-1670, as amended, to recodify and amend the General Rules and Regulations for the prorated gas pools therein and to amend the special gas prorationing rules for certain prorated gas pools in northwest and southeast New Mexico. CASE 8749

10  
11  
12 BEFORE: Richard L. Stamets, Chairman  
13 Ed Kelley, Commissioner

14 TRANSCRIPT OF HEARING

15 A P P E A R A N C E S

16  
17 For the Division: Elliot L. Weinreb  
18 Attorney at Law  
19 Energy and Minerals Dept.  
525 Camino Los Marquez  
Santa Fe, New Mexico 87501

20 For the Committee: Jeff Taylor  
21 Attorney at Law  
22 Oil Conservation Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

23

24

25

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

For Northwest Pipeline: Paul Cooter  
Attorney at Law  
RODEY LAW FIRM  
Santa Fe, New Mexico 87501

## I N D E X

## A. R. KENDRICK

Direct Examination by Mr. Taylor	6
Cross Examination by Mr. Stamets	20
Questions by Mr. Pearce	21
Cross Examinations by Mr. Cooter	27
Questions by Mr. Nutter	29
Questions by Mr. Garcia	43
Redirect Examination by Mr. Taylor	45
Recross Examination by Mr. Stamets	51
Questions by Mr. Chavez	52

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

## I N D E X CONT'D

## HAROLD GARCIA

Direct Examination by Mr. Taylor 53

Cross Examination by Mr. Stamets 57

## JERRY SEXTON

Direct Examination by Mr. Taylor 59

Cross Examination by Mr. Stamets 64

## WARREN O. CURTIS

Direct Examination by Mr. Cooter 65

Cross Examination by Mr. Stamets 73

Questions by Mr. Kendrick 75

Questions by Mr. Chavez 76

Questions by Mr. Nutter 77

Redirect Examination by Mr. Cooter 78

STATEMENT BY MR. KENDRICK 85

STATEMENT BY MR. COOTER 89

STATEMENT BY MR. GARCIA 90

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

E X H I B I T S

Division Exhibit One, General Rules	10
Division Exhibit Two, Recommended Changes	11
Division Exhibit Three, Revised Rule Arrangement	11
Division Exhibit Four-A, Special Pool Rules	45
Division Exhibit Four-B, Special Pool Rules	45
Division Exhibit Five, Proposed Substitute	54
Division Exhibit Six, Southeastern Rules	59
Kendrick Exhibit One,	88

1  
2  
3 MR. STAMETS: We'll call next,  
4 then, Case 8749, which is the application of Oil Conserva-  
5 tion Commission on its own motion to rescind Order No. R-  
6 1670, as amended, to recodify and amend the General Rules  
7 and Regulations for the prorated gas pools contained there-  
8 in, and to amend the special gas prorationing rules for  
9 those -- all the prorated pools in southeast New Mexico and  
10 northwest New Mexico, with the exception of those few pools  
11 which are on set allowables, and all the pools are listed in  
today's docket.

12 MR. TAYLOR: May it please the  
13 Commission, my name is Jeff Taylor. I'm Attorney for the Gas  
14 Proration Rules Study Committee and the Oil Conservation  
15 Division, and I believe we'll have three witnesses today.

16 MR. STAMETS: Are there any  
17 other appearances today, anyone else who plans at this time  
to present testimony in this case?

18 MR. COOTER: Mr. Commissioner,  
19 Paul Cooter, with the Rodey Firm.

20 We would probably present one  
21 witness.

22 MR. STAMETS: Any other per-  
23 sons?

24 I'd like to have all those who  
25

1  
2 will be witnesses or expect to be witnesses stand and be  
3 sworn at this time, please.

4  
5 (Witnesses sworn.)

6 MR. TAYLOR: First call Mr. Al  
7 Kendrick.

8  
9 A. R. KENDRICK,  
10 being called as a witness and being duly sworn upon his  
11 oath, testified as follows, to-wit:

12 DIRECT EXAMINATION

13 BY MR. TAYLOR:

14 Q Would you please state your name, place  
15 of residence, and employment for the record?

16 A A. R. Kendrick. I live in Aztec, New  
17 Mexico. I'm employed here as a representative of the Four  
18 Corners Gas Producers Association.

19 Q Have you previously testified before the  
20 Commission and had your credentials as an expert witness ac-  
21 cepted?

22 A Yes, sir.

23 Q Would you nevertheless briefly state  
24 your professional experience for us?  
25

1  
2           A           Well, for the last several years, start-  
3           ing in July of 1955, I went to work for the Oil Conservation  
4           Division and worked until January, 1980 as a District Engin-  
5           eer or a Supervisor in Aztec, New Mexico.

6                        Since January of 1980 I've been a consul-  
7           ting engineer in the San Juan Basin.

8                               MR. TAYLOR: I tender the wit-  
9           ness as an expert in this field.

10                              MR. STAMETS: Mr. Kendrick, are  
11           you also appearing here today as the Chairman of the commit-  
12           tee appointed by the Division Director to study the gas pro-  
13           ration situation?

14                    A           Yes, sir.

15                              MR. STAMETS: The witness is  
16           considered qualified.

17                    Q           Mr. Kendrick, could you please briefly  
18           give us the background of the Gas Proration Rule Study Com-  
19           mittee, including such things as the charge given to the  
20           Committee, what type of membership was on it, and when it  
21           met, before we get into the substance of your recommenda-  
22           tions?

23                    A           The charge to the Committee was to sim-  
24           plify and clarify the gas proration rules of the State of  
25           New Mexico.

                              I think we started, probably, in February

1  
2 of last year. We had several meetings discussing the gen-  
3 eral rules and I personally did not read the General Prora-  
4 tion Rules for the southeastern part of the state. I  
5 thought they were pretty well comparable to the northwest  
6 part of the state, and I relied on the Committee members re-  
7 presenting producers and pipeliners from the southeast part  
8 of the state to keep the Committee advised as to the prob-  
9 lems in the southeast part of the state.

9 Q So did the Committee look not only at the  
10 general rules but the special pool rules, but the special  
11 rules were looked at from people living in those parts of  
12 the state that were affected?

13 A Yes. The -- after we had pretty well  
14 agreed on a set of general gas proration rules for the State  
15 of New Mexico, then the special pool rules for the northwest  
16 part of the state were addressed by a committee of people in  
17 the San Juan Basin, and the rules for the southeast part of  
18 the state were addressed by a committee represented by pro-  
19 ducers and pipeliners from the southeast part of New Mexico.

20 Q And as a representative of the Gas Prora-  
21 tion Rules Study Committee you're going to present the re-  
22 commendations on the general rules, as well as the special  
23 pool rules for northwest New Mexico?

24 A Yes.

25 Q Okay. Why don't you just start with the

1  
2 first of the General Rules for the prorated gas pools of New  
3 Mexico, and go through your recommendations for us?

4 A The primary work for the -- or the accom-  
5 plishments of the Committee was to refine the language of  
6 the existing rules, with very minor changes in content.

7 We did add three new rules at the request  
8 of either the staff here at Santa Fe or because of some  
9 changes in the proration rules that occurred immediately be-  
fore we went to work, or even after we went to work.

10 The page just handed to the Commission  
11 represents a recap of the adjustments we made, other than  
12 rearrangements of the paragraphs or refinements in the ter-  
13 minology.

14 We added a section at the beginning of  
15 the rules for definitions, which was not in the prior ar-  
16 rangement. I think that the definitions might could have  
17 some other terms included which we found in attempting to  
18 revise the mechanics of assigning of allowables and we de-  
19 vised a longer list of definitions and if the Commission  
20 would like to review those as suggestions that might be add-  
ed in here, copies will be made available.

21 During the Legislative Session last  
22 spring Statute 70-2-16 was revised to not require prelimin-  
23 ary nominations, so the paragraph dealing with preliminary  
24 nominations was deleted from the Gas Proration Rules.  
25

1  
2 Q And that you're referring to is Rule  
3 3(a)?

4 A It's Rule 3(a) under the arrangement here  
5 today. It was in Rule 7(a) of R-1670.

6 I don't have enough copies of this cross  
7 index type thing here but I think the Commissioners will  
8 need three and if you'll be real judicious with these there  
9 will be about three for each side of the room.

10 MR. STAMETS: If somebody wan-  
11 ted to take one of those and go to the Xerox machine and run  
12 off a few extra copies we will let you do that for free.

13 (Thereupon a short recess was taken.)

14 MR. TAYLOR: Shall we continue?

15 MR. STAMETS: You may proceed.

16 Q Mr. Kendrick, so we can clarify it, I've  
17 labeled three documents here as Exhibit One, Two, and Three.  
18 Would you please for the record just identify those three  
19 exhibits?

20 A Exhibit One is the latest revision of the  
21 General Rules -- excuse me, General Gas Proration Rules for  
22 the State of New Mexico.

23 Q As -- as recommended by the Gas Proration  
24 Rules Study Committee?  
25

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

A Yes.

Exhibit Two is the recap that I referred to, being the Committee recommended changes and relates to rule numbers as shown on Exhibit One.

Exhibit Three is a partial index; shows the rule number identified in the column "new" being the title of the paragraphs in the Exhibit One and relates back to paragraph identities in R-1670.

About two weeks ago I mailed a similar page with the latest revision. The lefthand column in that page identified the paragraph numbers as in the Committee's latest report and not in R-1670.

But the one passed out here today relates to R-1670 and that column is identified as R-1670.

I'm sorry that the column R-1670 does not include all of the paragraphs in R-1670 and identify where they went in this rule so that it was brought to my attention last night that part of R-1670 Rule 4 is not identified in this column and so it consequently requires a lot of research to find it in what is identified today as Exhibit One.

Q Okay. I believe we're previously gone over your recommendations regarding new Rules 1 and 3(a).

Could we now move to the next recommendation of the Committee?

1  
2           A           In Rule 5(a) and 5(b), formerly Rule  
3 8(c), excuse me, Rule 8 -- or excuse me, 9(b)(c) and 8(c),  
4 the paragraph was entitled Nonmarginal GPU Allowables. I  
5 did relate back to R-1670 in the southeast but this para-  
6 graph we attempted to identify the allowable calculation for  
7 either 100 percent acreage or acreage and deliverability  
8 combinations and allowables by subparagraphs in Rules 5(a)  
9 and 5(b).

10                       Rule 5(b)2 we brought in a new rule en-  
11 titled New Connect Maximum Producing Period. This deals  
12 with new wells tied to a gas gathering system and reads as  
13 follows, entitled, New Connect --

14                               MR. STAMETS: Just a second,  
15 Mr. --

16           A           Excuse me.

17                               MR. STAMETS: -- Kendrick. On  
18 -- on your Rule 5(a) and (b), should that be Rule 5, refer-  
19 ring to Exhibit Two, should that be Rule 5(a)1 and 2?

20           A           No, sir. It would be Rule 5(a),  
21 paragraphs 1 and 2, subparagraphs 1 and 2 (a) and (b), and  
22 Rule 5(b), so --

23                               MR. STAMETS: Okay, I see.

24           A           So that the --

25                               MR. STAMETS: -- 5(b)--

          A           -- subparagraphs under 5(a) and 5(b) are

1  
2 included in the --

3 MR. STAMETS: 5(a)2 talks about  
4 general nonmarginal allowables; 5(b) then talks about allow-  
5 ables in newly connected wells in both --

6 A Yes.

7 MR. STAMETS: Okay.

8 A So in the calculation of allowables we --  
9 the subparagraphs would go with 5 paragraph (a) and -- para-  
graph 5(a) and paragraph 5(b).

10 MR. STAMETS: And also I think  
11 something that you haven't pointed out to this time is that  
12 you've also consolidated what were formerly two sets of  
13 rules, a set of rules for the southeast and a set of rules  
14 for the northwest, so that they're now one single set of  
15 rules.

16 A That was our intent, yes.

17 MR. STAMETS: Okay. Thank you.

18 A The new Rule 5(b)2, New Connect Maximum  
19 Producing Period, says:

20 "No well located in a pool where deliver-  
21 ability is an allowable factor shall be permitted to produce  
22 more than 120 days after the date of first delivery without  
a deliverability test.

23 Any well shut in for failure to file a  
24 deliverability test may be assigned producing authorizaion  
25

1  
2 by the Division District Office for purposes of conducting  
3 such test.

4 Except as provided in Rule 6, all produc-  
5 tion following connection, including the volume of test pro-  
6 duction, shall be charged against the GPU's regular allowale  
7 when assigned. Any resulting allowable shall be effective  
8 on the date that the delinquent deliverability test is re-  
9 ceived in the appropriate Division District Office."

10 The intent of this is set out to penalize  
11 the producer for failing to comply with the regulations in  
12 that the normal allowable assignment would be up to 90 days  
13 retroactive from the date the test is received, toward the  
14 date of connection but not ahead of the date of connection  
15 in normal operations.

16 If the producer fails to accomplish and  
17 file the test within the 90 day period, he would only re-  
18 ceive 90 days retroactive allowable from the date the test  
19 is received up to 120 days.

20 After 120 days there would be no retroac-  
21 tive allowable from the date the test was received by the  
22 District Office, and thus encourage the producer to have his  
23 test filed within the specified time period.

24 Q Just for clarification purposes, Mr Ken-  
25 drick, is this new rule proposed because of problems with  
getting deliverability tests on wells and enforcements re-

1  
2 relating to that?

3           A           Yes. We have had wells that produced for  
4 periods up to a year without having filed a test and conse-  
5 quently wound up extremely overproduced and the Division  
6 failed to contact the operator or the pipeline company and  
7 attract their attention to such a problem and consequently  
8 it wound up with the operator or producer being grossly  
9 overproduced and causing the well to be shut in for a sus-  
10 tained period of time where a judicious application of the  
11 rules would not have let that happen.

12           Q           Okay, would you continue, then, with your  
13 recommendations on Rule 8?

14           A           In Rule 8, entitled Minimum Allowables,  
15 minimum allowables have been a fact of life in the San Juan  
16 Basin for a lot of years. I did not realize until last  
17 night that minimum allowbles have never been in effect in  
18 the Permian Basin.

19                       In R-1670, I think it was issue X, mini-  
20 mum allowable was reduced from 1000 MCF per month to 250 MCF  
21 per month in the San Juan Basin.

22                       This committee elected to take the mini-  
23 mum allowable volume from R-1670 for the northwest and put  
24 it into Special Pool Rules so that if the Division elected  
25 to adjust the minimum allowables for any one pool it would  
not cause all of the producers in all pools to be concerned

1  
2 but that only one, the producers in one pool would be identified as looking for the change in the minimum allowables.  
3

4 I have been advised that there will be some other testimony related to minimum allowable presented  
5 later today by people from the southeast part of New Mexico.  
6

7 On Rule 9(d), Wells Exempt from Deliverability Testing, San Juan Basin, we got this written into  
8 the general proration rules and it might would better be placed in the testing manual, rather than exempting wells in  
9 the San Juan Basin in the general rules, and just make the test exemptions as part of the testing manual and delete  
10 this paragraph.  
11  
12

13 Rule 11(c), Exception to Shut-in for Overproduction. The Committee reviewed this paragraph,  
14 which authorized the Director of the Division to grant relief to a producer to make overproduction at a lesser rate  
15 than shut-in every day of every month because of lease validation problems and other hardship cases and authorized the  
16 Director to provide for production of up to 500 MCF per month.  
17  
18  
19

20 The minimum allowable in the San Juan Basin is now set at 250 MCF per month and economic factors  
21 have changed sufficiently to where that 250 MCF per month would provide enough money to pay a little tax and royalty  
22 and so the Committee thought that they could live with the  
23  
24  
25

1  
2 250 MCF per month allocation, and therefore we recommend the  
3 reduction from 500 MCF per month to 250 MCF per month for  
4 the minimal rate production authorized by the Director.

5 On Rule 11(f) we brought in a new rule in  
6 the general proration rules dealing with hardship gas wells.

7 Hardship gas well classification is a  
8 rather recent category of wells authorized by the Division  
9 and this is the first hearing on R-1670 since the hardship  
gas well classification has been established.

10 This new rule reads as follows:

11 "If a GPU containing a hardship gas well  
12 is overproduced, the operator must take necessary steps to  
13 reduce production in order to reduce the overproduction.

14 Any overproduction existing at the time  
15 of designation of a well as a hardship gas well, or accruing  
16 to the GPU thereafter, shall be carried forward until such  
time as it is made up by underproduction.

17 No GPU containing a hardship gas well,  
18 which GPU is overproduced, shall be permitted to produce at  
19 a rate higher than the minimum production rate" -- or excuse  
20 me -- "producing rate authorized by the Division."

21 For those not familiar with the hardship  
22 gas well classification, the usual order that I have seen  
23 from the Division sets out a minimal volume of gas that the  
24 purchaser should take to prevent waste at that wellsite to  
25

1  
2 give some relief to the producer.

3 Q Mr. Kendrick, what you're doing here is  
4 taking language that generally is found in individual orders  
5 on hardship wells and putting it into a general rule, right?

6 A Yes.

7 Q Okay.

8 A But it is entered here to prevent giving  
9 a hardship gas well a distinct advantage over other wells in  
10 a pool.

11 Rules 12(a) and 12(b), identified as  
12 Classification Period, changed the length of the classifica-  
13 tion periods from three months to four months. A classifi-  
14 cation period is a period at the end of which the adminis-  
15 trative division here in Santa Fe reviews the allowable pro-  
16 duction history of the wells within the pools and classifies  
17 wells from nonmarginal to marginal to qualify. Currently  
18 that goes on three times a year plus the one at the end of  
19 the proration period. This would eliminate one of those and  
20 eliminate that additional amount of work.

21 Rule 17 deals with noncompliance. I have  
22 reviewed this. This may be more my personal remark than the  
23 Committee remark, but Rule 17 provides for a penalty to pro-  
24 ducers for failing to comply with these rules.

25 It fails to provide any penalty for pur-  
chasers for noncompliance with their share of these rules.

1  
2 The Division might would like to provide a type of penalty  
3 for the purchaser.

4 Essentially what this rule says, that if  
5 anybody is in noncompliance, the purchaser is not penalized,  
6 the producer is always penalized.

7 Rule 19 is a new rule, Notice of Margnal  
8 Shut-in. It's recommended by the Division staff. It says  
9 that, Purchasers shall notife the Director any time it is  
10 necessary to shut in marginal wells. Such notice shall be  
11 made within 30 days following the end of such month and  
12 shall include data as may be required by the Director.

13 This report shall not include wells shut  
14 in for required testing, connection of new wells, or wells  
15 shut in by the Director."

16 I'd like to apologize to all the Commit-  
17 tee members because of my delay in getting this thing --  
18 getting these paragraphs rearranged. I did rearrange them  
19 last week and mailed a copy to everybody and I'm not sure  
20 that they had time to read those, but I revised these into a  
21 category that I thought was more reasonable than what we had  
22 before.

23 Q In summary, Mr. Kendrick, these new pro-  
24 posed rules for the general rules for the prorated gas pools  
25 in New Mexico are intended to replace what are now rules is-  
sued under Order R-1670, correct?

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

A Yes, in --

Q All right.

A In all of the state instead of having two sections of R-1670 representing, or taking two groups to represent the state, one group for the San Juan Basin, one group for the southeast part of the state.

Q Okay. Is that all the testimony you have regarding the general rules?

A Yes.

Q Let's now move -- well, let me now introduce these exhibits.

Were Exhibits One, Two, and Three prepared by you or under your supervision and control?

A Yes.

MR. TAYLOR: Mr. Commissioner, I'd like to move the admission of our Exhibits One, Two, and Three.

MR. STAMETS: The exhibits will be admitted.

I'd like to ask Mr. Kendrick a couple questions before you move on from this.

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Kendrick, just looking at some of the things that I see here, for example, in the definitions, we

1 we -- you are proposing to define that a gas proration unit,  
2 as I recall in the way the rules are written now they are  
3 primarily discussing wells, and because of all the infill  
4 drilling, is that why the GPU is -- is defined here and why  
5 it's used throughout these rules?

6 A The term GPU, representing gas proration  
7 unit, was defined in our definitions and we attempted to re-  
8 place the term "well" throughout this whole set of general  
9 proration rules where GPU was applicable.

10 The word "well" does appear in cases like  
11 in hardship gas wells, and things like that, but the term  
12 "well" in our attempt was to be used only when it related to  
13 a well, whether it be on a single well unit or multi-well  
14 unit, if we were talking about a well we identified it as  
15 "well" but we attempted to cause proration units to be iden-  
16 tified as GPU's in all instances that we intended to talk  
17 about the entire proration unit.

18 Q That's part of the modernization process  
19 that you've gone to in preparing these rules.

20 A Yes, and simplification or -- or trying to  
21 cause this to talk about the thing, because if you talk  
22 about wells or a well on the proration unit, it gets to be a  
23 lot of confusion.

24 Q I notice you also added paragraph head-  
25 ings here, which would lead the reader to figure out what

1 he's trying to, or where he should look; for example, on  
2 page three you talk about Standard Unit Spacing, Standard  
3 Size and Variance, and so on.

4 A We thought that would be an assist to  
5 everyone reading the rules.

6 Q Okay.

7 MR. STAMETS: Are there any  
8 other questions about what Mr. Kendrick has testified to to  
9 this point?

10 MR. PEARCE: May I?

11 MR. STAMETS: Yes.

12 MR. PEARCE: I haven't even en-  
13 tered an appearance.

14

15 QUESTIONS BY MR. PEARCE:

16 Q Mr. Kendrick, I'm W. Perry Pearce, of the  
17 Santa Fe law firm of Montgomery and Andrews.

18 I'd like for you to go back up your sheet  
19 to Rule 5(b)2, and I'm looking at Exhibit Number Two, al-  
20 though the language is the same Exhibit One.

21 During your testimony, sir, you discussed  
22 that this rule was intended to penalize operators who pro-  
23 duced wells for extended periods of time without doing  
24 deliverability tests.

25 You also mentioned, as I recall, for

1 something about there being a regular 90-day retroactive al-  
2 lowable assignment? Did I understand that correctly?

3 A Up to 90 days, yes, sir.

4 Q Could you explain how that system works a  
5 little more fully?

6 A I would refer you back to the Rule 5(b)1,  
7 Mr. Pearce, which would be on the lower part of page 7, and  
8 in Rule 5(b)1(B) paragraph 2, which is actually on the top  
9 of page 8, in the procedure for assigning allowables to new  
10 wells under that paragraph, the paragraph 5(b)2 says: "A  
11 deliverability factor allowable will be assigned the later  
12 [date] of:

13 a) The date of first delivery; or

14 b) 90 days prior to the date of receipt of the de-  
15 liverability test report at the appropriate Division Dis-  
16 trict Office."

17 Q And what this -- the effect of that lan-  
18 guage is, in fact, to allow up to 90 days retroactive as-  
19 signment of gas allowable that --

20 A Yes.

21 Q That does?

22 A Yes.

23 W I'm sorry to be so slow but I really am  
24 this morning.

25 MR. STAMETS: Mr. Kendrick, if

1 I read this correctly it's only that the deliverability por-  
2 tion, that the well has already been assigned its acreage  
3 portion of the allowable under -- under paragraph 1 of that  
4 5(b) 1 (B).

5 It says, "An acreage factor al-  
6 lowable will be assigned the later of the date of" first de-  
7 livery of gas to the purchaser or the approval of Form C-102  
8 or 104.

9 So that will be assigned early  
10 on and it's only the deliverability portion which is subject  
11 to any retroactivity.

12 A Yes, but then Rule 5(b) 2 says that if he  
13 fails to take a test within 120 days the proration unit will  
14 be shut in.

15 MR. STAMETS: Right, but he  
16 still had that first 120 days acreage allowable.

17 A Had that opportunity to take a test, yes.

18 MR. STAMETS: And he --

19 MR. PEARCE: Excuse me for get-  
20 ting in the middle, but as I understand it, he does not lose  
21 the 120 days of acreage allowable just because he did not  
22 timely do his deliverability test and submit that, or does  
23 he lose that deliverability?

24 A I have no objection to him losing the  
25 whole allowable.

1 MR. STAMETS: Mr. Kendrick, I,  
2 in reading Rule 5(b)2, I don't see where as it's currently  
3 worded that that would happen. It looks to me as though he  
4 gets that 120 days but he -- acreage allowable, but he never  
5 gets any retroactive deliverability allowable.

6 That would come into play once  
7 that test was filed.

8 A I think this is one of the things that if  
9 the Commission accepts these recommendations to be reviewed  
10 by them in writing a rule, that someone in the Division  
11 staff is going to have to make that decision.

12 Q I, as I understand it, under the present  
13 system, one can get 90 days of retroactive deliverability  
14 allowable if you timely submit a deliverability test.

15 You lose that ability to get 90 days re-  
16 troactive allowable -- I'm not arguing, I'm asking if that  
17 is the intent of this. I just -- I want to be able to tell  
18 people what that will mean.

19 Do you believe that if a deliverability  
20 test is delivered on the 121st day after connection that  
21 that well operator will not be granted 90 days of deliver-  
22 ability allowable on that well, as Rule 5(b) 1 and 2 are  
23 currently written?

24 A Yes.

25 Q Okay, just so we know what it says.

1           A           That was the intent of the last sentence  
2 in the paragraph that says that any resulting allowable  
3 should be effective on the date the delinquent deliverabil-  
4 ity test is received by the appropriate District office,  
5 that no retroactive allowable would be assigned to a delin-  
6 quent test.

7                       Of course, the -- based on the history I  
8 have with the Division, one could appeal and ask that an al-  
9 lowable be assigned for a hardship case; some decision could  
10 be made later down the road, but as a rule of thumb, I think  
11 that the limit ought to be set to no retroactive.

12           Q           All right, sir, with regard to Rule 19,  
13 shown on your Exhibit One and Exhibit Two?

14           A           Page thirteen?

15           Q           Page thirteen of Exhibit One and the bot-  
16 tom of Exhibit Number Two. as I understand what that says  
17 now, no operator -- no purchaser, operator, nobody has any  
18 way of knowing what that reporting requirement is going to  
19 be at that time -- at this time, is that correct? I can't  
20 tell from that rule what I'm supposed to do, frankly.

21           A           That's true. I think that the wording of  
22 this rule means that the purchaser would pick up the tele-  
23 phone and call the Director and find out what type of infor-  
24 mation he wanted on that report and then provide that infor-  
25 mation.

1           Q           Was there any discussion in the Committee  
2 study of what that reporting requirement would be?

3           A           No, sir.

4           Q           Thank you.

5                       MR. PEARCE: I have nothing  
6 further, sir.

7                       MR. STAMETS: Presumably, if  
8 you had a very friendly and benign director, those require-  
9 ments would be quite minimal.

10                      MR. PEARCE: I'm always looking  
11 for one of those.

12                      MR. COOTER: I have one ques-  
13 tion for Mr. Kendrick.

14

15

CROSS EXAMINATION

16 BY MR. COOTER:

17           Q           Let me direct your attention, if I may,  
18 to Rule 13(a), which appears on page 11.

19                      The time period referenced therein is  
20 twelve months. Was it not the consensus of the Committee  
21 and in fact the Committee Report as originally drafted, that  
22 that time period would be four months?

23           A           The classification period is identified  
24 in Rule 12(a) at the top of page 11, as being four months,  
25 and I failed to get that changed. It was identified in the

1 Committee as three months, but the reference in the middle  
2 of paragraph 13(a) is the average monthly allowable during  
3 the period -- or prior twelve months, was discussed at the  
4 Committee and using the twelve month average allowable  
5 rather than the period average allowable would provide a  
6 whole lot better basis for classification, in my personal  
7 opinion.

8 Q I understand that, Mr. Kendrick. I was  
9 just asking for the -- as the Committee which you chaired  
10 resolved or established that time period, was it not a four  
11 month period that was then changed as you set out in your  
12 transmittal memorandum to a twelve month period?

13 A Yes. That was one of the changes, and I  
14 failed to get it on the Exhibit Two, yes.

15 Q But in your memorandum of November 7,  
16 that was to the members of the Rules Study Committee, that  
17 was your proposal that that time period be changed to twelve  
18 months, as in your --

19 A Yes.

20 Q -- exhibit as offered.

21 A Yes.

22 Q Thank you.

23 MR. STAMETS: Any other ques-  
24 tions?

25 Mr. Nutter.

1 MR. NUTTER: Clarification  
2 points, Mr. Stamets.

3 MR. STAMETS: All right. Since  
4 you are a noted former Division expert on gas prorationing,  
5 I think your views and queries would be most beneficial.

6 MR. NUTTER: Well, I'm stumped  
7 by a lot of these. I've got to learn here this morning.

8

9 QUESTIONS BY MR. NUTTER:

10 Q Mr. Kendrick, on the first page of your  
11 proposed rules here, you, at the bottom of the page, you've  
12 got the definition of a gas purchaser, and I don't know what  
13 a gas purchaser is after reading these rules.

14 I'd ask you, does gas purchaser, as used  
15 in these rules, mean any first taker and does first taker  
16 include the actual purchaser or the actual physical trans-  
17 porter of the gas?

18 I'm thinking in the case of a carriage,  
19 gas carriage situation.

20 A The gas purchaser is identified here as  
21 the first taker and that's at the first measurement point.

22 Q Well, but "taker" is not clear in my  
23 mind.

24 A It is the transporter or pipeline company  
25 or purchaser --

1 Q Well now, you've got an "or" there and it  
2 could be one or the other, then.

3 A No, it -- they're -- they're all the same  
4 point. It's whoever takes the gas through the first meter.

5 Q Whether he's the purchaser or not?

6 A Right.

7 Q So it's the first transporter, then.

8 A That's true.

9 Q It's not the first purchaser.

10 A Well, under these rules the Committee  
11 elected to use the term "purchaser" as the identity and we  
12 identified the purchaser here as the first taker of gas at  
13 -- and that's the mechanical, the owner of the mechanical  
14 connections of the well.

15 Q That's the physical taker and not  
16 necessarily the purchaser, then.

17 A Yes, sir.

18 Q Okay, just wanted to clarify that point,  
19 Mr. Kendrick.

20 Now on page four in the provisions for  
21 establishing a nonstandard gas proration unit, I believe the  
22 previous rules provided that there has to be a presumption  
23 that the acreage included in the nonstandard proration unit  
24 is productive of gas from the pool, and that presumption is  
25 no longer required here.

1                   Is there a reason for that or is it an  
2 oversight, or what?

3                   A                I don't -- don't recall that being dis-  
4 cussed at the Committee. Of course, we've been two years in  
5 this discussion, and this was one of the early on things  
6 that we discussed, and I don't recall any intent to remove  
7 anything that said we required presumption that the entire  
8 unit was being productive.

9                   Q                I believe that was a requirement for non-  
10 standard proration units in both the northwest and the  
11 southeast and now it's not in here for the general rules ap-  
12 plying to both areas.

13                                   The Division may want to -- or Commission  
14 may want to consider that elimination, that provision that's  
15 being eliminated.

16   MR. PEARCE: For clarification  
17 could we get the person asking the question to read that  
18 sentence out of the old rules?

19   MR. NUTTER: Yes, sir.

20   MR. PEARCE: Please.

21   MR. NUTTER: I'll read it out  
22 of both rules, Mr. Pearce.

23   MR. PEARCE: Thank you.

24   MR. NUTTER: In Section 70, in  
25 section -- Rule 5(b)3(D), for a nonstandard proration unit,

1 Rule 1670 reads, "the entire nonstandard gas proration unit  
2 may reasonable be presumed to be productive of gas from the  
3 designated gas pool."

4 In the southeast rules of 1670,  
5 in Rule 5(c)3(D) it states, "the entire nonstandard gas pro-  
6 ration unit may reasonabley be presumed to be productive of  
7 gas from the designated gas pool."

8 MR. PEARCE: Is that just a  
9 sentence standing by itself, sir?

10 MR. NUTTER: It's one of one,  
11 two, three, four, five, it's one of five separate sentences  
12 standing by themselves in the Rule 3 of -- Section 3 of Rule  
13 5.

14 MR. PEARCE: Thank you, sir, I  
15 apologize for interrrupting.

16 Q Now, on page 6, Mr. Kendrick, under Nom-  
17 inations you've discussed here in the case of one gas pur-  
18 chaser, if more than one gas purchaser is involved, for  
19 example, in the case of a split connection, traded gas, or  
20 when the producer gathers his own gas and delivers it to an-  
21 other purchaser at a central delivery point, the purchasers  
22 may mutually authorize, agree to authorize one of the pur-  
23 chasers to file the whole nomination.

24 Would this also be the case where a pur-  
25 chaser would be nominating for a gas marketing division of

1 that company that sells gas on the spot market?

2 A Yes, anywhere that multiple ownership may  
3 be considered or, for instance, in contract carried gas, the  
4 taker of the gas would not necessarily be the buyer and the  
5 physical taker at the wellhead, or where split connections  
6 occur, so that more than one connection is at the wellhead.

7 We attempted to eliminate multiple  
8 nominations for the same well.

9 Q Okay, then the agreement between the  
10 purchasers is to be indicated by a formal letter.

11 Does this letter simply state that  
12 company A is going to be nominating for company A and B and  
13 C, or does it state that company A will be nominating a  
14 certain percentage of its nominations for these various  
15 companies, or would there be a breakdown in the nominations  
16 so that you could identify how much demand a particular  
17 purchaser from that wellhead had in mind for the following  
18 month in the nominations?

19 A I think it was our intent to have one  
20 volume identified as the total volume to be taken from the  
21 proration unit and nominated by one purchaser.

22 Q So if a producer had a connection with  
23 one fo the companies that was being nominated for in this  
24 total nomination, he wouldn't have any idea whether his  
25 purchaser was nominating high or low or maybe nominating

1 nothing at all, then, would he, if there's no breakdown.

2 A That's true, but we don't find that any  
3 different than now. If an operator has a well in the Basin  
4 Dakota Pool he has no knowledge as to how much gas that the  
5 purchaser is nominating for his well. He's nominating for  
6 the --

7 Q But he has an idea --

8 A -- pool.

9 Q -- how much he's nominating for the pool  
10 and you wouldn't have any idea here how much the nomination  
11 for that company would be for that pool, even.

12 A Which is like it is today. As I under-  
13 stand it today, the purchasers do not nominate for takes  
14 from individual companies or wells. They nominate for takes  
15 from the pool, and that's --

16 Q For their own -- for their own purchase.  
17 For their own purchase.

18 A Whatever he wants to take from the pool,  
19 whether it's --

20 Q Right.

21 A -- for his own purchase or something he  
22 sold down the road, the producer has no idea where -- what  
23 gas is sold down the road by the taker of gas.

24 Q But a company that's in a split connec-  
25 tion, a well with a split connection, has an idea of what

1 his company is nominating for that pool, anyway, what his  
2 purchasing company -- he won't have any idea of what his  
3 company is nominating here.

4 I don't want to quarrel about it, but I  
5 think, I think it's obvious that --

6 A Frankly, I don't seen any difference be-  
7 tween this and the current situation.

8 Excuse me for interrupting, Mr. Nutter,  
9 but when we went back through unorthodox well locations, you  
10 did remind me of a revision we made which I failed to men-  
11 tion, in that the notice to offset operators for an applica-  
12 tion for a nonstandard location will be made only to those  
13 people who have acreage within the minimal required distance  
14 offsetting the boundary of the drill tract.

15 Q I believe that's in the conformance with  
16 the new rules that were adopted by the Commission under its  
17 statewide provisions. Is that not correct?

18 A I'm not -- not related to that, but if,  
19 for instance, in the San Juan Basin the minimal requirement  
20 for a well is 790 feet from the boundary of the proration  
21 unit, then only those people who own acreage within 790 feet  
22 of the proposed nonstandard location need be notified.

23 Q Now, Mr. Kendrick, I still didn't under-  
24 stand exactly why the exception to shut-in for overproduc-  
25 tion, as cited in Rule 11(c) on page 10 of your rules has

1 been reduced from 500 to 200 MCF of gas per month.

2 Southeast New Mexico had a provision for  
3 500 MCF and I know minimum allowables in northwest New Mexi-  
4 co are 250, I believe, but why the necessity to curtail a  
5 maximum amount of production on a well that's been shut in  
6 to 500 MCF a month, especially in view of the fact that this  
7 would be applicable to southeast New Mexico, and some of  
8 those wells down there, you turn them on for five minutes  
9 and they've overproduced 500 MCF, possibly, a month's allow-  
10 able?

11 Or they would overproduce 200 MCF.

12 A In the Committee's opinion, or the --  
13 what I think is the opinion of the majority of the people  
14 that discussed this at the committee meetings, was that any  
15 allowable authorized to the well that forced to be shut-in  
16 for overproduction is granting these people a favor to try  
17 to keep them out of some kind of problem. It's not a matter  
18 to give them a large chunk of the allowable or the market at  
19 that situation, it's a provision to salvage this operator  
20 from problems that quite likely he generated himself by  
21 overproducing his well and not paying attention to this pro-  
22 ration.

23 So it's not a matter that we're penaliz-  
24 ing those people, it's that we're giving them less of a  
25 chunk of the pie.

1                   The proration unit is already overpro-  
2     duced to the point of being forcibly curtailed and it's a  
3     relief to salvage something from a problem that was gener-  
4     ated at that proration unit and not by the other people in  
5     the pool.

6                   Q           Well, I realize that, but 250 MCF of gas  
7     is a very small amount of gas.

8                   A           I might also add that the 500 MCF number  
9     was generated at a time when the price of gas was about 10  
10    or 15 cents per MCF instead of the current rate of maybe 10  
11    or 15, 20 times that.

12                  Q           Of course, I don't think either one of  
13    these figures is designed to make the well economic, Mr.  
14    Kendrick, 500 or 250.

15                  A           No, it's just a matter to have provided  
16    enough money to pay some tax or royalty and validate a  
17    lease.

18                  Q           Okay, then on page 11, Mr. Kendrick, on  
19    Classification of GPU's, you stated that changing the class-  
20    ification period from three months to four months would eli-  
21    minate work.

22                                Is that the only reason for changing the  
23    classification period from three months to four months?

24                  A           Yes.

25                  Q           Okay. Then in Section 13(a), the

1 Reclassification to Marginal, you state that after the pro-  
2 duction date is available any GPU which had an underproduced  
3 status at the beginning of the proration period may be  
4 classified marginal.

5           The former rule said that the unit shall  
6 be classified as marginal.

7           What is the difference between "may" and  
8 "shall" here, and why is the difference?

9           A           I don't know. I didn't revise that para-  
10 graph so I'm not sure of what was in the mind there and I  
11 don't think that any change there was intended to change the  
12 importance of the word in that particular position.

13           Q           I believe that --

14           A           The change that we intended to make in  
15 this was to change the average monthly allowable period from  
16 a 3 month's average allowable to a 12 month average allow-  
17 able because the allowables have fluctuated so badly being  
18 based on nominations that one month's nomination could cause  
19 a substantial number of wells to be classified marginal on a  
20 90 day average but on a 12 months average that would not oc-  
21 cur.

22                               MR. STAMETS: Mr. Kendrick, as  
23 to Mr. Nutter's query there, in the immediate previous para-  
24 graph it says that the Director may suspend the reclassifi-  
25 cation.

1 Does this "may" and that "may",  
2 do those two "mays" tie together?

3 A I don't think so.

4 MR. STAMETS: Does it give the  
5 Director that same degree of flexibility?

6 A Well, you have the flexibility in 12(b)  
7 so that it doesn't matter if it's carried forward and re-  
8 lates back to 12(b) you have the authority to cancel reclas-  
9 sification perid so I see no difference in the paragraphs.

10 MR. STAMETS: Does that make it  
11 consistent then to have those, all of those "mays" in there?

12 A I think it would.

13 MR. STAMETS: Mr. Pearce, did  
14 you want to get in the middle of this?

15 MR. PEARCE: Does anybody ob-  
16 ject?

17 I don't have a set of the old  
18 rules in front of me, but looking at the summary sheet which  
19 you did, Mr. Kendrick, do you have a set of the old rules?

20 MR. NUTTER: They're right here  
21 if anybody wants to read them.

22 A Not handy.

23 MR. PEARCE: It references Rule  
24 16(A) as now being Rule 13(A), and I was wondering whether  
25 or not the last part of what is now proposed Rule 13(A), re-

1 relating to having thirty days from notification to demon-  
2 strate to the Director, was that always in there?

3 MR. NUTTER: No, that used to  
4 be fifteen days. It was there but it was fifteen days.

5 This is a good change.

6 A And what are you gentlemen referring to  
7 as the fifteen days and the thirty days? The rest of us  
8 would like to know what the content is you're speaking of.

9 MR. PEARCE: Okay. The last  
10 part of proposed Rule 13(a) says that the operator of any  
11 GPU so classified, or other interested party, shall have 30  
12 days after receipt of notification of the marginal classifi-  
13 cation in which to submit satisfactory evidence to the Divi-  
14 sion that the GPU is not of marginal character and should  
15 not be so classified.

16 It seems to me that would force  
17 the use of "may", but perhaps Mr. Nutter feels --

18 A In the Committee discussion of this there  
19 was a request that we shorten the period for an interested  
20 party to bring forth a notice that the classification was in  
21 error, so that the correction could be made in the next gas  
22 proration schedule being issued, primarily on the premise  
23 that the gas proration schedule would be out before the  
24 first day of the month and if in fact the parties could  
25 determine and get the notice in by the 15th day of the

1 month, then the new schedule issued later that month could  
2 have the correction within it, but when it was pointed out  
3 that the schedule for the current month sometimes arrives as  
4 late as the 10th and we add 15 days to it, the new schedule  
5 is already being extracted from the computer, so it couldn't  
6 get there anyhow, so the term 30 days, or the time of 30  
7 days was put in to give the interested parties sufficient  
8 time and it would not materially affect the date of change  
9 in the next schedule after the notice is received by the  
10 Division here in Santa Fe.

11 MR. NUTTER: Mr. Stamets, while  
12 we're on this paragraph, I think I might point out that I  
13 believe that the provision for the Director in 12(b) second  
14 paragraph up there is more or less on a wholesale scale,  
15 which has been accomplished by the Division Director over  
16 the last two or three years, but without any specific  
17 written authority under the rules to do so, and it's  
18 probably a good provision.

19 The one in the Rule 13(a) is  
20 the rule which governs Harold's computer that reads the  
21 production versus allowables and reclassifies that well, and  
22 I don't think the computer has the option to say "may" or  
23 "shall".

24 Of course if it says "shall",  
25 then the well would be reclassified. The producer then

1 would have his 30 day period in which to come in and ask you  
2 to rescind that reclassification.

3                   So I think the "shall" may be  
4 applicable in 13(a) while you do have the authority up here  
5 in 12(b) to grant the exceptions on a wholesale scale.

6                   I'm not sure how I feel about  
7 the 12 months or the 3 months for the reclassification  
8 period. As Mr. Kendrick stated, it's probably advantageous  
9 because allowables have fluctuated so widely in a 12 month  
10 period.

11                   A                   It may fluctuate on a 90 day period but  
12 not so widely on a 12 month period.

13                   MR. NUTTER: But I do support  
14 the 30 days for the operators to come in and ask for reclas-  
15 sification back to nonmarginal.

16                   MR. STAMETS: Does that con-  
17 clude your clarification, Mr. Nutter?

18                   MR. NUTTER: Yes, sir, that  
19 concludes my questions for clarification.

20                   A                   I'd like to address one that Mr. Nutter  
21 brought up on the top of page 11 in Rule 12(a).

22                   I failed to get in this new printout the  
23 classification period identified to three times a year in-  
24 stead of four times a year, so those periods would be -- or  
25 they are four months each, I'm sorry, three times a year on

1 four month intervals, and including April the 1st ordinarily  
2 are classified.

3 On the top of page 13 in Rule 18, I  
4 failed to (not understood) that Rule number 4(b) down there,  
5 which is Rule 5(b)1.

6 MR. STAMETS: Okay, Rule 18  
7 then is -- references Rule 5(b)1?

8 A Yes.

9 MR. STAMETS: Is that a little  
10 "b"?

11 A Yes, rather than Rule 4(b), it's Rule  
12 5(b)1 in this new arrangement.

13 MR. STAMETS: Mr. Garcia?

14

15 QUESTIONS BY MR. GARCIA:

16 Q Mr. Kendrick, in reference to Rule 13(a)  
17 to change the period to a 12 month period from a 4 month  
18 period, and in current practice, now, utilizing the term  
19 "underproduced" we have not undertaken reclassification of a  
20 well that has less than one classification period history,  
21 so that a well is one month or two months over currently,  
22 and under this new proposal that would be a 3 month old well  
23 would not be subject to reclassification because it has not  
24 completed enough history to make a determination.

25 Under this proposal, utilizing a 12 month

1 fixed average, would we not be better off by applying the  
2 same type of language as we have in Rule 11(d), that we  
3 would use the monthly average for the number of months  
4 available, 12 months, or the number of months available, be-  
5 cause within that same scope of fluctuating allowables, if I  
6 have to average in several months of zeros or divide by 12,  
7 but I only have, say, a 5 or 6 month history, it is going to  
8 cause an awful lot of wells to remain as nonmarginal when  
9 they should be marginal.

10 A Yes, the -- if a well produced for a 4  
11 month period and was classified as marginal, then the 4  
12 months allowable would be what would classify that and you  
13 couldn't classify anything prior to its date of connection  
14 and average -- average in allowbles from times before the  
15 well was granted an allowable.

16 MR. GARCIA: I have no further  
17 questions.

18 MR. STAMETS: Any other ques-  
19 tions of Mr. Kendrick on this proposition?

20 You may proceed to what I pre-  
21 sume is the special pool rules.

22 MR. TAYLOR: Thank you.

23 MR. STAMETS: We'll take a fif-  
24 teen minute recess.

25

1 (Thereupon a recess was taken.)

2  
3 MR. STAMETS: The hearing will  
4 please come to order.

5 Mr. Taylor, you may continue.

6  
7 REDIRECT EXAMINATION

8 BY MR. TAYLOR:

9 Q Mr. Kendrick, I've handed you what I've  
10 denominated as Exhibit Four-A and Four-B. Would you first  
11 tell us what those are and then we'll go through them?

12 A Four-A is my critique of what we attempt-  
13 ed to do in the San Juan Basin Special Pool Rules, and Rule  
14 Four-B is a copy of the revised rules as they were last at  
15 the Committee meetings, plus I think I changed the pool rule  
16 numbers in here to match my latest rule arrangement.

17 MR. TAYLOR: I'd like to point  
18 out to the Commission that we have denominated each of the  
19 exhibits so far as a Division exhibit, even though these are  
20 actually prepared by the Gas Proration Rules Study Committee  
21 because the Division and the Committee are essentially act-  
22 ing in tandem and we've just labeled every exhibit as a Div-  
23 ision exhibit.

24 Q Okay, Mr. Kendrick, would you, referring  
25 both to your Exhibit Four-A and to the actual proposed rules

1 which are Four-B, do you just want to go through one by one  
2 the proposed changes, highlighting minor changes and ex-  
3 plaining major changes?

4           A           I think if I go through Exhibit Four-A,  
5 we do have a bunch more copies of these. We didn't have as  
6 many copies of the rules as we have of the other proposed  
7 changes, if people would like some of those.

8                       The pool rules as written did not specify  
9 up front what the vertical limits of the pools were or the  
10 date creation or the date of proration in all cases. So we  
11 moved this up to an introductory paragraph rather than into  
12 a rule number, and so we have the vertical limits, and the  
13 date the pool was created and the date that proration was  
14 effective in the pools before the pool rules are identified  
15 here, in an attempt to maybe save someone some research down  
16 in the later paragraphs of the rules.

17                      All rules that -- where the General Rules  
18 apply, we attempted to eliminate from the Special Pool  
19 Rules; only those places where there is a difference from  
20 the General Pool Rules.

21                      And the acreage and proration require-  
22 ments, we had to identify which of the acreage requirements  
23 was necessary and in the San Juan Basin the footage require-  
24 ments are spelled in the General Rules so that the footage  
25 requirements are not identified -- excuse me, they are iden-



1 well information was not required in the gas proration rules  
2 for that pool.

3                   So we eliminated the paragraph dealing  
4 with oil wells drilled in the Dakota formation.

5                   In the Blanco Mesaverde Pool there is a  
6 line from the northwest to the southeast which identifies  
7 the separation point because of the Chacra formation oc-  
8 ccurring in the southwest part of the Basin and not in the  
9 northeast part of the Basin, so that the vertical limits of  
10 the pool change as one crosses the line across the pool and  
11 so Rule 25 in the Special Pool Rules identifies the position  
12 of the line southwest of which Chacra can occur, northeast  
13 of which Chacra does not occur, except by special order.

14                   Special Rule 25 was not used in any of  
15 the other pools in the northwest.

16                   In the Blanco Mesaverde Pool Rules, Rules  
17 25 through 33 do not occur in the gas proration rules because  
18 they do not relate to proration. They relate to other fac-  
19 tors but not proration, so we did not attempt to classify or  
20 revise them.

21                   In the Tapacito Pictured Cliff Pool the  
22 early rule provided in part that a well could be drilled no  
23 closer than 25 feet from any quarter quarter section or sub-  
24 division innerboundary, unquote.

25                   Most of the surveyors and most of the

1 operator's representatives tried to locate their wells based  
2 on the usual footage requirements of 790 feet from the outer  
3 boundary of the quarter section and not closer than 130 feet  
4 to the inner boundaries of the quarter section, and the Com-  
5 mittee decided that we did not need the tolerance to drill  
6 closer than 130 feet to the inner boundary, so we recommend  
7 a change and put all the wells in the San Juan Basin being  
8 spaced on the same footage pattern in the four prorated  
9 pools in the San Juan Basin.

10 The pool rules for the Basin Dakota and  
11 the Blanco Mesaverde are essentially the same except for the  
12 paragraph dealing with 920 feet for the location require-  
13 ments in the Dakota Pool, and the magic line for Exhibit A  
14 separating the vertical limits in the Mesaverde Pool.

15 Those two pool rules are essentially  
16 identical.

17 The pool rules for the two prorated Pic-  
18 tured Cliffs are identical.

19 Excuse me, there is one other difference  
20 in that the special pool rules for the Dakota have the al-  
21 lowable proration split on 40 percent for acreage and -- or  
22 acreage times deliverability, and 60 percent on straight ac-  
23 reage, and the Mesaverde Pool has a 75/25 split, but the  
24 Pictured Cliffs pool rules essentially are identical.

25 Q Mr. Kendrick, I've noticed on Exhibit

1 Four-B, which are the actual rules, that the number is not  
2 consecutive. Is this because you've only showed those rules  
3 which are changing, or why are they numbered the way they  
4 are?

5 A The rules on the Special Pool Rules re-  
6 late to the General Rule number and all General Rule numbers  
7 apply here except those shown by the Special Pool Rules.

8 Q So these rule numbers track the rule num-  
9 bers from the General Rules for prorationing and if there is  
10 a rule in here it differs and therefore takes precedence  
11 over the General Rules?

12 A Yes.

13 Q Okay. Is there anything else that you  
14 want to explain in Exhibits Four-B?

15 A No, sir, I think it's pretty well  
16 covered.

17 Q Okay. Were Exhibits Four-A and Four-B  
18 prepared by you or under your supervision and control?

19 A Yes, sir.

20 MR. TAYLOR: I would like to  
21 then move the admission of Exhibits Four-A and B.

22 MR. STAMETS: These exhibits  
23 will be admitted.

24 MR. TAYLOR: And I guess that's  
25 all that we have to present directly and we'll have Mr. Ken-

1 drick open for questions.

2

3

REXCROSS EXAMINATION

4

BY MR. STAMETS:

5

6

7

8

9

Q Mr. Kendrick, on Rule 25 for the Blanco Mesaverde Pool, is it possible that that would be more clear if we included addition language from Order R-5459 that defined the vertical limits? We've got the line here but I don't think we have the formation, or is that --

10

11

A Could I refer you to the top of the page one.

12

13

14

15

Q Okay, I see, that's in the --

A The first paragraph, or first three paragraphs of page one of the Blanco Mesaverde Pools identify the -- that portion out of Order R-5459.

16

17

18

19

Q Okay.

A But rather than lead off the proration rules with this two-page exhibit of the line, I moved it to Rule 15.

20

21

22

Q Okay. Perhaps there should be a cross reference in each of those, vertical limits, refer also to Rule 25, Rule 25, refer back, also, to --

23

24

25

A I think the reference is in the second paragraph up there, referring to that line, and in parentheses it says "as fully described on Exhibit "A" of Order

1 5459, dated August 1st, 1977, as amended, and in Rule 25 of  
2 this order."

3 Q Okay. Yeah, it does say that, very good.

4 A But in the -- in the Exhibit A I did not  
5 refer back to the second paragraph but I agree that a double  
6 cross index could be handy.

7 MR. STAMETS: Any other ques-  
8 tions of Mr. Kendrick?

9

10 QUESTIONS BY MR. CHAVEZ:

11 Q Mr. Kendrick, you do reference Order R-  
12 5459 as amended, and there is one amendment to that which  
13 you may want to reference also in Rule 25.

14 A I think I included that amendment for the  
15 C&E Well in Township 30 North, Range 11 West.

16 Q (Not clearly understood.)

17 A If there are other amendments, we need to  
18 bring those forward.

19 MR. STAMETS: Any other ques-  
20 tions of the witness?

21 He may be excused.

22 MR. TAYLOR: I'll call next Mr.  
23 Harold Garcia.

24

25

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

HAROLD GARCIA,

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

DIRECT EXAMINATION

BY MR. TAYLOR:

Q Mr. Garcia, would you please state your name, place of residence, and employment?

A Harold Garcia; residence in Santa Fe, New Mexico; employed by Oil Conservation Division.

Q Have you previously testified before the Commission and had your credentials as an expert witness accepted?

A Yes, I have.

Q Would you please describe for us your job responsibilities with the Oil Conservation Division?

A I am manager of the Gas Proration System and work as a System Analyst for the Oil Conservation Division.

MR. TAYLOR: I tender Mr. Garcia as an expert witness.

MR. KENDRICK: Excuse me, Mr. Taylor, would you ask your witness to speak up a little bit?

MR. TAYLOR: Okay, sure will.

1 MR. STAMETS: Besides being a  
2 little bit quiet, the witness is qualified.

3 Q Mr. Garcia, you've reviewed the proposals  
4 of the Gas Proration Rules Study Committee, have you not?

5 A Yes, I have, sir.

6 Q And you're here today ready to make some  
7 comments and recommendations regarding those proposals of  
8 the Committee?

9 A Yes, one specifically.

10 Q And is that on their Rule 8 for the Gen-  
11 eral Rules?

12 A Yes, that is listed as Rule 8, Minimum  
13 Allowables, of the General Rules.

14 Q Okay. I'll now hand you what we've iden-  
15 tified as the Division's Exhibit Five in this matter and  
16 would you please explain what that is?

17 A I'll read this off; probably be easier.

18 "Proposed Division Substitute for Rule  
19 VIII - Statewide Rules.

20 In any month that underage exceeds nomi-  
21 nations or marginal production exceeds nominations for a  
22 given pool, the Division Director may assign a minimum al-  
23 lowable of [200] MCF per month per GPU for that pool in or-  
24 der to prevent premature abandonment of wells. (See Spec-  
25 ial Pool Rules for Minimum Allowable Amount Exceptions."

1 I am proposing that this rule be inserted  
2 in place of Rule VIII, Minimum Allowables, on page 8, that  
3 states, "After notice and hearing the Division may assign  
4 minimum allowables in order to prevent the premature aban-  
5 donment of wells. (See Special Pool Rules for Minimum Al-  
6 lowable Amount.)"

7 I believe Mr. Kendrick presented evidence  
8 that this (not clearly understood) would be taken from the  
9 General Rules and would be placed in the individual pool  
10 rule sections, Within northwest New Mexico we now have  
11 minimum allowable amounts within the minimum allowable rule  
12 of 250 MCF per month.

13 By removing this rule from here and plac-  
14 ing it in the Special Pool Rules, they do not exist there  
15 now and we have two situations within the Commission that  
16 could require the assigning of minimum allowables, as I have  
17 read from my proposed substitute.

18 To have to go to notice and hearing to do  
19 this I think would throw the amount of time that a producer  
20 would receive an allowable about five to six weeks later  
21 than he would normally receive it, and this would be after  
22 notice and hearing, and I'm not even sure that a minimum al-  
23 lowable would be granted on a pool basis or that any pro-  
24 ducer would maybe want that minimum allowable, and an indi-  
25 vidual hearing for each and every pool.

1 I think what I'm looking for here is a  
2 southeast-wide or statewide minimum rule to be invoked at  
3 the time it's needed on an individual pool basis for any  
4 such time that the market would deteriorate to a point that  
5 required the issuance of minimum allowables throughout the  
6 entire prorated field.

7 Q In it your intention that, by the last  
8 sentence here, which says "See Special Pool Rules for Mini-  
9 mum Allowable Amount Exceptions", that if any particular  
10 pool for some reason deserves to have a minimum allowable  
11 other than 250 MCF, that that would be in the Special Pool  
12 Rules for that pool?

13 A That would be in the Special Pool Rules  
14 for that pool.

15 Q Okay. Do you have anything else on --  
16 that you wish to add on Rule 8?

17 A No, I don't.

18 Q Was Exhibit Five prepared by you or under  
19 your supervision?

20 A Under my supervision.

21 MR. TAYLOR: I'd like to move  
22 the admission of Exhibit Five.

23 MR. STAMETS: Exhibit Five will  
24 be admitted.

25 Q Mr. Garcia, do you have any other com-

1 ments or observations which you wish to make on the proposed  
2 proration rules?

3 A No, not at this point.

4 MR. TAYLOR: Okay, that's all  
5 we have on this matter.

6  
7 CROSS EXAMINATION

8 BY MR. STAMETS:

9 Q Mr. Garcia, would it be possible that  
10 Rule 8 could become a two-paragraph rule, one paragraph  
11 which would provide that after notice and hearing minimum  
12 allowables may be established on a poolwide basis to prevent  
13 abandonment, and then a second paragraph which would be your  
14 paragraph?

15 A I would propose that the Division would  
16 have the authority to issue a minimum allowable in such time  
17 that an individual pool would not receive an allowable. It  
18 would either compute to a negative allowable or a zero al-  
19 lowable and that if it was only one pool within the prora-  
20 tion scheme we could issue that as a minimum allowable and  
21 retain the jurisdiction for notice and hearing when a mini-  
22 mum allowable would be required on a statewide or proration-  
23 wide basis.

24 This is not taking away the fact that any  
25 operator, interested party, transporter, or whoever, could

1 apply to the Commission for a change in minimum rule within  
2 any given pool at any time.

3 Q You're saying that if both of these parts  
4 were maintained in there that that would be more clear, that  
5 -- that special minimum allowable could be established on a  
6 poolwide basis.

7 If there is no poolwide basis, no pool-  
8 wide minimum allowable, then under these conditions there  
9 would be one assigned.

10 A That could be done.

11 MR. STAMETS: Any other ques-  
12 tions of this witness?

13 He may be excused.

14 Do you have any other wites-  
15 ses? Oh, yes.

16 MR. TAYLOR: Yes, Mr. Commis-  
17 sioner. I think next we have Jerry Sexton, Mr. Jerry Sex-  
18 ton.

19

20 JERRY SEXTON,

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

23

24

25

## DIRECT EXAMINATION

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

BY MR. TAYLOR:

A I have one comment on putting the Section 8 in the pool rules. I know that the ones that did the work on the southeast have not looked at putting them an allowable in there and I haven't even looked at it and I'm not sure whether -- I think we should have some time to -- for our people from the area to study it and also for the District to study it to see whether they like a minimum allowable or another way to do the allowable, which results in the same thing for Harold.

Q I'll hand you here what we've denoted as Division Exhibit Six.

MR. STAMETS: Have we qualified this witness?

MR. TAYLOR: Oh, we didn't.

Q Would you please state your name, place of residence and employment?

A Jerry Sexton. I'm District Supervisor for District One in Hobbs.

Q And have you previously testified before the Commissioners or the Examiners and had your credentials accepted?

A Yes.

MR. TAYLOR: Mr. Chairman, I'd

1 like to tender the witness as an expert.

2 MR. STAMETS: He is considered  
3 qualified.

4 Q Now I'll hand you what we've denominated  
5 as Exhibit Number Six and ask you to please identify it.

6 A Okay. Those are the proposed pool rules,  
7 special rules, for the southeast New Mexico gas prorated  
8 pools and I was chairman of the committee and the committee  
9 wishes to submit these for your approval.

10 Q Was this committee that you were chairman  
11 of part of the same committee that did the statewide rules  
12 or was this a separate committee?

13 A It was a separate committee formed just  
14 for the southeast special pool rules.

15 Q Okay. Do you want to give us a brief  
16 background of the Committee that studies the southeast  
17 rules, what their charge was, the membership, and how they  
18 went about doing their business?

19 A I think our committee tried to go with  
20 the northwest and get a set of rules that could be more eas-  
21 ily interpreted by the people using them.

22 What we tried to do is get the rules  
23 where the general -- someone using the rules could go to the  
24 special pool rules and from that have everything he would  
25 need to work with either drilling a well or where to go,

1 where in the past it was hard to decipher and somewhat con-  
2 fusing if you weren't using it all the time.

3 Q So, essentially, you were -- you were  
4 taking the many orders that are -- that are labeled as Order  
5 R-1670-H, or whatever, and trying to consolidate all those  
6 into one simple document for the southeast?

7 A Well, we didn't change it that much but  
8 we, what we tried to do is shorten it and make it more con-  
9 cise and give a meaning that everyone could work for.

10 They had the same orders, special pool  
11 rules for each of the pools.

12 Q Okay, do you just want to briefly then  
13 summarize any specific changes or points you want to make  
14 about these.

15 A Well, I 'd planned just to go through one  
16 or two of them and say this is the basis we did it and then  
17 submit these for testimony, but --

18 Q That will be fine.

19 A -- we'll start with the Atoka. It's very  
20 simple and we also gave the vertical, definition for the  
21 vertical limits and the well locations, acreage require-  
22 ments, and although this is a standard acreage and standard  
23 footage, we did leave it in the rule so you would not have  
24 to go back and say, well, it's standard, but what's stan-  
25 dard.

1                   So I think this has come a long way, and  
2 then Rule 5 is the only proration factor in the Atoka Penn  
3 Gas Pool.

4                   And we attempted to do this on all the  
5 prorated pools in the southeast. We did have some that were  
6 considerably more complicated than that one. That's a sim-  
7 ple one but it covered about half our wells.

8                   Where we had extra rules rules, we  
9 started out at Rule 26 and we just picked 26 to give some  
10 expansion to the other general rules, but from 26, 27, 28,  
11 from 26 on did not conform to any of the general rules.  
12 They're just special rules that fit this pool as was origin-  
13 ally in the original order.

14                   And we did leave our oil with it because  
15 they were tied into acreage and felt like you, if you were  
16 going to work with operated gas pools and had an oil well in  
17 it that you'd have to know what to do when you got an oil  
18 well and how it would affect your proration unit.

19                   Q           Like the Special Rules which the other  
20 committee did for the northwest, are these numbered noncon-  
21 secutively because of the only rules included here are those  
22 rules which are not covered by the General Rules?

23                   A           Yes.

24                   Q           Okay.

25                   A           And the rules here go back to the General

1 Rules if you want more clarification on how they differ in  
2 this order.

3 But our Rule Two would correspond to Rule  
4 Two in the General Rules.

5 And I think, I've got records of the old  
6 rule, but these have been out for some time and I assume now  
7 that the people, if they felt like we didn't clarify some-  
8 thing, that the question would be submitted at this hearing  
9 and we could go over them. If not, I think I'll just let  
10 the rest of them stand as they are in the same order.

11 Q So what you've done is just taken all the  
12 rules up to this point in time and tried to collect them and  
13 clarify them and largely they're unchanged.

14 A Yes.

15 Q Okay. Is that all the testimony you have  
16 on this?

17 A Yes.

18 Q Okay. Let's see, was Exhibit Six pre-  
19 pared by you or under your supervision and control and can  
20 you testify to its accuracy?

21 A Yes.

22 MR. TAYLOR: I'd like to move  
23 the admission of Exhibit Six.

24 MR. STAMETS: Exhibit Six will  
25 be admitted.

1 MR. TAYLOR: Are there any  
2 questions of Mr. Sexton?

3  
4 CROSS EXAMINATION

5 BY MR. STAMETS:

6 Q Mr. Sexton, how do you propose to let  
7 the potentially interested parties in the southeast know  
8 about this minimum allowable?

9 A Well, I think if we cover the people that  
10 were on that committee and let -- they will get the word  
11 out. We have several that were on the committee present to-  
12 day and we can put a note on the office. I think word will  
13 get around.

14 Q Okay, and suggest that we leave the re-  
15 cord in this case open for comments on this issue.

16 A Yes, and if you get no negative comments  
17 then I wouldn't see why it couldn't -- you'd feel like you  
18 have one that we agree with.

19 MR. STAMETS: Any other ques-  
20 tions?

21 The witness may be excused.

22 MR. TAYLOR: That's all we have  
23 in this matter, Mr. Chairman, but I would also like to re-  
24 commend that because of the weather in the northern part of  
25 the state and because of some proposed changes we've talked

1 about today, that the record be left open for a couple of  
2 weeks or so, so that we may receive any further comments  
3 that there are on these rules.

4 MR. STAMETS: Okay. We'll at  
5 least do that.

6 Mr. Cooter, do you have a wit-  
7 ness?

8 MR. COOTER: Yes, sir. We have  
9 one witness, Warren Curtis.

10 Before questioning this witness  
11 I would like to introduce to the Commission Dell Draper, who  
12 is in-house counsel for Northwest Pipeline, member of the  
13 Utah Bar, and is here today.

14  
15 WARREN O. CURTIS,  
16 being called as a witness and being duly sworn upon his  
17 oath, testified as follows, to-wit:

18  
19 DIRECT EXAMINATION

20 BY MR. COOTER:

21 Q Would you state your name for the record,  
22 please, sir?

23 A My name is Warren Curtis.

24 Q And by whom are you employed, Mr. Curtis?

25 A Northwest Pipeline.

1 Q What's your position with the company?

2 A I am the Manager of Land and Proration.

3 Q Did you serve on the Proration Rules Com-

4 mittee that -- from which evolved the report presented by

5 Mr. Kendrick?

6 A Yes, I served on that committee.

7 Q Were you furnished a copy of the proposed

8 General Rules?

9 A Yes. I received a copy approximately a

10 week ago.

11 Q Do you have any suggestions that you

12 would like to present to the Commission with regard to those

13 rewritten rules, General Rules?

14 A I would like to make one recommendation.

15 As has already been discussed today, Rule

16 13(a) on page 11, in the middle of the paragraph it refers

17 to an average monthly allowable during that prior 12-month

18 period.

19 It was my understanding that, and possib-

20 ly as a little bit of background, referring back up to Rule

21 12(a), it's my understanding that the intent of the Commit-

22 tee was to change the quarter classification period to a

23 tri-annual classification period.

24 One of the reasons was to insure that a

25 well in these times where there is lesser demand, a well

1 have a full chance to prove itself in one direction or an-  
2 other.

3 In Rule 13(a) it was my understanding  
4 that the intent of the Committee was to track that same  
5 classification period in reclassifying a marginal well. I  
6 think that there are pros and cons to either way we go. I  
7 think that a 4-month reclassification period for a marginal  
8 well during a period of time when there is lesser demand,  
9 would give the well more of a chance of remaining nonmar-  
10 ginal, which it's my understanding it is the intent of the  
11 Committee to give a well a fair, fair chance of remaining a  
12 nonmarginal well.

13 Q While you were here this morning you  
14 heard the -- the questions of Mr. Nutter, did you not?

15 A I did.

16 Q Let me direct your attention to one of  
17 the matters of his concern and that is the definition of gas  
18 purchaser which appears on page one.

19 Do you have a suggestion to make to the  
20 Commission with reference to gas purchaser versus taker?

21 A I thought Mr. Nutter's questions were  
22 very appropriate and very timely.

23 In reviewing these documents, in a final  
24 review of these documents, and based on discussions within  
25 our company, we felt that there is some confusion as to who

1 is a purchaser or who is a transporter.

2 We feel that, for example, Rule 902 of  
3 the State rules on ratable take refers to the purchaser as  
4 the purchaser of the gas. I think that the common purchaser  
5 statute also refers to the purchaser as in fact the pur-  
6 chaser of the gas.

7 And I guess in a simplified situation a  
8 purchaser would be the transporter of the gas in the San  
9 Juan Basin in the northwest.

10 The situation has always existed where a  
11 pipeline would connect the well if it was closer to that  
12 pipeline than another pipeline whether or not that pipeline  
13 was a purchaser of the gas.

14 So in fact you can have a well wherein  
15 the gas is being purchased by one purchaser but being trans-  
16 ported by another purchaser.

17 We feel that the intent of the State  
18 rules are that the purchaser would be the -- the company or  
19 the individual who would control the take out of that well.  
20 As such, we would recommend that the definition that was  
21 questioned by Mr. Nutter is probably more appropriate for a  
22 definition of a gas transporter, and would recommend that  
23 the definition of gas transporter be identical to this defi-  
24 nition replacing "purchaser" with "transporter".

25 As such it would read: The term "gas

1 transporter" as used in these rules shall mean any first  
2 taker of gas either at the wellhead, at any other point on a  
3 lease, or at any other point authorized by the Division  
4 where connection is made for gas transportation or utiliza-  
5 tion, (other than that necessary for maintaining the produc-  
6 ing ability of the well."

7 We would further propose that we in fact  
8 define gas purchaser in words similar to this: The term  
9 "gas purchaser", as used in these rules, shall mean the pur-  
10 chaser of the gas from the gas well or GPU.

11 In the event that two or more purchasers  
12 purchase gas from the particular well, the "gas purchaser"  
13 shall be the purchaser of the largest percentage interest in  
14 the gas well or GPU.

15 Then that clarifies who is the transpor-  
16 ter and who is the purchaser.

17 The next problem would be that through  
18 our rules we have always given responsibility to the gas  
19 purchaser. I think in some cases that responsibility should  
20 be the gas purchasers and in some cases that responsibility  
21 should be the gas transporters.

22 For example, Rule 3(a).

23 Q On page six.

24 A On page six. In discussing nominations  
25 it talks about the gas purchaser filing the nomination but

1 indicating that it is the person who takes the gas.

2 We would recommend that the gas pur-  
3 chaser, as defined by my proposed definition, have responsi-  
4 bility for the nomination and that the only change to Rule  
5 3(a) would in the third line where "take" is in quote, that  
6 be changed to "purchase".

7 In Rule 3(b)1, as the question was raised  
8 by Mr. Nutter, the bottom half of that paragraph where it  
9 talks about more than one gas purchaser, it is referring to  
10 the transporter or the initial taker of gas.

11 We would recommend striking that portion  
12 of the Rule 3(b)1 and indicating that the gas purchaser, as  
13 defined by my proposed definition, would be in fact the one  
14 who would be responsible for the schedule, the scheduling of  
15 that gas.

16 I think there's only a couple of other  
17 places wherein we would need to change the definition of gas  
18 purchaser.

19 Rule 5(b)1 purchaser is listed in many  
20 places in that rule. We would recommend that the gas  
21 transporter is responsible for filing the C-102 and Form C-  
22 104.

23 In Rule 15(a), which refers to the  
24 reporting Form C-111, it is now entitled the Gas Purchaser's  
25 Monthly Report. It probably is easier for the transporter

1 who has the metering facilities to be the individual or com-  
2 pany who reports that production. As such we would propose  
3 changing that to the gas purchaser's monthly report and  
4 where it refers to gas purchaser within the body of the rule  
5 change that to gas transporter.

6 MR. STAMETS: I'm not sure that  
7 I heard that correctly.

8 You would, in Rule 5(a) you  
9 would recommend that Rule C-111's title be changed to Gas  
10 Transporter Monthly Report?

11 A That is correct, and because the gas  
12 transporter has the metering facilities it's probably easier  
13 for that entity to report the production to the Commission,  
14 and as such we would recommend that they be the ones that do  
15 report that production, which is, by the way currently the  
16 way it is being handled.

17 As I went through these rules, as far as  
18 the proposed proration rules for today, I did not find any  
19 other place where we needed to change purchaser to transpor-  
20 ter; that in fact the purchaser in other areas other than  
21 those that I have mentioned, would be the one who would have  
22 the responsibility that is designated within these rules.

23 As I went through the statewide rules,  
24 there may be places where we would have to insure that the  
25 distinction between gas transporter and gas purchaser be

1 made.

2 MR. STAMETS: How many of those  
3 did you find?

4 A On a quick review, probably five or six.

5 MR. STAMETS: Would it be pos-  
6 sible for you subsequent to today's hearing to provide us  
7 with written language proposals for the special or the gas  
8 proration rules and the general rules?

9 A Yes, we could do that.

10 MR. STAMETS: Okay. Are there  
11 other questions of Mr. Curtis?

12 MR. KENDRICK: I would like to  
13 make a comment in regard to his problem with the definition  
14 of gas purchaser.

15 It's my recollection that the  
16 Committee went with gas purchaser for simplicity, first, in  
17 that the purchaser is the party required to make the nomina-  
18 tions. The purchaser is required to file the report of pro-  
19 duction from a well or the takes from a well on the C-111.  
20 The purchaser is identified on the Form C-115 so that we  
21 spent a good part of a meeting discussing the difference be-  
22 tween purchaser and transporter and elected the term gas  
23 purchaser as being the first take of gas because that was  
24 the party responsible for taking gas from the well and ac-  
25 counting for the amount of gas taken from the well.

1                   If we relate this to a direct  
2 sale contract carriage thing and a purchaser is in Dallas  
3 and the pipeliner is in the San Juan Basin, the people in  
4 Dallas may not have any control whatsoever over the well so  
5 that the term purchaser was applied because of its content  
6 in the statutes and various other places in the rules and  
7 regulations as well as in the proration rules, and made a  
8 decision to go with gas purchaser as being the responsible  
9 party as purchaser and/or transporter and defined as such in  
10 this language.

11  
12                   CROSS EXAMINATION

13 BY MR. STAMETS:

14                   Q           Mr. Curtis, does this definition cause  
15 Northwest Pipeline a problem related to taking ratably?

16                   A           I think -- I think the best way to answer  
17 that, Mr. Stamets, is that as we read the ratable take rule  
18 it discusses the responsibility of the purchaser to take  
19 ratably.

20                               Wherein there is a situation where there  
21 are two or more pipelines in the area connected to one pipe-  
22 line may be interests that are purchased by two companies.  
23 I don't think -- let me take that one step further.

24                               You've got two pipelines and you have  
25 wells connected to both pipelines wherein the other company

1 owns a majority or all of the interest of some of the wells.  
2 The pipeline to date has been taking ratably amongst the  
3 wells connected to their pipeline, which some are their in-  
4 terest and some are another company's interest. So you have  
5 a concern as to -- if the two pipeline are taking at a dif-  
6 ferent ratable level, you have a concern as to whether a  
7 pipeline is taking ratably from a well connected to that  
8 pipeline as opposed to a well connected to another pipeline.  
9 I hope that's clear.

10 Q Let's see if I can get that clear in my  
11 own mind.

12 The situation exists where you could have  
13 an actual purchaser, the one who is paying for the gas, not  
14 physically connected to a well and there could be some con-  
15 fusion on the part of the purchaser and the taker as to  
16 who's supposed to be taking ratably relative to that well  
17 and other wells that that transporter is connected to.

18 I wonder if it's possible to -- for that  
19 transporter to take ratably two different ways: To take  
20 ratably as to the wells it's transporting from and it pur-  
21 chases from and take ratably as to those wells that it tran-  
22 sports from but someone else purchases from, without chang-  
23 ing these rules from what has been presented?

24 A It appears to me that if you have more  
25 than one pipeline in the area and those pipelines at any

1 given time during the year, or during a period of time, have  
2 different ratable takes, or different demands, it would be  
3 hard to take ratably, not only on a pipeline basis but a  
4 purchase basis.

5 MR. STAMETS: Are there other  
6 questions of this witness?

7 Mr. Kendrick?

8

9 QUESTIONS BY MR. KENDRICK:

10 Q Mr. Curtis, as we're getting into the di-  
11 rect sales contract area and with your proposed identity of  
12 the purchaser nominating for the gas, how would we handle a  
13 well where that the gas from a well is sold to two parties,  
14 or one party or two parties, neither of which is the trans-  
15 porter, and assure that the nominations are made for that  
16 well and for the ratable takes on that well?

17 A In my proposal of the definition of gas  
18 purchaser I indicate that in the event that there are two or  
19 more purchasers which purchase gas from a particular well,  
20 that the gas purchaser with the largest percentage interest  
21 would be the gas purchaser for that well.

22 Where -- we realize there is still some  
23 confusion there. You may have a well that has two and three  
24 and four purchase interests in that well. As Mr. Nutter  
25 pointed out earlier, there is confusion where you've got

1 split connection as to who has responsibility.

2 We feel that by the individual having the  
3 largest percentage interest being responsible for the nomi-  
4 nation of that well, it is probably clearer than a current  
5 responsibility of a split connection, but we realize that  
6 there would still be some confusion. The purchasers would  
7 have to insure a monthly sales that that well is being nomi-  
8 nated for, just as right now the transporters have to insure  
9 that that well would be (not clearly understood.)

10 MR. STAMETS: Mr. Chavez.

11

12 QUESTIONS BY MR. CHAVEZ:

13 Q Mr. Curtis, under your proposal, would it  
14 be possible that even if there was more than one gas pur-  
15 chaser for the well that each purchaser would nominate their  
16 portion and therefore the well would be fully nominated?

17 A That -- that is a possibility. I guess  
18 the only concern we would have is that as Mr. Garcia puts  
19 together his proration schedule, who he shows as the respon-  
20 sible company for that well as far as the scheduling of the  
21 production of that well.

22 And I do feel that where you've got more  
23 than one purchaser in a well, one of the purchasers is going  
24 to have to assume the responsibility of determining the pro-  
25 duction schedule of that well.

1 Q Thank you.

2 MR. STAMETS: Are there other  
3 questions of Mr. Curtis?

4 Mr. Nutter?

5

6 QUESTIONS BY MR. NUTTER:

7 Q On page 11, Mr. Curtis, in that Rule  
8 13(a), were you suggesting that -- or what is your position,  
9 should the reclassification to a marginal status be based on  
10 the highest month's production compared to a 4-month average  
11 allowable or 12-month average allowable?

12 A I would recommend that it be a 4-month  
13 allowable.

14 Q 4-month rather than 12 as proposed here.

15 A Right.

16 Q Okay, I wasn't clear on that. Thank you.

17 MR. STAMETS: Any other ques-  
18 tions?

19 MR. KENDRICK: I'd like to make  
20 a comment about Mr. Curtis' reference to Rule 3(b) dealing  
21 with transporters.

22 In the document that I submit-  
23 ted this morning there's a revised portion of that, so what  
24 he referred to in Rule 3(b) dealing with transporter has now  
25 been moved into the latter part of Rule 3(a).

1 I didn't get these revisions  
2 done in time to get a copy to Mr. Curtis for him to bring  
3 with him. It's still on its way to Salt Lake and he's here.

4 MR. COOTER: The part in paren-  
5 theses is now --

6 MR. KENDRICK The part in Rule  
7 3(b) that deals with purchaser has been moved into the lower  
8 part of Rule 3(a) without any wording changes.

9 It's not a matter of wording  
10 change; just a matter of reference in the rules.

11 A And, of course, what we have proposed  
12 would be a rewrite of that, not dealing with a connection  
13 concern or a first take concern, well, possibly you'd delete  
14 that altogether by virtue of the definition that we pro-  
15 posed, the purchaser being the majority interest for (not  
16 clearly understood).

17 MR. COOTER: Mr. Stamets, may I  
18 just question the witness a few more questions?

19

20 REDIRECT EXAMINATION

21 BY MR. COOTER:

22 Q Let me give an -- or go through an exam-  
23 ple with you, Mr. Curtis.

24 Are there instances in the northwest part  
25 of the state with which you're familiar where Northwest is

1 actually buying the gas from a specific producer but yet  
2 doesn't take that gas?

3 A That is correct. We have many wells  
4 wherein we either purchase 100 percent of the gas or a por-  
5 tion of that gas that is connected to other pipelines.

6 Q All right. Just as an example, and I  
7 don't know whether the example will be correct, but as an  
8 example, you could be buying 100 percent of the gas stream  
9 from a producer but yet that production goes into, let's say  
10 El Paso's line?

11 A That would be correct, yes.

12 Q And El Paso's demand or its takes may be  
13 larger or smaller than the demands which your company has.

14 A That could be the case, yes.

15 Q And in such a situation as that, then the  
16 actual takes from that well would be set by the recipient of  
17 the gas, in this instance El Paso.

18 A It would be set by the transporter, yes.

19 Q The transporter, and then while there is  
20 -- El Paso and Northwest for that gas in our example would  
21 make adjustments, paper adjustments some place down the  
22 line, the actual takes for that well are established by El  
23 Paso as the transporter.

24 A That is correct. Wherever the situation  
25 exists, there would be, as you referred to, some type of

1 handling of that, either a physical exchange or a paper ex-  
2 change based on the volumes of gas delivered into both sys-  
3 tems.

4 Q And while the statute and I think it's  
5 Rule 902 talk about ratable takes by a gas purchaser, yet  
6 you are confronted with a situation where you really have no  
7 control over the takes from that particular well.

8 A That is correct.

9 Q And it was that concern with which you  
10 are -- or that instance which you are now concerned, and  
11 admittedly we stated it very simply, but it's a problem  
12 which your company urges the Commission to address?

13 A Yes, sir, that's correct.

14 MR. COOTER: I hope I haven't  
15 muddied it but --

16 MR. STAMETS: Are there any  
17 additional questions of Mr. Curtis?

18 Mr. Kendrick.

19

20 QUESTIONS BY MR. KENDRICK:

21 Q If we change the definition from pur-  
22 chaser to transporter as you recommend, is there any way  
23 that you could nominate the gas from that well Mr. Cooter  
24 just alluded to and cause El Paso to take more gas from the  
25 well or less gas from the well, where you're buying the gas  
and they are the takers of the gas or they are the transpor-

1 ter? You're the purchaser. You as the purchaser, are re-  
2 quired to nominate for that well, how does that affect what  
3 El Paso takes from that well?

4 A What -- what we are proposing is that in  
5 fact in the example that was given, that the purchaser own-  
6 ing the majority of the interest, in this example Northwest,  
7 would control that production and, in fact, schedule that  
8 well production for that time period.

9 We would have to address specific exam-  
10 ples to determine the effect. We do not see that this would  
11 affect the overall production of the area, but we'd have to  
12 address a specific example to determine the overall effect.

13 Q Now, let me get that correct. Are you  
14 suggesting that if El Paso is buying a gas from a well tied  
15 to Northwest's system, that El Paso would tell you how much  
16 gas to take out of that well so that it would disrupt your  
17 entire -- or could disrupt your entire system takes?

18 A We are recommending that if El Paso owned  
19 a total interest or a large percentage interest in a well  
20 connected to Northwest Pipeline, that they, as the pur-  
21 chaser, would schedule that production.

22 Q Whether or not it was more gas than you  
23 wanted to take into your system.

24 A I don't think, and this is just conjec-  
25 ture now, I don't think that that is as much a concern, it

1 is, in fact, their gas, and they would have control as to  
2 how much of that gas that they receive.

3 Q But would they have control as to how  
4 much you would receive because you are the transporter. You  
5 are the taker. Could -- could they tie into a very good  
6 well and take -- tell you to take the gas that satisfied  
7 your entire market and cause you to shut in all the rest of  
8 your wells?

9 A No, once again, if it is their gas, it  
10 would ultimately end up in their market.

11 Q Well, you have to take it into your sys-  
12 tem.

13 A It would go into our system but either  
14 through a physical transfer or an exchange of volumes, it  
15 would end up in their market.

16 MR. STAMETS: I think perhaps  
17 what Mr. Kendrick might be concerned about would be a well  
18 on some part of a system which, in order to take the amount  
19 of gas from that well that El Paso wanted, you might be in a  
20 position of having to shut your wells in to a greater degree  
21 than you chose.

22 Do you foresee that sort of  
23 thing happening?

24 MR. KENDRICK: I just -- I just  
25 can't believe that the operators and the pipeline companies

1 are going to want somebody else in another company telling  
2 them how to run their business.

3 I'm not in the pipeline busi-  
4 ness but I just can't envision this happening.

5 A As I envision your question, Dick, our  
6 concern, and I think that it should be every purchaser's  
7 concern, is the gas that in fact that purchaser is buying  
8 and the demands that that purchaser has.

9 Again I'm just conjecturing because I do  
10 not understand totally the system flow, but I don't think  
11 that the system concern -- I think the system can handle the  
12 case.

13 What we are proposing would be that we  
14 would -- that all purchasers would be more able, or have re-  
15 sponsibility for control of that well and the gas that comes  
16 out of that well.

17 MR. STAMETS: Mr. Curtis, I  
18 think what I'm going to have to ask you to do subsequent to  
19 today's hearing, is to write out these proposals with a  
20 cover letter which will clearly indicate what the purpose  
21 was, with sending a copy of that to the Commission and a  
22 copy of that to Mr. Kendrick, who still is Chairman of the  
23 Gas Committee.

24 Mr. Kendrick, I think you'll  
25 have to send this out to the committee. We may have to send

1 it out to our mailing list, and continue today's case until  
2 the January 7th hearing in order to give us time to evaluate  
3 comments we might receive on your proposal and determine  
4 whether or not we needed additional testimony at that Janu-  
5 ary the 7th hearing.

6 If there would be, you know,  
7 interest in having additional testimony at that time, we  
8 could so designate in our docket for that day. I suspect  
9 that there will be some additional testimony required,  
10 especially if it calls for changing of our General Rules.

11 Mr. Kendrick?

12 MR. KENDRICK: May I suggest  
13 that you have some research done on the statutory problem of  
14 who would do the nominating and control of ratable takes?

15 MR. STAMETS: Appreciate that.

16 Are there any other questions  
17 of Mr. Curtis?

18 Mr. Nutter?

19 MR. NUTTER: Not of Mr. Curtis,  
20 but you asked -- you mentioned that we would have some time  
21 to put in written comments. I wonder if other people could  
22 have some written comments, too?

23 MR. STAMETS: Yes. My inten-  
24 tion, Mr. Nutter, was that the time period from now until  
25 mid-December, let me see if I've got a calendar here.

1 (Thereupon some discussion was had off the record.)

2  
3 MR. STAMETS: Well, it certain-  
4 ly sounds to me as though we are in a position of -- of  
5 opening this thing up again for additional hearing on the  
6 7th, regardless -- all right, let's just do that.

7 Mr. Curtis, if you can get out  
8 your written comments any time between now and the end of  
9 the first full week of December, that should give us an op-  
10 portunity to get them into the different parties in time for  
11 them to be prepared for the January 7th hearing, and since  
12 we're going to be continuing, no one should have to worry  
13 too much about comments between now and then.

14 Does anyone else have anything  
15 further they wish to add in this case today?

16 Mr. Kendrick?

17 MR. KENDRICK: I'd like to put  
18 on some testimony in behalf of my self.

19 First I'd like to present you  
20 this list of two pages of names and addresses of people who  
21 participated with the Committee operations.

22 MR. STAMETS: Thank you.

23 MR. KENDRICK: I'd like to make  
24 the recommendation for the revisions of Rule 3(b)1 and Rule  
25 5.

1                   For those interested I would  
2 visit the Xerox machine next door and make some additional  
3 copies. Let me read what I have on this and maybe some of  
4 you won't be interested in taking a copy with you.

5                   Rule 3(b)1, Schedule. The Div-  
6 ision will issue a proration schedule setting forth the fol-  
7 lowing information for each GPU:

8                   A. An interim allowable for  
9 the ensuing month based on the sum of the purchasers' nom-  
10 inations;

11                   B. A permanent allowable for  
12 the last reported production month wherein the actual pro-  
13 duction from the pool is allocated to the qualified GPUs in  
14 the pool; and,

15                   C. Other information as is  
16 necessary to show the allowable production status from each  
17 GPU on the schedule. The allowable versus production ac-  
18 counting shall be done using the permanent allowable.

19                   Rule 5. How allowables are  
20 calculated. Interim allowable.

21                   The total interim allowable for  
22 the ensuing month to be allocated to each gas pool regulated  
23 by this order each month shall be equal to the sum of all  
24 purchasers' nomination for that pool. The interim allowable  
25 shall be allocated among the GPUs entitled to receive an al

1 lowable in accordance with the procedure set forth in these  
2 rules. (This interim allowable will serve as an estimate of  
3 the permanent allowable to be assigned to the pool after the  
4 production values are reported.)

5 Permanent Allowable. The total  
6 permanent allowable assigned to each pool for the latest re-  
7 ported production month shall be equal to the volume pro-  
8 duced from that pool during the latest reported production  
9 month. The permanent allowable shall be allocated among the  
10 GPUs entitled to an allowable in accordance with the proce-  
11 dure set forth in these rules.

12 End of quote.

13 The problem that would be en-  
14 countered is that if a pool is currently overproduced or un-  
15 derproduced and we started prorating on a zero balance each  
16 month, that status would be carried forward so that any sta-  
17 tus that exists in a pool would have to be programmed out by  
18 a correction each month for a period of months to remove  
19 that status and get us onto a pool zero balance at the end  
20 of each month.

21 It may be that new connections  
22 would have to be kept separate from the rest of the pool  
23 wells and account for the production and allowable at the  
24 time the first supplement is issued, but each month the  
25 minor correction factors would be applied to the permanent

1 allowable as is necessary, but I think that we're prorating  
2 based on nominations, which are estimates of the market, and  
3 on a poolwide basis, on an annual basis we're coming close;  
4 that is, we're within about twenty percent, most pools, most  
5 years, but on an individual purchaser's situation we some-  
6 times produce as little as forty-five percent of the nomina-  
7 tions and sometimes the purchasers take as much as thirty  
8 percent more than their nominations, and if we're allocating  
9 each producer's fair share, twenty-five percent plus or  
10 minus is not close enough in this day of computerization.

11 MR. STAMETS: Mr. Kendrick, do  
12 you have that, those proposals in the form of an exhibit or  
13 something that could be made an exhibit in support?

14 MR. KENDRICK: Yes, sir.

15 MR. STAMETS: Okay.

16 MR. KENDRICK: It will be so  
17 made and copies will be distributed to those interested par-  
18 ties.

19 MR. STAMETS: Okay, and I'd  
20 like to have a copy so that it could be distributed to our  
21 general mailing list as well.

22 Mr. Pearce.

23 MR. PEARCE: Mr. Kendrick, are  
24 you aware of any instance in which a well has either been  
25 shut in or has had underproduction cancelled based upon al-

1 lowables assigned on the basis of nominations, which shut-in  
2 or cancellation would not have occurred if your system of  
3 allocation based upon actual production had been in place?

4 MR. KENDRICK: No, sir, I do  
5 not know of any particular well where the productivity of  
6 the well was stopped, but allowing a well or any well to  
7 produce some each month, in my opinion, does not necessar-  
8 ily say that that's his fair share.

9 MR. PEARCE: Thank you, sir.

10 MR. STAMETS: Any other ques-  
11 tions of Mr. Kendrick? He may be excused.

12 MR. KENDRICK: I'm sorry I left  
13 you all in a state of shock.

14 MR. STAMETS: I presume you'll  
15 present that as an exhibit at the next hearing.

16 MR. KENDRICK: I'll present it  
17 today as an exhibit.

18 MR. STAMETS: Okay. Let's mark  
19 that then as Exhibit Seven -- Kendrick One.

20 MR. COOTER: Just as a matter  
21 of procedure or form, there have been suggestions made, in-  
22 cluding Mr. Kendrick's, of revisions of the proposed rules.  
23 Perhaps other parties are going to want to do the same thing  
24 and haven't yet done so.

25 As a suggestion solely to the

1 Commission, if we're going to present on behalf of Northwest  
2 certain proposals by the end of the first full week in De-  
3 cember, could we not have some kind of an agreement from one  
4 and all that also proposals will be made at that time to in-  
5 sure that the same would be dispersed to the -- or dispensed  
6 to the -- all interested parties anticipating the January  
7 7th hearing?

8 MR. STAMETS: I presume all  
9 those that are here would agree to that. I'm not certain  
10 about those people who may be in a snowstorm some place.

11 Does anybody who is here have  
12 an objection to submitting any proposed changes by the end  
13 of the first full week in December?

14 Seeing none, then we would an-  
15 ticipate that to be the case, Mr. Cooter, and when we --  
16 well, we don't distribute this stuff right away. Let me see  
17 what we can do about trying to ferret out any additional  
18 changes. The earlier you get me your stuff, the earlier I  
19 can send a general memo out to everybody and call for addi-  
20 tional information.

21 MR. GARCIA: May I --

22 MR. STAMETS: Mr. Garcia, you  
23 wanted to say something?

24 MR. GARCIA: Yes. I'm Harold  
25 Garcia, appearing for the Oil Conservation Division.

1 I would like to take exception  
2 to Mr. Al Kendrick's latest proposal.

3 I do not believe at the time  
4 that the Committee was impanelled that that was one of the  
5 proposals we were impanelled to consider and did not in fact  
6 consider this until very late in the committee meetings.

7 The proposal has been described  
8 as a work generator in that this interim allowable takes a  
9 bit of computer time; it takes several hours of personnel  
10 time and is not used for any reasonable purpose.

11 The actual allowable in addi-  
12 tion to the permanent allowable is issued two months after  
13 the fact of production and we have received some correspon-  
14 dence indicating that most producers feel that that would be  
15 too late a time in which to realize that you have overpro-  
16 duced after the fact that it may have been overproduced and  
17 shut in.

18 That's all I have to say.

19 MR. STAMETS: Thank you,  
20 Harold.

21 I think we'll recess this hear-  
22 ing until 9:00 a. m. on the 7th day of January.

23  
24 (Hearing concluded.)  
25

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

## C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY  
CERTIFY the foregoing Transcript of Hearing before the Oil  
Conservation Division (Commission) 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