

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
JANUARY 8, 1987

COMMISSION HEARING

(
(IN THE MATTER OF:)
()
(Application of Merrion Oil & Gas Corporation)
(for enforcement of Common Purchaser Requirements)
(of Section 70-2-19 NMSA 1978 (1984 Supplement))
(and other pertinent provisions of the Oil and)
(Gas Act, Rio Arriba County, New Mexico.)
(

CASE 9063

BEFORE: Charles E. Roybal, Acting Director

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil
Conservation Commission:

Jeffrey Taylor
Legal Counsel for the Commission
State Land Office Building
Santa Fe, New Mexico

MR. ROYBAL: Call Case 9063.

MR. TAYLOR: Case 9063, application of Merrion Oil & Gas Corporation for enforcement of Common Purchaser Requirements of Section 70-2-19 NMSA 1978 (1984 Supplement) and other pertinent provisions of the Oil and Gas Act, Rio Arriba County, New Mexico. It is requested that this case be continued to the next Commission hearing.

MR. ROYBAL: Case 9063 is hereby continued to the Commission hearing scheduled for January 22, 1987. The hearing is adjourned.

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
JANUARY 22, 1987

COMMISSION HEARING

(
(IN THE MATTER OF:)
()
(Application of Merrion Oil & Gas Corporation)
(for enforcement of Common Purchaser Requirements)
(of Section 70-2-19 NMSA 1978 (1984 Supplement)) CASE 9063
(and other pertinent provisions of the Oil and)
(Gas Act, Rio Arriba County, New Mexico.)
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For the New Mexico Oil
Conservation Commission:

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MR. ROYBAL: Call Case 9063.

MR. TAYLOR: Case 9063, application of Merrion Oil & Gas Corporation for enforcement of Common Purchaser Requirements of Section 70-2-19 NMSA 1978 (1984 Supplement) and other pertinent provisions of the Oil and Gas Act, Rio Arriba County, New Mexico. It is requested that this case be continued indefinitely.

MR. ROYBAL: Case 9063 is hereby continued indefinitely. The hearing is adjourned.

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 5 March, 1987

7 COMMISSION HEARING

8 IN THE MATTER OF:

9 Application of Merrion Oil & Gas Corporation for enforcement of
10 Common Purchaser Requirements of Section 70-2-19 NMSA 1978 (1984
11 Supplement) and other pertinent provisions of the Oil and Gas Act, Rio
12 Arriba County, New Mexico. CASE 9063

13
14 BEFORE: William J. LeMay, Chairman
15 Erling A. Brostuen, Commissioner

16 TRANSCRIPT OF HEARING

17 A P P E A R A N C E S

18
19 For the Commission: Jeff Taylor
20 Legal Counsel for the Division
21 Oil Conservation Division
22 State Land Office Bldg.
23 Santa Fe, New Mexico 87501

24 For Merrion Oil & Gas: Tommy Roberts
25 Attorney at Law
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Farmington, New Mexico 87499

For El Paso Natural Gas: John F. Nance
Attorney at Law
El Paso Natural Gas Co.
P. O. Box 1492
El Paso, Texas 79978

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MICHAEL W. WISEMAN

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MR. LEMAY: At this time I'll call Case 9063.

MR. TAYLOR: The application of Merrion Oil and Gas Corporation for enforcement of the Common Purchaser Requirement of Section 70-2-19, New Mexico Statutes Annotated, 1978, and other pertinent provisions of the Oil and Gas Act, Rio Arriba County, New Mexico.

MR. LEMAY: I'll call for appearances now in Case 9063.

MR. ROBERTS: Mr. Chairman, my name is Tommy Roberts. I'm an attorney in Farmington, New Mexico, and I'm representing the applicant in this case, Merrion Oil and Gas.

I have two witnesses to be sworn.

MR. LEMAY: Any other appearances?

MR. NANCE: Mr. Chairman, on behalf of El Paso Natural Gas, my name is John Nance, and I'm appearing here today in association with Mr. Perry Pearce of the law firm Montgomery & Andrews of Santa Fe, New Mexico.

El Paso will have one witness to be sworn.

1 MR. LEMAY: If those witnesses
2 will stand now we'll swear them in.

3
4 (Witnesses sworn.)

5
6 MR. LEMAY: Mr. Roberts.

7 MR. ROBERTS: Mr. Chairman, may
8 I give a brief opening statement?

9 MR. LEMAY: You may.

10 MR. ROBERTS: Mr. Chairman and
11 Commissioners, Merrion Oil and Gas by this application is
12 seeking enforcement of the Common Purchaser Statute of the
13 State of New Mexico, cited as 70-2-19 of the New Mexico Sta-
14 tutes.

15 We will be eliciting testimony
16 and evidence today in this case that would show the follow-
17 ing -- or establish the following facts.

18 First, that Merrion Oil and Gas
19 operates two wells capable of producing casinghead gas from
20 the common source of supply known as the Gavilan Mancos Oil
21 Pool.

22 Second, that El Paso Natural
23 Gas Company is a purchaser of casinghead gas from the Gavi-
24 lan Mancos Oil Pool and it's therefore a common purchaser as
25 defined in the statute.

1 We would provide testimony as
2 evidence today that -- to establish the fact that El Paso's
3 failure to purchase casinghead gas from these wells in a
4 nondiscriminatory manner is causing injury to Merrion Oil
5 and Gas in the form of drainage, and the inability to com-
6 pete in the pool for the common source of reserves.

7 We would show that El Paso's
8 actions are in violation of the Common Purchaser Statute of
9 New Mexico.

10 We'd like to point out that op-
11 posing counsel and myself have stipulated to one fact in
12 this case and that is that the two wells that Merrion Oil
13 and Gas seeks connections for and seeks purchases from are
14 in the common source of supply known as the Gavilan Mancos
15 Oil Pool.

16 That would conclude our opening
17 statements.

18 MR. LEMAY: Mr. Nance, would
19 you care to make an opening statement now or will you prior
20 to presenting your witness?

21 MR. NANCE: No. Mr. Chairman,
22 I would like to go ahead and make an opening statement at
23 this point.

24 MR. LEMAY; Fine.

25 MR. NANCE: El Paso in its case

1 today will demonstrate that we have indeed worked in good
2 faith trying to accommodate the interests of Mr. Merrion and
3 his desire to have his gas produced and delivered.

4 We will show, to the extent
5 that we can, our purchasing practices in the area, the fact
6 that offers have been made to Mr. Merrion that were consis-
7 tent with offers made to other purchasers in the area, and
8 that we do not feel that we are in any way discriminating
9 against Mr. Merrion; that the circumstances have changed
10 such that El Paso's position is justified in now refusing to
11 connect the wells on the terms that Mr. Merrion has request-
12 ed; that if there is a practice in refusing to accept the
13 gas from these wells, that might otherwise be in violation
14 of the Common Purchaser statute, that El Paso is excused
15 from meeting those requirements by the economic out of Para-
16 graph F of Section 19.

17 And finally, that El Paso's
18 efforts in this regard are such that we do not necessarily
19 believe that we are required to comply with the Common
20 Purchaser statute as a jurisdictional matter to begin with.

21 Our feeling is that the Transco
22 versus State Oil and Gas Board, a Mississippi decision
23 issued by the Supreme Court in January, 1986, is clear
24 justification for El Paso to proceed with a course of action
25 that is consistent with its mandate under the Natural Gas

1 Act and the Natural Gas Policy Act independent of a
2 requirement by a state agency to purchase new gas.

3 Thank you.

4 MR. LEMAY: Thank you, Mr.
5 Nance.

6 Mr. Roberts?

7 MR ROBERTS: Mr. Chairman, I
8 wonder if we might for a minute discuss the jurisdictional
9 question. Mr. Nance, do you have an objection to trying to
10 agree on a way to handle the jurisdictional question before
11 we proceed?

12 MR. NANCE: That's fine.

13 MR. ROBERTS: Counsel and I
14 thought before the hearing we had come to agreement, I
15 think, in principal, that we would brief the issue of
16 jurisdiction and submit it to the Commission subsequent
17 to the -- to the testimony being presented today, and we can
18 do that in whatever time frame the Commission deems
19 appropriate.

20 MR. LEMAY: At this point I
21 don't know if we should all try and second guess
22 interpretation of Transco. I understand that in the Missis-
23 sippi case, you would -- you believe in a narrow interpreta-
24 tion, and you believe in a broad interpretation of the facts
25 and I don't know what would be served.

1 I think brief statements to
2 that effect might be helpful but I don't think we can second
3 guess the Supreme Court decision, how narrow or wide it ap-
4 plies in this particular case.

5 MR. ROBERTS: I can certainly
6 -- I am prepared to address the jurisdictional question to
7 --

8 MR. LEMAY: I think we can hear
9 argument briefly on that. I don't know how deep we can go
10 into it.

11 MR. PEARCE: Excuse me, Mr.
12 Chairman, if I may rise as one of the counsel for El Paso, I
13 do think it may be very important to have a very full record
14 on this point in this case.

15 As the Commission is aware, ap-
16 peals of decisions of this body proceed on this record to a
17 District Court. That makes it very important to put to-
18 gether the record that you're going to rely on later and --

19 MR. LEMAY: Can we go off the
20 record a second?

21

22 (Thereupon a discussion was had off the record.)

23

24 MR. LEMAY: We'll accept the
25 briefs in connection with this case.

1 MR. NANCE: Okay, on the juris-
2 dictional question.

3 MR. LEMAY: We will leave this
4 case open for two weeks so, hopefully, we will receive those
5 briefs within that period of time.

6 Like the other two cases, the
7 record will remain open for written comment for two weeks.

8 I'd like to have the briefs in
9 a week if you can get them in a week.

10 MR. ROBERT: It will be diffi-
11 cult but --

12 MR. LEMAY; Well, then the two
13 weeks will have to apply.

14 MR. ROBERT: Even though it's
15 going to be brief.

16 MR. LEMAY: Okay, a brief time
17 for a brief message.

18 MR. ROBERT: I'm ready to pro-
19 ceed with my case, if you are.

20 MR. LEMAY: Fine.

21 MR. ROBERTS: I'd call Mr.
22 Steven Dunn.

23

24

25

1 STEVEN S. DUNN,
2 being called as a witness and being duly sworn upon his
3 oath, testified as follows, to-wit:

4
5 DIRECT EXAMINATION

6 BY MR. ROBERTS:

7 Q Mr. Dunn, for the record, please, would
8 you state your name and place of residence?

9 A Steven S. Dunn. I'm from Farmington, New
10 Mexico.

11 Q And what is your occupation?

12 A I'm a petroleum engineer.

13 Q How long have you been employed in that
14 field?

15 A For approxiamtely eleven years.

16 Q What is your relationship to the appli-
17 cant in this case?

18 A I am employed by Merrion Oil and Gas.

19 Q And are you familiar with the operations
20 of Merrion Oil and Gas in the area of the Gavilan Mancos Oil
21 Pool?

22 A Yes, I am.

23 Q Are you familiar with the application?

24 A Yes, I am.

25 Q And have you testified before the Divi-

1 sion or the Commission on prior occasions?

2 A Yes, I have.

3 Q In what capacity?

4 A As a petroleum engineer.

5 Q Were your qualifications as a petroleum
6 engineer accepted and made a matter of record on those occa-
7 sions?

8 A Yes, they were.

9 MR. ROBERTS: Mr. Chairman, I
10 would tender Mr. Dunn as an expert in the field of petroleum
11 engineering.

12 MR. LEMAY: Mr. Dunn is accep-
13 ted as a -- in that field.

14 Q Mr. Dunn, would you refer to what has
15 been marked as the applicant's Exhibit Number One and very
16 briefly identify that exhibit?

17 A Exhibit Number One is the -- is a base
18 map of the Gavilan Mancos Pool showing the boundaries of the
19 pool as well as the wells and operators therein, and --

20 Q Would you point out the boundaries of the
21 pool?

22 A The boundaries of the pool basically con-
23 sist of the majority of Township 25 North, Range 2 West, a
24 section portion of 26 North, 2 West, consisting of Section
25 25, 26, 35, and 36, and a tier of sections in the northeast

1 portion of Township 24 North, Range 2 West, consisting of
2 Sections 1, 2, 3, 11, 12, and 13 and 14 are proposed for
3 entry into the pool.

4 Q Would you point out the location of the
5 Merrion Oil and Gas wells which are the subject of this
6 hearing today?

7 A On the exhibit the Merrion Oil and Gas
8 wells are shown in green.

9 The Krystina No. 1 is located in the
10 southwest quarter of Section 14, Township 24 North, Range 2
11 West.

12 The Oso Canyon Gas Com No. 1 Well is lo-
13 cated in the northwest quarter of Section 13, same township
14 and range.

15 Q Mr. Dunn, when were these wells spudded
16 and I'll ask that question for each well, so if you can give
17 me that information, I'd appreciate that.

18 A Okay. The Krystina No. 1 was spudded in
19 October of 1984.

20 The Oso Canyon Well was spudded in Novem-
21 ber of 1984.

22 Q And have these wells been completed?

23 A Yes, they have. The Krystina No. 1 was
24 completed in December of 1984; the Oso Canyon in January of
25 1985.

1 Q And are these wells capable of production
2 from the Mancos interval?

3 A Yes, they are.

4 Q Are these wells completed as gas wells or
5 oil wells?

6 A They are oil wells.

7 Q And are they capable of producing casing-
8 head gas?

9 A Yes, they are.

10 Q Mr. Dunn, would you briefly describe the
11 production history for each of the wells, and let's start
12 with the Krystina No. 1 Well?

13 A Well, the Krystina No. 1, as I said ear-
14 lier, was completed in December of '84. We began production
15 on that well in January of 1985 and produced throughout 1985
16 and the first three months of 1986 we shut the well in -- I
17 stand corrected, we shut the well in March 1st of 1986, so
18 it only produced the first two months of '86 and it has been
19 shut-in since that time.

20 Q And why has it been shut-in?

21 A Two reasons. The first reason, of
22 course, is that we did not want to vent the gas and waste
23 it. We were producing prior to that time, we were under
24 venting allowables, and unable to sell the gas, so we shut
25 it in to avoid that loss.

1 Secondly, in conjunction with the Gavilan
2 Mancos Study Committee, they requested that they be able to
3 take some pressure measurements in our well and we accommo-
4 dated them.

5 Q Now would you refer to the Oso Canyon Gas
6 Com No. 1 Well and briefly summarize the production history
7 of that well?

8 A The Oso Canyon began production in Janu-
9 ary of 1985. It also produced throughout the year of 1985.
10 We were venting gas and were restricted to the State re-
11 quired levels of gas you can vent, 30 MCF a day.

12 We produced through April of 1986, shut
13 the well in and it has remained shut-in since that time for
14 the same reason as the Krystina, to avoid venting the gas.
15 It's a substantial part of the value of the well.

16 Q And you are testifying that the casing-
17 head gas has not been dedicated into a gas purchase con-
18 tract?

19 A That is correct.

20 Q I'd like for you to turn your attention
21 now to what's been marked as the applicant's Exhibit Number
22 Two and identify that exhibit, please?

23 A Exhibit Number Two is a two-page exhibit.
24 The first page consists of a graph representing reservoir
25 pressure through time and oil rate through time for the

1 Krystina No. 1 Well.

2 Q And is there a second part to that
3 exhibit?

4 A The second page is a tabulation of the
5 data used in the construction of the first page, the graph.
6 It shows the pressure data and the production, number of
7 days shut-in, for the well at each pressure data point.

8 Q What is the significance of the data il-
9 lustrated in this exhibit?

10 A The orange line represented on the graph
11 is a plot of the pressure data and it can be readily ob-
12 served that there's a downward trend in pressure through
13 time.

14 The green line shows the average daily
15 oil rate of the well through the period that we produced it.
16 We shut the well in on March 1st and the really significant
17 thing about this exhibit is that we continued to experience
18 pressure declines after the well was shut-in, and our pres-
19 sure loss has been in the neighborhood of 350 pounds, or so,
20 in the year that it's been shut-in.

21 Q By way of brief summary, then, please
22 summarize your conclusions, if any, you were able to draw
23 with respect to the data illustrated on this exhibit.

24 A What this exhibit shows is that the well
25 is suffering drainage. We have lost pressure even though

1 the well has not produced. So we are being affected by
2 other wells producing in this same common source of supply.

3 Q Refer to what's been marked as Exhibit
4 Number Three, please, and identify that exhibit.

5 A Exhibit Number Three is a tabulation of
6 pressure data on the Oso Canyon Gas Com No. 1 Well taken
7 during its shut-in period in 1986 and also in 1987.

8 Q What's the significance of this data to
9 this case?

10 A It, too, also the pressure points show
11 that we have continued to suffer a loss of reservoir pres-
12 sure in the vicinity of the wellbore during the period of
13 time that we have been shut in and the only conclusion you
14 can draw, since the well wasn't producing, is that the other
15 wells producing the same common source of supply have been
16 draining the reservoir pressure.

17 Q And again, referring generally to Exhi-
18 bits Two and Three, could you describe generally what the
19 source of the information of this data is?

20 A The data was taken through two different
21 methods. We used fluid levels and surface shut-in pressures
22 early in the life of the Krystina. We have used a very ac-
23 curate bottom hole pressure gauge for the last three pres-
24 sure measurements on the Krystina. That is the same pres-
25 sure gauge that was used in the studies in the Gavilan Man

1 cos Study Committee.

2 We used fluid level measurements on the
3 Oco Canyon. We feel pretty good about the consistency of
4 the data and I believe that it's accurate.

5 Q Were Exhibits One through Three either
6 prepared by you or at your direction and under your supervi-
7 sion?

8 A Yes, they were.

9 MR. ROBERTS: Mr. Chairman, I
10 have no further questions on direct of this witness.

11 MR. LEMAY: Okay. Are there
12 any questions of the witness?

13 MR. NANCE: Mr. Chairman.

14 MR. LEMAY: Mr. Nance.

15

16

CROSS EXAMINATION

17 BY MR. NANCE:

18 Q Mr. Dunn, can you tell me what wells may
19 be draining the Oso Canyon and the Krystina Wells?

20 A There is probably no way to pin that
21 down. There are indications in the study that was done by
22 the Gavilan Mancos Committee that there can be drainages
23 over significant distances in this particular pool.

24 I do know that the Amoco Well offsetting
25 us in Setion 14 has been shut-in. The nearest producing

1 wells during this period of time were the Jerome P. McHugh
2 Boyt & Lolos and then on further north into the main part of
3 the pool.

4 There's no way to really tell which well
5 would be causing the problem without running some sort of an
6 interference test.

7 Q Do you know who is purchasing the gas
8 from the wells in the sections immediately to the north of
9 Sections 13 and 14?

10 A I do not. I do not know.

11 MR. NANCE: Mr. Chairman, I do
12 not have any other questions at this point.

13 MR. LEMAY: Okay, Mr. Nance.

14

15 CROSS EXAMINATION

16 BY MR. LEMAY:

17 Q I was looking, Mr. Dunn, at the pressures
18 on the Krystina, which I take it are not plotted, but you
19 have plotted the pressures -- I'm sorry, the Krystina is
20 plotted, the Dunn is not -- I'm sorry, I mean the -- the
21 other well.

22 A The Oso Canyon --

23 Q The Oso Canyon is not. Are there agree-
24 ment in pressures there when they were taken or not?

25 A The pressures in the Oso Canyon as it

1 turned out were a little bit lower for the same period of
2 time than were the Krystina pressures. The conclusion I
3 drew was that the Oso Canyon is closer to other producing
4 wells; therefore it might be affected more severely, due to
5 its proximity to these producers.

6 Q What range of being lower? 100 pounds
7 lower or something, is that --

8 A Well, if you look on the graph, Exhibit
9 Two, page one, on around July of 1986 you'll see the pres-
10 sure in the Krystina is in the neighborhood of 1320 pounds
11 and in the Oso Canyon it's 100 pounds lower than that. And
12 those are at the same datum.

13 Q Are there any wells that produce from
14 this common reservoir to the south of you or to the west of
15 you?

16 A There are two wells south of us that --
17 neither well has produced. There's an Amoco well in, I be-
18 lieve it's in Section 24, and another well owned by us, and
19 the Amoco well produced for a short period of time following
20 completion, and that was prior to our even drilling the
21 Krystina and Oso Canyon and hasn't produced since, to my
22 knowledge. There's no record of it.

23 The Rocky Mountain is our well and it has
24 not produced in quite some time. I can't tell you exactly
25 when it was shut in but it was prior to the shut-in of the

1 Krystina and the Oso Canyon.

2 Q Was that shut in for the same reason as
3 the Krystina and Oso Canyon --

4 A Yes.

5 Q -- didn't want to flare the gas?

6 A Yes.

7 Q Or didn't want to waste it?

8 A It was shut in for lack of a gas tie-in.
9 We did not want to waste it.

10 Q What would you gauge those wells capable
11 of producing today if they were allowed to produce and there
12 was a market for the gas?

13 A The Krystina No. 1 produces around 20
14 barrels of oil a day and around 130 to 140 MCF of gas a day.
15 The gas rate has been increasing on the Krystina.

16 The Oso Canyon produces in the neighbor-
17 hood, in round numbers around five barrels of oil a day and
18 around 30 MCF of gas a day.

19 MR. LEMAY: Okay, I have no
20 further questions.

21 Mr. Roberts?

22 MR. ROBERTS: I have no further
23 questions of this witness.

24 We'll call J. Gregory Merrion
25 to the stand.

1

2

J. GREGORY MERRION,

3

being called as a witness and being duly sworn upon his

4

oath, testified as follows, to-wit:

5

6

DIRECT EXAMINATION

7

BY MR. ROBERTS:

8

Q Mr. Merrion, for the record please would

9

you state your name and your place of residence?

10

A J. Gregory Merrion, Farmington, New Mex-

11

ico.

12

Q What is your relationship to the appli-

13

cant in this case?

14

A I'm the President of Merrion Oil and Gas

15

Corporation.

16

Q Are you familiar with the operations of

17

Merrion Oil and Gas Corporation in the area of the Gavilan

18

Mancos Oil Pool?

19

A Yes, I am.

20

Q And are you familiar with the application

21

in this case?

22

A Yes, I am.

23

Q Would you explain the purpose of this ap-

24

plication?

25

A The purpose of this application is to

1 secure a gas market for the wells we have in the Gavilan
2 Mancos Field and to provide a steady market which will per-
3 mit us to produce our equitable share of the oil and gas in
4 the reservoir on a steady month-to-month basis.

5 Q What is the nature and extent of the own-
6 ership of Merrion Oil and Gas in these two wells?

7 A In the Krystina Merrion Oil and Gas owns
8 a 1/8th interest and in the Oso Canyon No. 1 it owns a quar-
9 ter interest.

10 Q And does Merrion Oil and Gas operate each
11 of these wells?

12 A Yes, it does.

13 Q Mr. Merrion, would you describe your ef-
14 forts to obtain gas purchase contracts for the casinghead
15 gas production from these wells?

16 A Yes, I will. These, as was previously
17 stated by Mr. Dunn, these wells were drilled in the fall of
18 1984.

19 Shortly after their completion I contac-
20 ted the Gas Contracts Department of El Paso and asked for a
21 contract. Their contract which they offered at that time
22 was a \$2.00 per MCF contract with no BTU adjustment and they
23 wanted a 5-year term.

24 I did not feel that -- of course the
25 \$2.00 without BTU adjustment, this is very rich gas, on the

1 order of 1300 BTU's per cubic foot, and the market at that
2 time was considerably higher, especially with the BTU ad-
3 justment.

4 Although we might have been willing to
5 sell our gas on that term for a short term month-to-month
6 basis, we did not feel that it was fair to ask us to sign up
7 for five years and we felt the market would get better and
8 so we elected not to sign that contract at the time.

9 We -- in 1986, in April, we became
10 convinced that our previous thinking on the gas market was
11 wrong and things were getting worse instead of better, and
12 we had managed to get a gas contract on another well from El
13 Paso, and by letter of April 8th we wrote to the Gas
14 Contracts Department of El Paso requesting a contract on the
15 two wells in question, the Krynstina No. 1, the Oso Canyon
16 Com C-1, as well as a nearby well, the Rocky Mountain No. 1.

17 Q I'd like for you to refer to the
18 Applicant's Exhibit Four, page one of that Exhibit Four, and
19 ask you if that letter represented there is the letter that
20 you referred to dated April 8th of 1986 by which you
21 requested contracting for the gas capable of being produced
22 from these two wells?

23 A Yes, that is correct. Do you want me to
24 continue further on my --

25 Q Yes, go ahead --

1 A -- efforts?

2 Q -- and continue.

3 A I'm not certain whether that remained un-
4 answered, and actually my recollection is that in a tele-
5 phone conversation Richard Jordan advised me that they could
6 not give us a contract on those wells and there was no al-
7 ternatives that he offered at the time for marketing our
8 gas.

9 We -- and I had you write a letter on
10 July 28th of 1986, pointing out that El Paso took gas from
11 an affiliate in that reservoir and as well as other parties
12 in the reservoir, permitting them to produce oil in this
13 highly competitive reservoir while we were restricted to a
14 very low allowable because of our lack of gas market. This
15 put us at a competitive disadvantage and you requested them
16 to consider those facts and offer us a gas contract.

17 Q Please refer to Plaintiff's -- or, I'm
18 sorry, Applicant's Exhibit Number Four at page two. Is the
19 letter represented there, the letter that you refer to that
20 I wrote on your behalf dated July 28th, 1986?

21 A It is.

22 Q Would you describe the basic terms and
23 conditions of your proposal to El Paso contained in that
24 letter?

25 A We proposed to lay our own gas line and

1 have them tie us in, and let me see if I can find the exact
2 words:

3 "Merrion Oil and Gas proposes to pay all
4 costs associated with laying a gathering line to a meter
5 which would be provided and set at your expense. In addi-
6 tion Merrion Oil and Gas Corporation is willing to sell cas-
7 inghead gas from these wells pursuant to the terms of your
8 spot market release program and under a month-to-month con-
9 tract similar in nature to the short term gas purchase
10 agreement currently offered by El Paso Natural Gas Company
11 for spot market sales."

12 Q Mr. Merrion, did you receive a response
13 to that letter?

14 A Six weeks later we did receive a response
15 from Mr. Wiseman on September 16th.

16 Mr Wiseman advised in that letter that
17 because of the over-supply situation they could not accommo-
18 date us but offered us three alternatives.

19 Q Would you describe those alternatives,
20 please?

21 A Those alternatives was to sell to North-
22 west Pipeline Company; to sell to other purchasers; or to
23 sell to El Paso Gas Marketing Company.

24 Q Refer please to Exhibit Four, Applicant's
25 Exhibit Four at page four and is the letter set forth there,

1 is that the letter you received in response to --

2 A Yes.

3 Q -- your request of July 28th, 1986?

4 A Exhibit Four, pages four, five, and six,
5 constitute the letter from Mr. Wiseman on that date.

6 Q What was your response to that letter
7 from Mr. Wiseman?

8 A On September 29th, 1986, I returned a
9 call to Mr. Wiseman advising him that I was delighted to
10 learn that the only reason for their refusal to take my gas
11 was because of their over-supply situation.

12 I advised him I had talked to Mr. Adams
13 with El Paso Gas Marketing and he had offered us little hope
14 for marketing our small quantity of gas.

15 And I also advised him that the other al-
16 ternatives mentioned were not immediately possible.

17 In view of these facts, I advised him
18 that I would make a proposal which would eliminate all of
19 the objections they might have to the taking of our gas.

20 "We will lay lines to your low pressure
21 gathering system in the area and sell you gas at your
22 market-out price on a contract cancelable by us on thirty
23 days notice.

24 In order to relieve your over-supply sit-
25 uation, we will cancel your contractual take-or-pay obli-

1 gations in an amount of gas equal in heating value to the
2 gas you take from our Gavilan Field wells. In choosing
3 which contracts the canceled take-or-pay obligations will
4 come from, we will attempt to cancel those requirements
5 which will on average be as nearly as possible equal in
6 value to the gas you have taken from these wells. A calcu-
7 lation of this canceled obligation will take place annually
8 on or about the first day of April of each year for the
9 prior calendar year."

10 Q Did you receive a response to that letter
11 and that proposal?

12 A I did not.

13 Q Does the letter reflected at Exhibit Four
14 page seven represent the letter that you wrote to El Paso
15 containing that proposal?

16 A Exhibit Four page seven, yes, sir, that's
17 it.

18 Q I'd like to have you refer back to the
19 letter of September 16th, 1986, directed to me from Mr.
20 Wiseman on behalf of El Paso Natural Gas Company. In that
21 letter Mr. Wiseman, on behalf of El Paso, extended or sug-
22 gested three options for the disposition of your casinghead
23 gas from these two wells.

24 The first of those was sale to Northwest
25 Pipeline Company.

1 Mr. Merrion, why was that not an accept-
2 able alternative to you?

3 A Well, I just don't like Northwest Pipe-
4 line Company and I liked El Paso better.

5 Q The second option or proposal extended to
6 you was a sale to El Paso Gas Marketing Company.

7 Why was that not acceptable to you?

8 A I contacted, pursuant to Mr. Wiseman's
9 suggestion, I contacted Mr. Harold Adams, on -- I'll refer
10 to a memorandum which was in my file which I had typed up
11 immediately after my telephone conversation, which took
12 place on 11:30 a. m. September 25th, 1986.

13 In a telephone conversation with Harold
14 Adams he said the following:

15 It would be very difficult to place the
16 small amount of gas we are talking about (150 MCF a day from
17 three current wells and perhaps another 100 MCF a day from a
18 new well.)

19 Secondly, if he were to tell us what they
20 could pay, I would hit him.

21 Thirdly, he expects October's spot market
22 release program to be at \$1.27 to \$1.30 per MMBTU and this
23 gas would have to be delivered to the tailgate of Blanco
24 Plant by El Paso Natural Gas. The cost of that gathering
25 would be 23 cents plus a 14.6 cents -- percent shrinkage.

1 I'm -- my notes do not reflect whether
2 that's a cost per MMBTU or a cost per MCF. I think it was
3 cost per MMBTU.

4 That would, at that \$1.30 per MMBTU, that
5 would amount to approximately 42 cents for gathering, which
6 is horrendously high, and would put us at a very low rate
7 for our gas.

8 He further, when asked if price at the
9 tailgate would be higher than the wellhead, he said, no, be-
10 cause El Paso Gas Marketing would need a brokerage fee.
11 (There's about 15 cents difference on gas previously dedi-
12 cated to El Paso.)

13 In other words, if -- if we were selling
14 through them on already dedicated gas, the price would be 15
15 cents better.

16 And lastly, it was discussed that if we
17 obtained our own market there would be no brokerage fee.
18 That was my conversation with Mr. Adams.

19 Q And the third suggestion made in Mr. Wise-
20 man's letter to you dated September 16th, 1986, was a sale
21 to other purchasers and I think by that the suggestion was
22 being made that you would arrange for direct sales to -- to
23 ultimate end users.

24 Why was that proposal not acceptable to
25 you?

1 A Well, because of the gathering costs.
2 The -- on undedicated gas El Paso and El Paso Gas Marketing
3 charge a very, very high gathering rate, which I, you know,
4 just don't feel is warranted. It's kind of an unregulated
5 monopoly, and it results in a very, very low price for the
6 producer.

7 Q Mr. Merrion, who are the other purchasers
8 of production from the Gavilan Mancos Oil Pool of which you
9 are aware?

10 A Northwest Pipeline is the only one that I
11 am aware of.

12 Q Did you ever contact Northwest Pipeline?

13 A Not on this matter.

14 Q You've already explained why you did not
15 do that.

16 A That's right.

17 Q Mr. Merrion, if you would, can you dis-
18 cuss real briefly the impact on the operation of Merrion Oil
19 and Gas Corporation in the area of the Gavilan Mancos Oil
20 Pool of the inability to sell its casinghead gas from these
21 two wells which are in question here?

22 A Well, we have been restricted in our pro-
23 duction from the two wells, first at the 30 MCF per day
24 restricted allowable and secondly, during the period of
25 very, very low oil prices we didn't feel that we could af-

1 ford to vent any gas at all in order to sell gas at those
2 prices.

3 Had we been connected and selling our
4 gas, we could have justified perhaps producing those
5 periods; certainly before the price of oil fell.

6 We feel we've been -- we've suffered a
7 great deal of drainage due to our inability to produce at
8 top capacity of those wells, and that this inability was
9 largely caused by lack of a gas connection.

10 Q What relief do you request from the Com-
11 mission?

12 A I request that the Commission require El
13 Paso to accept our gas under the terms that we have request-
14 ed here, we giving El Paso relief from take-or-pay obliga-
15 tions so as not to impact their over-supply situation and
16 to do so in such a way that it will not affect their WAYCOG
17 by the nature of the take-or-pay obligations forgiven.

18 Q And is it your proposal that -- or your
19 belief that your offer to bear all the costs of gathering
20 and connecting the well and to accept a market (not under-
21 stood) price for your production would enable El Paso to a-
22 void (not understood) affect on their WAYCOG?

23 A It is my intent to completely relieve
24 them of any cost impact.

25 Q Mr. Merrion, was Exhibit Number Four,

1 which consists of a series of communications you have speci-
2 fically addressed, either prepared by you or at your direc-
3 tion and under your supervision?

4 A It was prepared at my direction and
5 supervision.

6 MR. ROBERTS: I have no other
7 questions of this witness.

8 MR. LEMAY: Mr. Nance, any
9 questions?

10 MR. NANCE: Mr. Chairman, I
11 only have a couple questions right now.

12

13

CROSS EXAMINATION

14 BY MR. NANCE:

15 Q Mr. Merrion, you have remarked that in
16 your opinion the gathering fees proposed to be charged by El
17 Paso were -- were perhaps higher than necessary?

18 A Yes.

19 Q Are you aware that those are certificated
20 and within El Paso's existing tariff rates and are not in
21 any way arbitrary?

22 A Well, I know that you charge less money
23 for gas which has been under contract. For gathering you
24 charge a 10 percent shrink only, whereas the rates quoted by
25 Mr. Adams were perhaps 25 cents MMBTU higher.

1 Secondly, I am advised that the rates
2 charged by you to other pipelines is considerably less than
3 the rates quoted by Mr. Adams.

4 Q Could it be that the first difference
5 that you were talking about is a difference between incre-
6 mental and displacement?

7 A Yes.

8 Q The other thing I needed to ask you is if
9 you recall having received a November 4th response from Mr.
10 Wiseman to your September 29th request?

11 A No, I do not recall that.

12 MR. NANCE: Mr. Chairman, if I
13 might have just one moment, please, to confer with my wit-
14 ness, please?

15 MR. LEMAY: Yes.

16 MR. NANCE: Mr. Chairman, thank
17 you for the time.

18 Q Mr. Merrion, what do you recall was your
19 response to Mr. Adams when you discussed -- or when he dis-
20 cussed with you the potential terms of a purchase contract
21 by El Paso Gas Marketing for your gas, casinghead gas?

22 A I don't remember my verbal response but
23 obviously I was not interested in the terms of his propo-
24 sal, because we did not follow through and do anything
25 there.

1 Q The ultimate effect, though, was that you
2 rejected his proposal.

3 A Yes.

4 Q Is that correct?

5 A Well, he -- I don't know that he made a
6 proposal. He just said that I'd hit him if I told him what
7 he could pay for it, and he told me some rough parameters of
8 what it would amount to, but I'm not sure that he made a
9 definite proposal to me to take my gas.

10 I don't think he did.

11 Q Did you leave him with the impression,
12 though, that you would not be interested in a proposal with
13 those parameters?

14 A I suspect I did.

15 Q And you have already testified that be-
16 cause of your personal feelings or for whatever reason, you
17 would not want to attempt to strike any sort of deal with
18 Northwest as far as their potential ability to execute a
19 contract with you and to take your gas, is that correct?

20 A That's correct.

21 Q Could you tell me, Mr. Merrion, why --
22 why it is, similarly, that you have considered only El Paso
23 as the particular target of enforcing the Common Purchaser
24 statute here and not also Northwest, or not Northwest in-
25 stead?

1 A Well, John, I think that we'll get to
2 Northwest later, but we've got to start somewhere and it
3 seemed like Gavilan Mancos was an excellent place to start.
4 We have very, very impressive data on the damage that has
5 been caused by our lack of a gas connection.

6 We have a case where El Paso is taking
7 from an affiliate. We have a reservoir that is highly per-
8 meable and subject to -- to very effective drainage. It's a
9 perfect, you know, test case.

10 Once we get this through, we'll go after
11 Northwest, and I -- Northwest has certainly got far more
12 cases. I've got ten oil wells; some have been completed,
13 well, longer than two years, like these ones here that have
14 been sitting and no gas market, no gas connection. Some of
15 these are under gas contract, and the magnitude of the sit-
16 uation in the San Juan Basin and State of New Mexico is
17 large, and it impacts upon the State of New Mexico, the
18 taxes to the State, the royalties to the State, and certain-
19 ly it impacts on us producers. Why, why you won't take gas,
20 one gas instead of another gas, when we relieve you of the
21 take-or-pay. All we want to do is produce the oil with the
22 gas and we can't get any cooperation at all.

23 Q El Paso does intend to refute those par-
24 ticular allegations that you're not cooperating and we also,
25 I think, can demonstrate justification for our refusal to

1 accept those particular terms in that contract and our wit-
2 ness will do so -- attempt to make that clear.

3 Mr. Merrion, would you acknowledge that
4 Northwest is the major producer or major purchaser, I'm sor-
5 ry, in the Gavilan Mancos, of gas?

6 A I haven't researched that but my impres-
7 sion is that's probably true.

8 Q Could you once again confirm to me what
9 your reaction was to the gas contracts that were offered to
10 you by El Paso in December of 1984?

11 A I don't -- a written contract?

12 Q Yes, sir. It's a \$2.00 contract that
13 we're describing.

14 A Okay, I think I addressed that in my tes-
15 timony.

16 Q Yes, sir, you did.

17 A In other words. I don't recall receiving
18 a written contract covering these wells. I don't really re-
19 call talking but I think I did talk to North -- or to El
20 Paso and I knew, if I didn't talk to them, from talking to
21 other people that the only thing I would get out of El Paso
22 at the time was a \$2.00 contract with no BTU adjustment and
23 a five year term, and I think I stated truthfully that my
24 reaction was that I felt that \$2.00 with no BTU adjustment
25 was quite a bit lower than the market at the time and al-

1 though I might be willing to take that on a short term con-
2 tract, I did not feel I should be required to sign up for a
3 five year term under that, because I expected at the time
4 that the market would recover.

5 Q The gas purchase contract that you did
6 accept from El Paso finally in April of 1985 --

7 A Not on these properties but on another
8 property.

9 Q -- not on these properties but on other
10 properties, are you aware of El Paso having offered any gas
11 purchase contract to any producer in the Gavilan Mancos
12 since that period of time?

13 A I -- I'm of the impression, I'm told by
14 Amoco that on May 15th, 1986, that they signed a contract
15 with El Paso covering their interest under the Oso Canyon,
16 plus other Amoco acreage in the field.

17 Q Are you aware of what formation that con-
18 tract covered?

19 A They swear that it covers the Gallup.

20 MR. NANCE: I don't have any
21 other questions at this time, Mr. Chairman. Thank you very
22 much.

23 Mr. Merrion, thank you.

24

25

1 CROSS EXAMINATION

2 BY MR. LEMAY:

3 Q Mr. Merrion, do you have any information
4 on distance to El Paso's line compared to, say, Northwest's?
5 How close are you to either line?

6 A I think we are approximately -- the lines
7 in that area, I guess I'm not familiar except I've checked
8 and the distance to El Paso connection is approximately a
9 half mile, maybe a little less.

10 I didn't check with Northwest.

11 Q Is it your recollection that you're
12 closer to El Paso than you are to Northwest?

13 A I can't answer it; I really don't know.

14 Q Considering the wells around you, do you
15 know who they are hooked up to?

16 The Amoco was mentioned. That's the Oso
17 Canyon Well, I guess, in Section 11 in the northwest
18 quarter, is that correct? I'm referring to Exhibit Number
19 One.

20 A Oh, you're talking about the gas
21 contract?

22 Q The reference you made to the gas
23 contract, yes, to an Oso Canyon Well.

24 A Well, the Oso Canyon Well which is the
25 subject of this application is in the northwest quarter of

1 Section 13. Now that well is owned half by Amoco and their
2 -- it's a communitized tract and their 160 under that tract,
3 they advised me, was put under contract with El Paso on May
4 15th, 1986.

5 Q So as a matter of clarification, it's the
6 undivided interest in your well that Amoco has contracted
7 with El Paso.

8 A That's the only thing I've discussed with
9 them. I had the impression there was other acreage perhaps
10 in that same field that went under that contract at the same
11 time, but I'm not certain of that.

12 Q Well, that's the other Amoco well.
13 That's why I wondered. There's an Amoco Oso Canyon Federal
14 A in the northwest of 14 and one in the northwest of 11.
15 Are you familiar with any of those? Who's taking casinghead
16 gas there?

17 A I don't believe the well in the northwest
18 of 13 is being produced. I'm certain that's true because
19 they were wanting to share a pipeline right-of-way with us,
20 and so it's not being sold.

21 Q In the northwest of 14, you mean, that
22 well is shut in?

23 A Yes.

24 Q How -- what is the closest well to your
25 knowledge that's being produced now, and who's the pur-

1 chaser, do you know?

2 A I -- I suspect that the McHugh Boyt &
3 Lola is the closest well. I don't know who the purchaser
4 is.

5 Q Okay.

6 MR. LEMAY: I don't have any
7 more questions.

8 You may be excused.

9 I think we'll take about a ten
10 minute recess and we'll come back with El Paso's case.

11

12 (Thereupon a recess was taken.)

13

14 MR. LEMAY: Reconvene Case 9063
15 with El Paso. Mr. Nance?

16 MR. ROBERTS: Mr. Chairman, if
17 --

18 MR. LEMAY: Mr. Roberts, I'm
19 sorry, is there anything additional you'd like to present?

20 MR. ROBERTS: Mr. Chairman, I
21 had prepared a request for production of documents and the
22 request for an issuance of subpoena to require the atten-
23 dance of the custodian of those records here at this hear-
24 ing, and El Paso has been kind enough to be very cooperative
25 in producing documents and to have Mr. Wiseman here, who is

1 able to testify as to those documents that have been pro-
2 duced.

3 So I would like to call Mr.
4 Wiseman to the stand and examine him as part of my case in
5 chief.

6 MR. LEMAY; Mr. Nance.

7 MR. NANCE: Mr. Chairman, El
8 Paso does acknowledge the fact that Merrion does have the
9 power to call anyone they want to have in here (not clearly
10 understood) and certainly we are willing to tender Mr. Wise-
11 man to testify as to the matters that Mr. Roberts has just
12 described.

13 What I would request is that
14 the Commission keep in mind certain parameters as far as the
15 questioning is concerned, that it pertain to the matters
16 that Mr. Roberts has -- has described, and that we also keep
17 in mind the fact that there is on-going litigation between
18 Merrion and El Paso and perhaps between other parties that
19 are in attendance here and El Paso.

20 MR. LEMAY: In relationship to
21 these wells or other wells?

22 MR. NANCE: Not in relation to
23 these wells, and for that reason I would like to make sure
24 that any line of questioning doesn't get into areas that
25 might be the subject of such litigation and potentially be

1 damaging to El Paso.

2 MR. LEMAY: Is that agreeable
3 with you, Mr. Roberts?

4 MR. ROBERTS: Certainly is. I
5 have no intention of going into matters that might relate to
6 the litigation on-going between Mr. Merrion and Merrion Oil
7 and Gas and El Paso.

8 But, Mr. Chairman, I would also
9 expect ot be given fairly wide latitude to deal with the
10 Common Purchaser statute, the elemnts of proof that are re-
11 quired in the statute of any person seeking enforcement of
12 the Common Purchaser statute and all of my questions will
13 relate to elements of proof within the statute, required by
14 the statute.

15 MR. LEMAY: How do you feel
16 about that, Mr. Nance?

17 MR. NANCE: I think we can just
18 approach it as -- as each individual question arises, if I
19 might reserve my right to -- to object if I feel the need
20 and confer with opposing counsel or the Commission, then --

21 MR. LEMAY: Do you believe the
22 Common Purchaser statute is fair game in this hearing, for
23 Mr. Wiseman to respond to questions concerning Common Pur-
24 chaser or would that depend on individual questions?

25 MR. NANCE: Well, I -- once

1 again, I think it may depend on the individual questions.
2 I'm not sure that Mr. Wiseman himself would be an expert as
3 far as the Common Purchaser statute itself is concerned and
4 I don't know that that's what Mr. Roberts has in mind, but
5 we can certainly proceed and --

6 MR. LEMAY: Well, let's try it
7 on and see how it fits.

8 MR. ROBERTS: Mr. Chairman, I
9 might give you an example.

10 One of the elements of the Com-
11 mon Purchaser statute is basically the requirement that the
12 case will be made on a nondiscriminatory basis and within
13 the area of Mr. Wiseman's expertise, which I assume is know-
14 ledge of El Paso's purchasing and contracting activities in
15 the area of these wells, that he would be able to answer
16 questions that might be relevant to that issue, and so all
17 of my questions I think will be relevant to pertinent issues
18 that are at issue in this case.

19 MR. LEMAY: We certainly want
20 to hear Mr. Wiseman's testimony and let's do that with cer-
21 tainly your opportunity to object here if you think it jus-
22 tified.

23 MR. NANCE: Thank you, Mr.
24 Chairman.

25 MR. ROBERTS: Call Michael

1 Wiseman.

2

3

MICHAEL W. WISEMAN,

4 being called as an adverse witness and being duly sworn upon
5 his oath, testified as follows, to-wit:

6

7

DIRECT EXAMINATION

8

BY MR. ROBERTS:

9

Q Mr. Wiseman, for the record will you
10 state your full name and place of residence?

11

A It's Michael W. Wiseman. My residence is
12 El Paso, Texas.

13

Q And what is your employment?

14

A I work for El Paso Natural Gas Company.

15

Q How long have you been employed by El
16 Paso Natural Gas Company?

17

A Thirteen plus years.

18

Q Would you briefly describe your employ-
19 ment responsibilities during that thirteen year period?

20

A During the first seven and a half years I
21 was in the Engineering Department in the Systems Engineering
22 and Project Management Divisions.

23

For the following six years I was in the
24 Gas Purchases Department and until February 1st I was Mana-
25 ger of Gas Contracts in that department.

1 I'm currently Manager of Studies Adminis-
2 tration in another department within Gas Supply.

3 Q Mr. Wiseman, are you familiar with the
4 general policies of El Paso Natural Gas Company with respect
5 to gas contracting and gas purchasing?

6 A Yes, I am.

7 Q And are you familiar with the activities
8 of El Paso Natural Gas Company in the areas of gas contrac-
9 ting and gas purchasing in the area of the Gavilan Mancos
10 Oil Pool?

11 A Yes I am.

12 Q And, Mr. Wiseman, are you familiar with
13 the efforts of Merrion Oil and Gas Corporation to obtain
14 contract coverage for the two wells which have been identi-
15 fied in the course of this hearing today?

16 A Yes.

17 MR. ROBERTS: Mr. Chairman, I'm
18 going to be handing to Mr. Wiseman two exhibits that I did
19 not make sufficient copies of to distribute to you and other
20 people here and I will attempt to adequately identify them
21 and we'll make sure we leave them here for the record at the
22 end of the hearing.

23 Q Mr. Wiseman, I'm going to hand you what
24 has been marked as Exhibit Number Five submitted by Merrion
25 Oil and Gas Corporation in Case 9063, in this hearing, and I

1 would ask you to -- to look at that, please, and in suffi-
2 cient detail to be able to express an opinion as to whether
3 or not it is what it purports to be.

4 A You've handed me a document which is a
5 letter from Mr. Nance to you, which describes El Paso's con-
6 tracted interests in the Gavilan Mancos Oil Pool.

7 Q And are you familiar with that piece of
8 correspondence?

9 A Yes, I am. I believe there's an up-date
10 to this.

11 Q Yes, and that's what I'll be handing you
12 next

13 A Okay.

14 Q And to your knowledge does it represent
15 an accurate statement of El Paso Natural Gas Company's pur-
16 chasing activities in the area of the Gavilan Mancos Oil Pool
17 as of that date of that letter, February 19th?

18 A I believe that is the case.

19 Q Now I will hand you what's been marked as
20 Exhibit Number Six submitted by Merrion Oil and Gas Corpora-
21 tion in Case Number 9063, and I would ask you to take a look
22 at that in sufficient detail so that you could express an
23 opinion as to its completeness and accuracy.

24 A I did not prepare this document. I'm
25 aware of -- I'm aware of its contents and I believe that

1 this -- I believe that this is accurate.

2 This is a listing of the known working
3 interests in the wells in the Gavilan Mancos Field which are
4 connected to El Paso.

5 Q Okay, and if you will, would you look at
6 the attachment to that letter, which appears to be a listing
7 of payees, volumes of sale, contract reference and price.

8 A Yes.

9 Q And have you seen that before now?

10 A I saw it for the first time last evening.

11 Q And do you believe that the information
12 contained in that attachment would be accurate?

13 A I did not prepare it. I can't vouch for
14 it. I have no reason to think it's not accurate. I under-
15 stand it was prepared by our Contract Administration Depart-
16 ment.

17 Q And the correspondence of March 3rd repre-
18 sents an accurate statement of the activities of El Paso
19 Natural Gas Company with respect to contracting and purchas-
20 ing from wells in the area of the Gavilan Mancos Oil Pool as
21 of March 3rd, 1987, is that your testimony?

22 A To the best of my knowledge, yes.

23 Q I'd like for you to direct your attention
24 more specifically to Exhibit Number Five, which is the let-
25 ter addressed to me from El Paso Natural Gas Company dated

1 February 19th, 1987.

2 Would you identify for the Commission,
3 please, what this exhibit is and what its contents are?

4 A This particular exhibit was prepared by
5 Mr. Nance using some information that I provided him and
6 some information from our reservoir engineering function.
7 At the time we did not, I guess, effectively communicate,
8 but he was led to understand and he resonded to you that the
9 only -- the only well in that pool in which we had a
10 contract was the Hawk Federal No. 3 Well, which is about
11 three miles or so distant from the two wells in question
12 here, and it gave a listing of the four working interests
13 which are under contract to El Paso, representing about half
14 of the working interest in that well.

15 And he attached an exhibit which shows
16 those wells in the pool which are connected to and
17 transported by El Paso and a second list which are
18 transported by El Paso specifically for Northwest Pipeline
19 Company.

20 Q Mr. Wiseman, would you at this point
21 direct your attention to that portion of the letter
22 represented by Exhibit Number Five, which deals with the
23 purchasing activities of El Paso Natural Gas Company in the
24 Gavilan Mancos Oil Pool area and would you -- would you
25 describe those -- those purchasing activities, please, and

1 let me limit that to contracting activities at this point.

2 A Okay, which particular part of the letter
3 are you referring to?

4 Q Well, I'm referring to the response to
5 Item 1-A, that portion of the exhibit.

6 A Okay, in the response to your Item 1-A
7 Mr. Nance states that what I just said about the Hawk Fed-
8 eral No. 3 Well, where we have slightly more than 50 percent
9 of the production under contract, and he goes on to state
10 that those working interests are attributable to Southland
11 Royalty, Kenai Oil and Gas, Hooper, Kimball & Williams and
12 Reading and Bates.

13 Q And are there four separate contracts ap-
14 plicable to each of those working interest owners?

15 A Each have their own contracts.

16 Q Would you identify the dates of those
17 contracts, please?

18 A Southland Royalty's contract is dated
19 March the 5th, 1985.

20 Kenai, both the Kenai and the Hooper,
21 Kimball & Williams contracts are dated April the 4th of
22 1985, and Reading and Bates contract is dated November the
23 1st of 1985.

24 Q Now would you refer to Exhibit Number Six
25 and more specifically identify what this exhibit is?

1 A This, in response to a discussion Mr.
2 Nance and I had, we realized that you hadn't been provided
3 complete information as to our contracted interests and this
4 lists seven additional wells which -- which are in this pool
5 in which El Paso has some or all of the production under
6 contract.

7 Q Would you identify those wells?

8 A The Hill Federal No. 1 Well, we have a
9 contract for 50 percent interest with Dugan Production Com-
10 pany. That contract is dated June 1, 1985.

11 In the Lindrith B Unit No. 34 we have --
12 and in the Lindrith B Unit No. 37 and in the Lindrith B Unit
13 No. 38, we have contractual coverage with Tenneco on 25 per-
14 cent of each of the wells; contract dated May the 9th, 1984.

15 The Divide No. 1 Well, the Tapacitos No.
16 2, and the Tapacitos No. 4 Wells, are all under a contract
17 with Dugan Production, the same contract I mentioned before,
18 Number 604M, dated June 1, 1985, and Mr. Dugan has 100 per-
19 cent interest in those.

20 Q Will you now please turn to that portion
21 of Exhibit Number Six which I would refer to as a list of
22 entities from which El Paso Natural Gas Company purchases
23 production from this pool?

24 Is that an accurate statement of what
25 this tabulation is?

1 Dugan, Hooper, Kimball & Williams, IBEX Partnership, those
2 two, three, four, five entries that I just mentioned, you'll
3 see a contract number beginning with a 3 or a 9. That's a
4 psuedo-contract number in our system We do not have a con-
5 tract for that interest. That's what we call -- it's called
6 a no-contract contract number. It allows us to have a num-
7 ber under which we can keep track of a non-contract working
8 interest.

9 Kenai has an interest covered by Contract
10 5459 and it has a contract price.

11 Jerome P. McHugh, Carolyn Clark Oatman,
12 let me skip over Northwest Pipeline for a moment, Reading
13 and Bates, Mabel Reed, and Mabel Reed and W. W. Oatman,
14 again are all psuedo-contract numbers. Those are not con-
15 tracted interests.

16 The entry you see for Northwest Pipeline
17 Company, that Contract Number 9570 is in fact a transporta-
18 tion agreement. It's what is commonly know as the Basin Ex-
19 change agreement, which is a certificated exchange that was
20 entered into by the parties as part of our divestiture acti-
21 vities in 1974 under which Northwest and El Paso gather and
22 exchange gas for one another in the San Juan Basin.

23 So I guess to summarize, looking at that
24 particular month, we have Southland Royalty, Kenai, South-
25 land Royalty and Kenai are the only contracted working in-

1 terests.

2 What I can't tell you is what these
3 prices mean on the righthand column for the non-contracted
4 interests.

5 Q Mr. Wiseman, with respect to the volumes
6 associated with the interests of Southland Royalty and Kenai
7 Oil & Gas, are those volumes in MCF of gas?

8 A I expect they are. I don't really know.
9 I would guess they are since the price as stated is a price
10 per MCF.

11 Q And do those figures there represent the
12 volumes of gas purchased by El Paso Natural Gas Company dur-
13 ing that period, during that month from those entities?

14 A Again, I did not prepare this. It would
15 be my assumption that this -- this document we're looking
16 at, in the month of 1985 says that we purchased the total of
17 431 MCF that month from that well, and based upon our con-
18 tracting practice -- or based upon our contracted interest,
19 we would have paid Southland Royalty and Kenai for a total
20 of -- I believe the amount -- I believe the total working
21 interest under contract in that well was 51 percent -- well,
22 now let me correct that.

23 The two of them have a total interest of
24 34.9 percent in round numbers, right at 35 percent. We
25 would have paid the two of them for the proceeds of the in-

1 terest in that well, excluding that which was delivered to
2 Northwest Pipeline under the exchange agreement, I don't
3 know what Northwest' attributable interest is; there isn't
4 all that much interest here.

5 Q Can the same analysis be made for each
6 month thereafter?

7 A Should be; that should hold for each
8 month.

9 Q And for what period of time does this
10 tabulation run?

11 A It appears to go to December of 1986.

12 Q Mr. Wiseman, would it be an accurate
13 statement that at least through December, 1986, El Paso Nat-
14 ural Gas Company was purchasing gas from Southland Royalty
15 Company, Kenai Oil and Gas Company, Hooper, Kimball & Wil-
16 liams, and Reading and Bates under contracts?

17 A What was the date you said?

18 Q Through December of 1986.

19 A Through December of 1986 in that particu-
20 lar well we've just been discussing we have contracted work-
21 ing interest for those parties, and I would assume that we
22 wre purchasing gas in all months up to -- up through Octo-
23 ber of 1986.

24 Q And would it be your assumption that
25 you're continuing to purchase?

1 A No, sir.

2 Q Okay, and why is that?

3 A This gas is being purchased by El Paso
4 Gas Marketing Company and being sold into the spot market.

5 Q And when did that take place?

6 A November 1st.

7 Q November 1st, 1986.

8 A I believe that's correct.

9 MR. NANCE: If I may interrupt
10 for just a minute, I think it's important to clarify that
11 each of these monthly volume totals is not a purchase total
12 by El Paso Natural Gas, is that correct, Mr. Wiseman?

13 A As it's structured, the document shows
14 what volume would have been purchased from each of those
15 working interests if everyone had had a contract. I believe
16 this is a settlement, the result of a settlement statement,
17 and the number at the bottom of each of those sections that
18 we -- such as the one I just described, I believe, is the
19 total volume purchased from the well during that settle-
20 ment period or that month.

21 Q Mr. Wiseman, let me make sure I under-
22 stand.

23 Your testimony has been that El Paso
24 Natural Gas Company has purchased the interest of these four
25 sellers Southland Royalty, Kenai Oil and Gas, Hooper, Kim-

1 ball & Williams, and Reading and Bates, through October 31st,
2 1986 under the contracts that you've identified for those
3 individuals.

4 A To the best of my knowledge.

5 Q And in effect --

6 A Each of those working interests, I should
7 point out, came into their contract at a different time, so
8 -- and I think I gave you the dates of the contracts going
9 back to March of '85. The latest one was November of '85.

10 Prior to those contract dates we would
11 not have been purchasing from any of those individual wor-
12 king interests, but I believe your statement is correct up
13 through October of 1986 we were purchasing --

14 Q And effective November 1st purchases of
15 this production was (not understood) to be made by El Paso
16 Gas Marketing Company.

17 A That's correct.

18 Q What is the status of the contracts be-
19 tween El Paso Natural Gas Company and Southland Royalty? Do
20 they still remain in force and effect?

21 A There remains a contract with Southland
22 Royalty, with each of these -- as far as I know, with each
23 of these four parties we just discussed.

24 Q Can you give us some explanation of the
25 circumstances around which the transfer purchasing activity

1 was made from El Paso Natural Gas Company to El Paso Natural
2 Gas Marketing Company?

3 A Yes, I can. The -- El Paso provided no-
4 tice to its sellers in late October, and I think I've got
5 these dates correct, late October of 1986, advising that
6 there had been a further deterioration of our market and
7 it was of the proportions that that gas which we had identi-
8 fied and I think we heard testimony earlier here today in a
9 previous case referred to as non-swing gas production, basi-
10 cally casinghead gas, residue gas, we had less market avail-
11 able to us in the foreseeable future than we had non-swing
12 gas available to us under our contracts, and at that time we
13 made -- we gave notice to our sellers that we were going to
14 be unable to purchase all of that non-swing gas that was
15 available to us and in fact what we would purchase, because
16 it had no other outlet, is the NGPA, or older vintage non-
17 swing gas, because it had no other outlet and that we would
18 consider any NGPA vintage gas, which does not require any
19 FERC abandonment, to sell in other places.

20 To the extent that it was delivered to El
21 Paso it would be considered to have been delivered under the
22 provisions outside -- first of all, outside of the contract
23 between us, between the seller and El Paso Natural Gas Com-
24 pany, and under the provisions of an attached agreement with
25 El Paso Gas Marketing Company.

1 That happens to be the only activities El
2 Paso Gas Marketing Company continues to have on our system,
3 for the purchase of spot market gas. They continue to pro-
4 vide a market for that surplus NGPA vintage non-swing pro-
5 duction at no -- at no mark-up. There's no -- there's no
6 brokerage fee or anything. It's bought and passed through
7 at the same price.

8 Q What's the relationship between El Paso
9 Gas Marketing Company and El Paso Natural Gas Company?

10 A El Paso Natural Gas Company is, as you
11 know, an interstate pipeline governed by the FERC regula-
12 tion.

13 El Paso Gas Marketing is a non-jurisdic-
14 tional marketing affiliate and a wholly owned subsidiary of
15 El Paso Natural Gas. It is not subject to FERC.

16 Q If I wanted to talk to somebody with El
17 Paso Natural Gas Company about a gas purchase contract to-
18 day, who would I contact?

19 A A gas purchase contract?

20 Q Yes.

21 A The Director of the Gas Purchases Depart-
22 ment is Mr. Jensen.

23 Q And if I wanted to talk with somebody
24 with El Paso Gas Marketing Company about the arrangements
25 for the purchase and marketing of natural gas, who would I

1 contact?

2 A Mr. Adams.

3 Q So is it your testimony that these two
4 entities are conducting their operations distinct and
5 separate from one another?

6 A They are distinct and separate from one
7 another as far as the purchase and sale of gas is concerned.

8 There's obviously inter-reaction between
9 us as we conduct the -- the activities related to the re-
10 lease of gas that's under contract to us, which might then
11 be purchased by El Paso Gas Marketing Company for a spot
12 market sale.

13 Other than that the contracting activi-
14 ties are done separately.

15 Q Okay. Are the contracts that -- that
16 govern the arrangement between a seller of gas and El Paso
17 Natural Gas Marketing Company, are they documented? Are
18 they in written form?

19 A The contracts between a seller and El
20 Paso Gas Marketing?

21 Q Yes.

22 A They are in written form.

23 Q And can you describe that kind of con-
24 tract for me, what some of the basic terms and --

25 A It's basically a best efforts contract on

1 both parties; generally a month-to-month provision, and the
2 price is not stipulated in it, it's whatever the net-back
3 price is based upon their monthly bid.

4 Q I'd like to refer you again to the Exhi-
5 bit Number Six of the applicant in this case and the tabula-
6 tion attached to that exhibit.

7 The information contained in the exhibit
8 indicates that El Paso had contracted with Dugan Production
9 and Tenneco for various working interest in wells within the
10 Gavilan Mancos Oil Pool.

11 Now, can you refer to the tabulation and
12 tell me where we deal with the summary of activity, pur-
13 chasing activity, from those two entities?

14 A From Dugan and from Tenneco --

15 Q Yes.

16 A -- are the two entities?

17 A Uh-huh.

18 Q I don't know if there's a summary of the
19 purchasing activities for those two entities. Basically
20 what you have here is a listing by meter and under of those
21 -- any of those meters where one of those entities has a
22 contract their name should appear.

23 Q And their name would appear in conjunc-
24 tion with a volume figure and the contract number and the
25 price?

1 A That should, that's correct.

2 Q Okay. I want to refer you to the -- that
3 part of that tabulation beginning with the month of October,
4 1986. It's on the next to the last page of that exhibit.

5 A Okay, I see meter number 95-949 at the
6 top, is that what you're referring to?

7 Q Yes, that is.

8 A Okay.

9 Q Do you know what well that meter applies
10 to?

11 A No, I don't offhand.

12 Q You have two payees there, Dugan Produc-
13 tion and Northwest Pipeline.

14 A We have one payee and then Northwest's
15 interest is listed there under the transportation agreement.
16 We don't purchase that gas. We merely gather and transport
17 it.

18 Q Dugan Production is the only payee and
19 for October of '86 there's an indication that volume pur-
20 chased was 822 MCF, would that be an accurate --

21 A That's what they said. That's what this
22 schedule indicates.

23 Q And this schedule also indicates that
24 purchases of gas owned by Dugan Production occurred through
25 January of 1987?

1 A It indicates as you just said. Again I
2 would point out that in November, December, and January
3 those purchases were, on this particular meter those pur-
4 chases would have been by El Paso Gas Marketing Company.

5 Q Okay, so through October 31st, '86 pur-
6 chases would have been made by El Paso Natural Gas Company
7 under the base contract in effect.

8 A That's correct.

9 Q And effective November 1st, 1986, El
10 Paso Gas Marketing took over the purchasing activities of
11 that interest.

12 A That's correct.

13 Q And the -- that sequence of events, I
14 take it, occurred under the same guidelines and scenario
15 that you indicated when you were discussing the Southland
16 Royalty interest and the other interests in the Hawk Federal
17 No. 3 Well.

18 A Yes, that's correct.

19 Let me -- let me make one clarification.

20 I believe all of the wells in question
21 here, based upon the contracts dates being in the '84-'85
22 timeframe, they should all be NGPA vintage wells. If in
23 fact one of these wells was an old well that had been sit-
24 ting there for ten years and was an NGA vintage well, that
25 would not be under the arrangement with El Paso Gas Mar-

1 keting.

2 I don't believe that's the gas, but
3 that's -- that would be a possibility. To my knowledge
4 that's not the case.

5 Q Mr. Wiseman, your testimony has been that
6 there are no purchases of gas being made by El Paso Natural
7 Gas Company under these contracts that we're dealing with
8 that have been identified in Exhibit Number Five and Number
9 Six.

10 A No current purchases.

11 Q No current purchases.

12 A That's correct.

13 Q Is it possible that purchases would be
14 resumed under that contract at some point in the future?

15 A We very much hope so. It's not foreseen
16 at this time but we certainly hope to.

17 Q Okay, I'm going to look for another exhi-
18 bit here.

19 Mr. Wiseman, I'd like to briefly look at
20 the base contracts that have been provided to me by Mr.
21 Nance and primarily the -- all the contracts except the Ten-
22 neco contract.

23 Are you familiar without looking at these
24 contracts as to what kinds of terms and conditions are con-
25 tained in those contracts?

1 A I'm generally familiar with them. I be-
2 lieve they were all prepared under my direction.

3 Q Let me go ahead and let you look at these
4 and I'll mark them exhibits.

5 MR. LEMAY: While we have a
6 minute of rest, we're trying to locate some of these wells.
7 We don't have copies of the exhibits and that makes it very
8 difficult.

9 MR. ROBERTS: Can I ask Mr.
10 Wiseman to refer to the Exhibit --

11 MR. LEMAY: Exhibit One would
12 help in the -- and if we could locate -- I think we found
13 most of them but the Lindrith B Unit 34, 37, and 38, sec-
14 tion, township, and range would be most helpful.

15 MR. ROBERTS: Mr. Chairman, I'm
16 not aware that the Lindrith -- those wells are in this pool.

17

18 (There followed a discussion off the record.)

19

20 MR. ROBERTS: I think that I'd
21 be willing to indicate for the record that we aren't concer-
22 ned with those wells and we were not aware that they were
23 within the boundary of the pool.

24 MR. LEMAY: Fine.

25 MR. ROBERTS: This was a last

1 minute strategy and I didn't have a lot of information
2 available.

3 Mr. Chairman, I'm going to be
4 referring to some contracts which you will not have in front
5 of you. They'll have exhibit numbers as well as contract
6 numbers.

7 Q What I'd like to do, Mr. Wiseman, is to
8 have you refer to these contracts by exhibit number refer-
9 ence and as to each one of them answer some questions that I
10 have about the terms and conditions contained in those con-
11 tracts.

12 Exhibit Number Seven is a Casinghead Gas
13 Purchase Agreement dated March 5th, 1985, between El Paso
14 Natural Gas Company, Buyer, and Southland Royalty Company as
15 seller.

16 And we're talking about the same exhibit,
17 aren't we? It's been marked as Exhibit Number Seven?

18 A Yes.

19 Q Okay. What I'd like for you to do is to
20 tell me what the -- briefly tell me what the pricing provi-
21 sions provide for in that contract?

22 A Okay, this contract is dated March 5th of
23 1985. It was entered -- I can tell by the form and also by
24 my recollection that this contract was entered into as a re-
25 sult of renegotiation of all contracts between El Paso and

1 Southland Royalty.

2 It was also -- I don't know about the
3 exact date. I frankly don't remember the difference between
4 the dates but the -- either the commitment to enter into
5 this contract or the contract itself both were entered into
6 prior to the time Southland became an affiliate of ours.

7 The price article you refer to --

8 MR. NANCE: Mr. Chairman, I'm
9 sorry.

10 MR. LEMAY: Yes, Mr. Nance.

11 MR. NANCE: I believe that we
12 would prefer to stay away from the pricing provision if we
13 can because that is one of the areas that we do consider
14 sensitive as far as our --

15 MR. LEMAY: Pricing provision
16 is between the contract with El Paso and Southland, is that
17 the pricing provision?

18 MR. NANCE: To the extent that
19 we would be talking about pricing in any of these contracts,
20 El Paso does have some reservations about proceeding on this
21 basis.

22 I think if there was some
23 general reference that we had made to the circumstances un-
24 der which these contracts were offered to the various pro-
25 ducers, we don't have any problem at all addressing that,

1 but the pricing provision itself I think may be one that we
2 do have some reservations about.

3 MR. LEMAY: You feel comfort-
4 able with provisions but not price on various operators in
5 the field?

6 MR. NANCE: There are potential
7 conditions also that may be, such as take-or-pay require-
8 ments or force majeure condtions, these -- these are all
9 matters that are issued in our litigation, and are therefore
10 ones that we do not want to be collaterally addressing in
11 this proceeding and potentially affecting somehow our on-
12 going litigation.

13 MR. LEMAY: You'd like to steer
14 away from this --

15 MR. ROBERTS: Mr. Chairman,
16 what I'm trying to do here is to --

17 MR. LEMAY: Mr. Roberts.

18 MR. ROBERTS: -- is to estab-
19 lish a pattern of conduct on the part of El Paso Natural Gas
20 Company in dealing with their purchasing activities and con-
21 tracting activities in the area of the Gavilan Mancos Oil
22 Pool, and I have no intention of expanding that line of
23 questioning into areas that are in any way related to liti-
24 gation between Merrion Oil and Gas and El Paso.

25 In fact, Merrion Oil and Gas

1 has -- (not clearly understood)

2 MR. NANCE: Well, they have in
3 this area but not in this formation, necessarily.

4 MR. LEMAY: Is there some way
5 that we can have Mr. Wiseman summarize his -- what you would
6 like to see in there without addressing specific prices be-
7 tween -- in these contracts?

8 Can you make your point without
9 addressing the prices?

10 MR. ROBERTS: Well, if we can
11 get some kind of response on relativity -- relativity of
12 price, I guess, then that -- that would be adequate.

13 MR. LEMAY: Would that be ac-
14 ceptable, Mr. Nance, if we talk about price relatively?

15 MR. PEARCE: Mr. Chairman, I
16 hate to jump into this, but if I may, I am concerned that if
17 we are going to talk about prices or relative prices what
18 the Commission is going to be asked to do is dictate a con-
19 tract term on price either specific or relative to some
20 other price. I certainly believe that is beyond the juris-
21 diction of this Commission.

22 MR. LEMAY: Mr. Pearce, let me
23 assure you we will not dictate price.

24 MR. PEARCE: And if that's --

25 MR. LEMAY: We don't even want

1 to get in the area of price. We never have in the past.

2 I think what Mr. Roberts is
3 trying to do is to maybe show some discrimination here and
4 if we can -- if he can do that without getting into specific
5 prices, I think we'd like to have that on the record.

6 Can we work in that framework?

7 MR. PEARCE: I think we're cer-
8 tainly willing to try, Mr. Chairman, if we could have an-
9 other question from the lawyer, which we'll all try to lis-
10 ten to real carefully and if the witness will just hold till
11 we can think.

12 MR. ROBERTS: You're making it
13 awfully tough.

14 MR. LEMAY: And price relativ-
15 ity has been suggested. We might use a base price, whatever
16 was offered in any letter that's part of the evidence here,
17 and then say higher or lower. That might get --

18 MR. ROBERTS: Well --

19 MR. LEMAY: -- make the points
20 that you're trying to get home. Is that possible?

21 MR. ROBERTS: Well, Mr. Chair-
22 man, one of the concerns expressed by counsel for El Paso
23 was that the applicant might try to utilize the -- the tes-
24 timony elicited from Mr. Wiseman on this point in an effort
25 to have -- have some price established in the order to be

1 given by this Commission in this hearing, and (not clearly
2 understood) that Merrion Oil and Gas is willing to sell its
3 gas at a market clearing level, whatever that might be, and
4 --

5 MR. LEMAY: Well, I think the
6 whole gist of this has been to stay away from specific
7 prices and we certainly don't want to address specific
8 prices, and if we can make our point without going into spe-
9 cific prices I think -- I think we'll be able to do well
10 that way.

11 MR. ROBERTS: Okay, let me give
12 it a shot and --

13 Q Mr. Wiseman, let me ask you to take some
14 time to look at each of these contracts, you may already
15 have the information in your head, you may not need to look
16 at them. You might want to familiarize yourself with the
17 pricing provisions contained in each of the contracts that
18 I've presented to you, which have been identified as Exhi-
19 bits Seven -- tell me what the last one is.

20 A Through Eleven.

21 Q Seven through Eleven. These are -- I
22 will real briefly for the record identify what exhibit num-
23 ber applies to which contract.

24 Exhibit Number Seven is the Casinghead
25 Gas Purchase Agreement dated March 5th, 1985, between El

1 Paso Natural Gas Company and Southland Royalty Company.

2 Exhibit Number Eight is Gas Purchase
3 Agreement dated April 4th, 1985, between El Paso Natural Gas
4 Company and is it Hooper?

5 A Hooper.

6 Q Hooper?

7 A Hooper, Kimball and Williams.

8 Q Hooper, Kimball and Williams, Inc.

9 Exhibit Number Nine is Gas Purchase
10 Agreement dated April 4th, 1985, between El Paso Natural Gas
11 Company and Kenai Oil and Gas, Inc.

12 Exhibit Number Ten is Gas Purchase Agree-
13 ment dated June 1st, 1985, between El Paso Natural Gas Com-
14 pany and Dugan Production Corporation.

15 And Exhibit Number Eleven is Gas Purchase
16 Agreement dated November 1st, 1985, between El Paso Natural
17 Gas Company and Reading and Bates Petroleum Company.

18 With respect to the pricing provisions
19 contained in those contracts, would you basically summarize
20 the relative price provisions in those -- in those con-
21 tracts? Is there a difference between the price provisions
22 in those contracts?

23 A I'm waiting.

24 Q I don't hear any objection.

25 A He speaks slowly.

1 MR. NANCE: I would ask Mr.
2 Roberts if it would be acceptable to have the witness de-
3 scribe the pricing mechanism in each of those contracts and
4 describe if there are different pricing mechanisms in those
5 contracts.

6 MR. ROBERTS: Let me -- let me
7 get a ruling on the question as to whether there's a differ-
8 ence in pricing in those contracts, and that would be my on-
9 ly question.

10 MR. PEARCE: Excuse me, if I
11 may just interject, and I'm sorry to do this.

12 If the question is whether or
13 not those contracts in Exhibit Seven through Eleven provide
14 different prices for the gas from those wells, I certainly
15 will not object to that.

16 MR. ROBERTS: That's the ques-
17 tion.

18 MR. LEMAY: Well, let's see it
19 end, then.

20 A Let me -- let me respond, I think, kind
21 of generically. I might answer the question, or it might
22 not.

23 Each of these contracts that you've given
24 me was entered into as the result, or it was a new dedica-
25 tion taken on by El Paso, as a result of renegotiation of

1 the other contracts between us and each of these sellers.

2 Each of these contracts has a price pro-
3 vision in it and the initial stipulated price that's set
4 forth here is whatever El Paso's then current market-out
5 price was which would be applicable to this seller.

6 There is also -- and that varies from
7 time to time resulting in the different prices that you see
8 here.

9 There is also in each of those contracts
10 what we refer to as a broad market-out provision that gives
11 us market-out rights any time that El Paso believes that the
12 market condtions dictate a lower price.

13 Yes, there are different prices in these
14 contracts reflective of the different times of their
15 execution.

16 Q Okay, thank you. That's all I'm going to
17 ask you on that.

18 A Is that generic enough?

19 Q I'd like to refer to some (not
20 understood) provisions in the contracts.

21 A Okay.

22 Q I want to address your attention to the
23 contract which is marked Exhibit Number Seven, which is the
24 Southland Royalty Company contract, with specific reference
25 to Article II, Quantities.

1 Will you -- will you briefly summarize
2 that provision for the record?

3 A Article II is a fairly typical casinghead
4 contract quantities provision. It states that they will de-
5 liver and El Paso -- the Seller will deliver and the Buyer
6 will purchase all the volumes that Seller has available from
7 time to time.

8 Q Is there a similar provision in the other
9 contracts that you have before you?

10 A I don't believe so. No, it's not the
11 same in all contracts.

12 It should be the same, if you'll let me
13 look real quickly I can probably answer that, generically
14 again.

15 The contract with Dugan Production
16 Company is a combination contract, I believe, let's see,
17 it's a combination contract that happens to cover both gas
18 wells and casinghead gas, and it has essentially the same
19 thing except it is limited to best efforts purchase of all
20 available gas.

21 The Hooper, Kimball, and Williams and the
22 Kenai contracts also are best efforts to purchase 100
23 percent of the gas, and the Reading and Bates contract is
24 interesting, it is -- appears to be a gas well contract.
25 Let's see if it's been amended to cover that particular

1 well.

2 The Reading and Bates contract would ap-
3 pear to be limited to gas well gas.

4 Q In fact --

5 A And, I'm sorry, it has a 60 percent take-
6 or-pay. Let me -- let me look real quickly and make sure.

7 That is a gas well contract with a 60
8 percent take-or-pay.

9 Q Let's focus on the Southland Royalty con-
10 tract provisions in contrast to the provision in the Dugan
11 Production Corporation contract.

12 You indicated that the Dugan contract
13 calls for best efforts takes for casinghead gas, is that
14 correct?

15 A That's correct.

16 Q And the Southland Royalty Company con-
17 tract calls for a requirement on the part of the Buyer to
18 take all gas made available, all casinghead gas made avail-
19 able.

20 A That's -- I believe that's correct.

21 Q Why would there be a difference in that
22 provision in those two contracts?

23 A Difference in timing of the contract.

24 Q Okay. Dates of these two contracts are
25 March 5th, 1985 for Southland Royalty, and June 1st, 1985

1 for Dugan Production.

2 A That's right.

3 Q Okay, what circumstances would -- would
4 warrant a change in the quantity take provisions?

5 A A simple business decision by El Paso.
6 The market -- market continued to deteriorate and we just
7 made the conscious decision to no longer guarantee 100 per-
8 cent takes.

9 Q You have indicated that all these con-
10 tracts came about as a result of renegotiations between El
11 Paso Natural Gas Company and these sellers under these con-
12 tracts.

13 A That's correct. Let me point out, al-
14 though the Southland Royalty contract is dated March 5th of
15 '85, I believe that the -- the guts of this contract were
16 negotiated in late 1984. I think we concluded our negotia-
17 tions with them in late 1984 and probably gave them a pro
18 forma contract that we agreed to enter into for this pur-
19 chase. It was finally, when the well was completed and
20 everything was finalized we detailed out a contract and sent
21 them a contract which in fact was representative of what we
22 agreed to in 1984, in late '84, so you refer to difference
23 between March and June of '85, there was actually a larger
24 period of time between the two.

25 Q Well, Mr. Wiseman, isn't it true that ne-

1 negotiations with Dugan Production Corporation were going on
2 much earlier than June of 1985?

3 A The initial discussions? I'm sure they
4 were. I was involved in them. I don't remember the exact
5 dates, and in fact they were -- in fact they were concluded
6 after June and the contract was entered into in about July
7 of '85.

8 Q Would they have been in a time frame con-
9 sistent with the negotiations going on with Southland Royal-
10 ty?

11 A No.

12 Q Let's talk about the renegotiation ef-
13 forts, in general, Mr. Wiseman, can you describe what
14 brought about the renegotiation efforts between Southland
15 Royalty and El Paso Natural Gas Company?

16 A Southland Royalty was --

17 MR. PEARCE: Mr. Chairman, I'd
18 like to rise and state an objection for the record. We seem
19 to be getting very far afield from a comon purchaser com-
20 plaint when we're delving into the renegotiation strategies
21 of a corporation with producers who are not parties to this
22 contract.

23 MR. LEMAY: Mr. Roberts, do you
24 have anything to say on that?

25 MR. ROBERTS: Mr. Chairman,

1 where we're going is trying to establish a pattern of dis-
2 crimination, and I think that's obvious.

3 MR. LEMAY; That's what I
4 gather. How long are you going to continue with the con-
5 tracts between the various parties and El Paso?

6 MR. ROBERTS: Not much longer.

7 MR. LEMAY: Why don't we take
8 about a five minute break here? Mr. -- my other Commis-
9 sioner here has to make a phone call. We don't know how
10 long we're going to be here.

11 Take a five minute break.

12

13 (Thereupon a recess was taken.)

14

15 MR. LEMAY: Let's continue with
16 Case 9063. Mr. Roberts.

17 MR. ROBERTS: Mr. Chairman, am
18 I able to continue my line of questioning --

19 MR. LEMAY: Yes, you may.

20 Q I'll try to couch the question in more
21 general terms, Mr. Wiseman, and ask whether it has been pol-
22 icy of El Paso Natural Gas Company to offer new contracts to
23 sellers of gas in return for consideration and the consider-
24 ation I have in mind is the amendment of the existing El
25 Paso Natural Gas contract to -- to include some price sensi-

1 tive language?

2 A It has been our practice to do that if
3 the renegotiations included more than price, also included
4 waiver of any past take-or-pay liability and a reduction in
5 take-or-pay percentages for the future.

6 Q Okay.

7 A And that has been the only contracts
8 we've entered into.

9 Q And have some new contracts been entered
10 into that would call for the dedication of significant
11 amounts of acreage under the new contract?

12 A Yes.

13 Q And when -- I want to refer to the Dugan
14 Production Corporation contract just as an illustration.
15 what was the additional acreage dedication under that con-
16 tract?

17 A The arrangement with Mr. Dugan didn't de-
18 dicate -- didn't -- wasn't an agreement to dedicate speci-
19 fic acreage but in fact to permit him to dedicate additional
20 production over the upcoming I think it was three-year
21 period, and that new production would be limited to a factor
22 of something along the lines of 25 or 35 percent each year
23 of what he had produced during the preceding calendar year.

24 Q With respect to the Dugan Production Cor-
25 poration contract, did it provide for a dedication of wells

1 that were then not connected to any gas gathering system,
2 gas from which was not dedicated under any gas contract?

3 A I don't believe it addressed specifically
4 any particular types of wells. I know the result, the wells
5 that resulted in being contracted from that negotiation con-
6 sisted of wells, some interest in wells connected to us al-
7 ready. It consisted of interest in wells not connected to
8 us, which we ultimately did provide a pipeline connection
9 to, and it consisted of wells far distant from our system
10 which Mr. Dugan gathered through his own pipeline system and
11 delivered to us.

12 Q Would it be fair to say that these new
13 contracts resulted in the addition to El Paso Natural Gas
14 Company's system supply?

15 A Yes.

16 Q I'd like to again just in general terms
17 look at a couple of other non-price provisions in some of
18 these contracts.

19 Among the contracts that you have before
20 you, identified as Exhibits Seven through Eleven, are there
21 differences in the terms the contract provided?

22 A Probably, let me look. Yes, there are.

23 Q And let's refer specifically to the
24 Southland Royalty contract. Can you tell me what the term
25 is for that contract?

1 A Ten years.

2 Q And let's refer to the Reading and Bates
3 contract and can you tell me what the term of that contract
4 is?

5 A Two years.

6 Q And how about the Kenai Oil and Gas con-
7 tract?

8 A Month to month.

9 Q Mr. Wiseman, why would there be a
10 discrepancy in the terms among the various contracts?

11 A Well, again, in general I would attribute
12 that to a difference in timing of the offering of the con-
13 tract, and it could also be -- I don't recall the specific
14 negotiations, but the factor of -- of how much consideration
15 El Paso received from the producer, how much relief in pric-
16 ing provisions and quantity provisions we received from the
17 producer might have had some effect on the term. I don't
18 recall.

19 Q Is it the policy of El Paso Natural Gas
20 Company to continue to enter into renegotiation efforts with
21 respect to existing long term contracts?

22 A We don't have, currently have a program
23 such as -- the one I just referred to is commonly called our
24 contract cure program -- we don't have a contract cure pro-
25 gram in effect at this time. We're always willing to nego

1 tiate with a producer to renegotiate contracts in exchange
2 for consideration.

3 I'm not aware of any new dedication that
4 we've taken on in quite some time.

5 Q Would it be possible for a producer to
6 enter into negotiations with you to offer some form of con-
7 tract cure for existing contracts and in return have a con-
8 tract issued for new acreage?

9 A I can't speak for the management of my
10 company in whether they would permit that or not. I would
11 say that there's probably a decent chance of their agreement
12 to do that.

13 MR. ROBERTS: I'll move away
14 from these contracts, Mr. Commissioner, and who shall I de-
15 liver these contracts to so we're sure they're going to get
16 into the record?

17 MR. LEMAY: I should think Mr.
18 Taylor is.

19 Q Mr. Wiseman, you may have heard Mr. Mer-
20 rion indicate that he had information El Paso Natural Gas
21 Company entered in a gas purchase contract with Amoco Pro-
22 duction Company applicable to Amoco's interest in the Oso
23 Canyon Gas Com No. 1 Well operated by Merrion Oil and Gas
24 Corporation.

25 Do you have any knowledge with respect to

1 that particular issue?

2 A Yes, I do. You asked me that question
3 this morning before the hearings began, and I told you at
4 that time that we did not have a contract with Amoco in that
5 particular formation.

6 I have since been advised that what I
7 considered to be the Mancos formation in this particular
8 area also includes the Dakota formation.

9 We do have a contract with Amoco, again
10 the result of contract renegotiations concluded with Amoco
11 in 1985, which permitted them to add additional dedications
12 over the next few years and we provided for them a contract
13 in -- I don't recall the date, we were referring this morn-
14 ing to I think May --

15 Q May 15th of 1986.

16 A -- of 1986. We do have a contract with
17 Amoco, I believe that is the correct date, covering this
18 well. It refers specifically to the, I believe, Gallup and
19 Dakota formations. It may only be Gallup formation, or Dak-
20 ota.

21 That well is not connected to El Paso's
22 system.

23 Q Are you -- you may not be familiar with
24 the terms of that contract but --

25 A Generally.

1 Q -- to your knowledge would it be similar
2 to the gas purchase contracts that we've analyzed here,
3 Exhibits Seven through Eleven?

4 A Generally, uh-huh, generally similar.

5 Q Which would it be more similar to?

6 A It probably would look something along the
7 lines of the Southland contract; just guessing.

8 I believe it's a ten-year term.

9 Q And the terms and conditions of that con-
10 tract would be determined by the consideration received by
11 El Paso in renegotiation efforts.

12 A That's correct.

13 Q Mr. Wiseman, if you'll look at your exhi-
14 bit packet now and refer to Exhibit -- Exhibit Number Four,
15 page four, that has previously been identified as a letter
16 from you addressed to me in response to my letter which was
17 dated July 28th, 1986, is that accurate?

18 A That's correct.

19 Q Turn to page six of that exhibit. In the
20 closing paragraph you indicate, "...we remain unable to ex-
21 tend a purchase contract to him in light of our continuing
22 over-supply situation."

23 Is that accurately stated?

24 A It's what my letter says, yes.

25 Q When did that over-supply situation begin

1 to develop for El Paso Natural Gas Company?

2 A It first began to develop in 1982. Cer-
3 tainly -- certainly to a far lesser extent than it is at
4 this time.

5 Q And it's continued through subsequent
6 years to the present condition that you find yourself in
7 now.

8 A El Paso ceased the purchase of new gas
9 from July of 1982 because of what it foresaw occurring in
10 its market price and to this time other than the types of
11 arrangements we've just been discussing, we've entered into
12 no new gas purchase agreements.

13 Q Okay, and that's generally what was re-
14 ferred to as a moratorium on new gas contracts?

15 A New -- new purchase moratorium, yes.

16 Q Okay. And there have been some
17 exceptions to that moratorium that represented the types of
18 negotiations and deals that we've been talking about here,
19 is that accurate?

20 A In general that's correct.

21 Q Mr. Wiseman, in your opinion did any of
22 these renegotiation efforts and exceptions which resulted in
23 exceptions to the El Paso imposed moratorium result in wor-
24 sening or enhancing your over-supply situation?

25 A They had offsetting effects of reducing

1 price and at the same time adding marginally to our supply,
2 yes.

3 Q When you say "marginally to your supply"
4 are you talking in terms of the new reserves that were
5 added?

6 A New reserves and deliverability.

7 Q Again referring to Exhibit Number Four,
8 at page four, and this again is your letter to me, -- I'm
9 going to retract that and let's refer to paragraph -- or
10 Exhibit Number Four, page five.

11 One of the options you identified was
12 sale to El Paso Gas Marketing Company, which applied only to
13 undedicated supplies.

14 A That's correct.

15 Q Okay. Now, today you've indicated that
16 beginning November 1st of 1986 El Paso Gas Marketing Company
17 began to purchase what were previously dedicated supplies.

18 A No, that's -- that's not really a correct
19 characterization.

20 El Paso Gas Marketing began purchasing
21 released gas from previously dedicated sources in, I believe
22 it was August of 1985.

23 Q Would you say that again, Mr. Wiseman?

24 A El Paso -- did I say El Paso Natural Gas
25 Company -- El Paso Natural Gas Marketing Company began pur-

1 chasing and reselling in the spot market released gas from
2 sources that were released from dedication to El Paso Natu-
3 ral Gas Company, both gas well gas and to the extent anybody
4 desired, casinghead gas, which was released from dedication,
5 and reselling that in the spot market, again at no mark-up;
6 just providing the market outlet.

7 In -- at November 1st of 1986, in re-
8 sponse to pressure from a number of sources, allegations be-
9 fore the FERC that pipeline marketing affiliates were being
10 -- were getting preferential treatment and inside informa-
11 tion on markets, and what have you, and in response to pres-
12 sure from among other groups the New Mexico IPA, that we
13 should not be in the spot market business, that we were un-
14 duly affecting the prices of the spot market gas, among
15 other reasons, El Paso Natural Gas made the decision and an-
16 nounced formally in a series of meetings, as well as by
17 formal written notice, that El Paso Gas Marketing Company
18 would be pulling out of the spot market business.

19 There was sufficient pressure that we,
20 that, -- I'm sorry, we announced that we would cease doing
21 that effective December 1st.

22 There was sufficient pressure from --
23 particularly from independent producers who did not have
24 marketing capabilities readily available to them on their
25 own. It was -- there was enough pressure that we agreed to

1 extend that through the month of December and in fact El
2 Paso Gas Marketing ceased purchasing gas well gas for resale
3 to spot market effective January 1st.

4 It has continued, and does to this date,
5 although we have no idea how long we will continue to do so
6 in the future, El Paso Gas Marketing has continued to pur-
7 chase non-swing casinghead residue, NGPA gas, for resale un-
8 der the spot market.

9 Again, that's limited to gas which is re-
10 leased from dedication to El Paso.

11 Q In the first paragraph of your letter you
12 indicated that you -- that El Paso Natural Gas Company had a
13 release spot market program that was in effect then for gas
14 reserves under -- under contract.

15 A It was a program that we operated in
16 conjunction with El Paso Gas Marketing. We released it,
17 they contracted for it.

18 Q Okay, now, is that program in effect any
19 longer?

20 A No, it's not. We continue to have a
21 release program. El Paso Gas Marketing is no longer the
22 purchaser. There's a number of marketing entities, Hanson
23 Gas Systems, Natural Gas Clearinghouse, Rocky Mountain
24 Energy, those are the ones that come to mind that I believe
25 are active in the San Juan Basin.

1 Those independent marketing entities are
2 actively purchasing and reselling gas, fulfilling the role
3 that El Paso Gas Marketing did provide.

4 Q Let's direct your attention to the pro-
5 posal of Merrion Oil and Gas Corporation which was contained
6 in its letter of September 29th, 1986, addressed to you.
7 It's made part of this hearing as Exhibit Four, page 7.

8 Why was that proposal not acceptable to
9 El Paso Natural Gas Company?

10 A Okay, first let me correct something Mr.
11 Merrion said. We did respond to this. I responded by let-
12 ter dated, I believe, November the 4th, and we'll be glad to
13 provide you with a copy of that.

14 Q Do you have it now?

15 A Mr. Nance has a copy here. I'll be glad
16 to read it to you, it's fairly short.

17 Again, it's dated November 4th, 1986, to
18 the attention of Mr. Merrion, and it's from me and it
19 states:

20 "We have received your letter dated Sep-
21 tember 29th, 1986, sent in response to my earlier letter re-
22 garding the above referenced gas." And that is Gavilan
23 Field Casinghead Gas Sales.

24 "While your proposed solution is most
25 creative, it does not appear workable from our viewpoint.

1 You suggest that we would receive relief
2 from our take-or-pay obligations covering an equivalent vol-
3 ume of gas produced from your other Gavilan Field wells;
4 however, as you know, El Paso's production scheduling
5 methodology does not consider the take-or-pay obligations
6 for a specific well in determining whether or not that well
7 is to be produced, but rather considers only the weighted
8 average cost of gas in the well's pool as part of our lease
9 cost loading.

10 Clearly the addition of more deliverabil-
11 ity to our system, especially casinghead gas with its non-
12 swing characteristics, would serve to aggregate -- to aggra-
13 vate our current position.

14 As stated earlier, El Paso Natural Gas
15 Company remains ready to assist in any way it can (short of
16 offering a contract for your gas) to aid you..." and there's
17 a typo there, "to aid you in the marketing of this non-swing
18 production."

19 Q What -- I'm sorry, are you finished?

20 A Yes. Signed by me.

21 Q Do you mind if I take a look at that?

22 A Sure. This is just our file copy.

23 And Mr. Merrion also made a reference
24 that his letter dated, if I can find it here, his letter
25 dated April 8th, 1986, wherein he returned a contract, par-

1 tially executed contract on Canada Mesa No. 3-E Well and
2 asked for contract coverage for the two wells under consid-
3 eration.

4 There was also a response to that. I be-
5 lieve it was dated May 5th and it was in conjunction with
6 the return to Mr. Merrion of the fully executed agreement on
7 the Canada Mesa Well, and we'll be glad to provide you a
8 copy of that.

9 Q I didn't look at this in detail but is it
10 your testimony that it was the effect on the weighted aver-
11 age cost of gas that was the deterrent to the issuance of a
12 contract?

13 A What I was referring to was that the --
14 well, Mr. Merrion suggested that he would relief us of take-
15 or-pay obligation on a well, for example, on one of his
16 other wells somewhere else in the system.

17 What I stated was that whether or not we
18 produced that well -- or let me back up.

19 What he's referring to in order to not
20 impact an over-supply situation, is he would back off on
21 production on that well, or at least on El Paso's obligation
22 to take production from that well in exchange for taking
23 a like amount of gas from these other two wells.

24 The simple fact is those other wells he
25 had might not be scheduled for production anyway because of

1 their -- the cost characteristics of the pool it was in and
2 whether or not that well fit into El Paso's least cost sche-
3 duling for that particular time period.

4 In fact, any time you add non-swing pro-
5 duction, I forget the total, let's say we're talking about
6 200 MCF a day from the two wells in question, if we add 200
7 MCF a day of non-swing production on the front end of our
8 production schedule, 200 MCF a day falls off the other end
9 from somewhere.

10 Q So in addition to its possible impact on
11 the weighted average cost of gas it would have an impact on
12 your over-supply situation.

13 A And if you look at a simple, theoretical
14 calculation, or just theoretical assumption that if you add
15 200 MCF a day on one end of the schedule, you're incurring
16 200 MCF a day of additional liability on the other end of
17 the schedule with some producer.

18 Q Would there be any impact on the weighted
19 average cost of gas when Merrion Oil and Gas offers to (not
20 understood) costs of gathering and connecting the gas in
21 these two wells?

22 A That has no bearing on the weighted aver-
23 age cost of the gas.

24 Q Would there be any impact on the weighted
25 average cost of gas in a situation where Merrion offers to

1 take the market clearing price for the gas?

2 A On the weighted average cost of El Paso's
3 supply? That would depend a lot on your definition of what
4 weighted -- what market clearing was.

5 Q Spot market price.

6 A Spot market price is actually above El
7 Paso's weighted average cost of gas; its instantaneous
8 weighted average cost of gas from time to time. Our weighted
9 average cost of gas, as I sit here today, might be \$1.05 for
10 that gas which is on production. As we add additional pro-
11 duction on, as demand goes up and down, that price goes up.
12 That's well below, I should point out that's about 35 cents
13 below our current market out level.

14 Q In these days you're concerned about the
15 impact on the over-supply, your over-supply situation but
16 again, at the same time you have testified that you renegot-
17 tiated arrangements with other producers and taken on new
18 reserves which have an effect on the over-supply situation.

19 How do you rationalize that?

20 A It was in exchange for significant con-
21 sideration, very significant consideration in most cases.

22 MR. ROBERTS: Mr. Chairman, can
23 you give me a minute?

24 MR. LEMAY: Okay.

25 Q Mr. Wiseman, I just have a few more qyes-

1 tions.

2 In a proposal such as the one that Mer-
3 rion has made, the proposal that basically states that he
4 would bear all of the costs of gathering and connecting this
5 gas, or laying facilities to provide the connection of his
6 source of gas to your then existing facilities, what impact
7 does that have on El Paso's economics of gathering and con-
8 necting the wells?

9 A Well, first let me -- let me state that
10 that is not what he offered to do.

11 What he offered to do was provide the
12 gathering line over to our system and El Paso would be obli-
13 gated to provide the meter and tap the line, which is about
14 \$15,000, or so.

15 Q But if he would -- if he would be willing
16 to pay for the cost of the meter and installation, what im-
17 pact?

18 A What impact would that have on what?

19 Q On the economics of your operations in --
20 in gathering gas. You wouldn't have any. It would have no
21 impact on you, would it?

22 A On the -- on our facilities. It would
23 have no impact on what's commonly referred to as the rate
24 base. We would not add any new facilities to our rate base.

25 Q Okay, and would it have any impact on the

1 price to the consumer?

2 A The -- the construction of facilities?

3 Q Yes.

4 A That should have no impact on the price
5 to the consumer. Well, only to the extent that under normal
6 conditions we would -- we would require a producer in this
7 situation, who wanted to bring gas to us, for example, in a
8 spot market, he would pay for the cost of installing that
9 meter but El Paso would own it, maintain it, and operate it.

10 So maintenance and operation costs,
11 minimal. Those minimal do add up; incrementally it
12 wouldn't be that much.

13 Q Mr. Wiseman, one more question. Do you
14 -- do you have any proposals for Merrion Oil and Gas at this
15 time to assist in dealing with the problem we have?

16 A Mr. Merrion has expressed an interest in
17 marketing his gas under market sensitive conditions. Market
18 sensitive conditions today would dictate that he pay all the
19 costs associated with the gathering line at El Paso,
20 including the tap and the meter, and the proposal that I
21 would I would recommend is that we enter into an arrangement
22 whereby he does that and then he market his gas through one
23 of the spot market entities operating in that area, which I
24 just listed three as an example.

25 Q So your -- your proposals haven't changed

1 too much.

2 A That, I believe, is a workable proposal.
3 That's a short term arrangement which I heard Mr. Merrion
4 say he didn't like our arrangement we offered a couple of
5 years ago, and it should provide an outlet for the gas which
6 from what I see from the volumes involved the gas is far
7 less important than the oil production.

8 MR. ROBERTS: I have no other
9 questions, Mr. Chairman.

10
11 CROSS EXAMINATION

12 BY MR. LEMAY:

13 Q Mr. Wiseman, I need some clarification on
14 terms.

15 We have WACOG, weighted average cost of
16 gas. We're talking about market-out price. We're talking
17 about spot price and we've talked about market sensitive
18 pricing.

19 Now, is it my understanding that El Paso
20 in their letter to Mr. Merrion met Mr. Merrion's letter to
21 El Paso with this offer, this would be Exhibit Four, page
22 seven, where the market-out price would be unacceptable to
23 El Paso because it, you stated that the market-out price is
24
25

1 a contract price that is lowered but may be higher and it
2 probably is higher than both your WACOG and your spot market
3 price?

4 A It is, lately our market-out clause, our
5 market-out price has tracked fairly closely what the spot
6 market is but it's not necessarily the same. The market-out
7 price is in fact higher from time to time than the actual
8 weighted average cost of gas, or WACOG, of the gas flowing
9 in our system.

10 If you look into and consider that our
11 most recent purchase gas adjustment filing with FERC has a
12 weighted average cost of gas in it of \$1.69, I believe, is
13 the price, when in fact from time to time because that pro-
14 jected a particular sales level, and we're selling a much,
15 much lower sales level and since we are taking our gas on a
16 least cost basis, selling at a lower sales level results in
17 a lower weighted average cost of gas, instantaneous weighted
18 average cost of gas.

19 We might be selling gas, I suggested as I
20 was sitting here, maybe our weighted average cost of gas for
21 that which was flowing today might be \$1.05.

22 As far as what truly is market sensitive
23 pricing, that's the spot market. The spot market is driven
24 by the market forces in California, where 80 percent -- 84
25 percent of our gas is sold. The spot market is representa-

1 tive of what market clearing prices are; however, if El
2 Paso were to purchase the gas, the selling price in the Cal-
3 ifornia marketplace would be \$1.69. That is the way the
4 FERC rates are structured.

5 We sell our gas. We buy our gas. It's
6 all rolled into a single price, a rolled in pricing
7 mechanism, and sold at that weighted average cost of gas.
8 The same, basically, the same price we pay for it, we sell
9 it for that same price; we add to that our allowed rate of
10 return on our investments and our maintenance and operating
11 costs, generally what's referred to as the cost of service,
12 and that is what the resale rate is constructed of, but the
13 -- we odn't have the capability of selling a piece of market
14 sensitive gas on an incremental basis. An interstate pipe-
15 line is prohibited from doing that.

16 A marketing entity, such as El Paso Gas
17 Marketing had been in the past and it remains to a small
18 degree now, and the others I mentioned, such as Hatson and
19 Rocky Mountain Energy and Natural Gas Clearinghouse, market-
20 ing entities like that are not regulated by the FERC. They
21 can purchase and resell their gas on an incremental basis,
22 piece by piece, and so they can actually take a market
23 sensitive piece of gas and sell it in the marketplace.

24 Q Well, your contracts that were referred
25 to, are there any spot market contracts in there, I might

1 have missed that, or are they all market sensitive, in the
2 sense of having market-out provisions but no reference to
3 spot market price?

4 A The five or so contracts that I just --

5 Q Yes.

6 A -- went through?

7 Q Yes.

8 A Those are all what we call traditional
9 market contracts with El Paso Natural Gas Company. They're
10 not spot market contracts.

11 Q Are you buying any casinghead gas in this
12 Gavilan Field and putting it on the spot market with a net
13 back yield to producers?

14 A El Paso Gas Marketing Company is only as
15 to existing dedicated sources.

16 Q Do you happen to know the distance to Mr.
17 Merrion's wells, distance to the closest pipeline, how far
18 they are?

19 A I don't know the distance to our closest
20 pipeline but our closest well is about three miles away.
21 His reference to a pipeline a half mile away, I don't know
22 which one that might be. It could well be a high pressure
23 pipeline which would not be suitable for casinghead gas.

24 The only thing I could say is that the
25 Hawk Federal No. 3 Well, which is about three miles to the

1 north, is the closest I could say for certain that exists.

2 Q I guess my question phrased a different
3 way, are you the closest market?

4 A We may be the closest physical pipeline.
5 You'll notice a number of wells between the Hawk Federal
6 Well and the two wells in question here. I don't know how
7 many of those might be connected. Some of those are under
8 contract to Northwest Pipeline and are connected to El
9 Paso's system and being transported by El Paso on behalf of
10 Northwest Pipeline under the Basin Exchange Agreement I men-
11 tioned earlier.

12 So in fact the nearest purchaser is not
13 El Paso and the predominant purchaser is not El Paso, it is
14 Northwest Pipeline.

15 There's an awful lot of wells on that --
16 on that exhibit. I guess it's Exhibit One.

17 Q Yes.

18 A Merrion's Exhibit Number One. There's an
19 awful lot of wells there. According to our knowledge there
20 are 23 wells under contract to El Paso or connected to El
21 Paso's system. Of those wells only eight are contracted to
22 El Paso and there are fifteen wells which are connected to
23 El Paso but in fact are connected purely for transportation
24 to Northwest Pipeline. They're the only purchaser. I say
25 they're the only purchaser. El Paso's not a purchaser and

1 our reason for being connected is for them.

2 Q I see.

3 MR. LEMAY: Are you going to
4 offer some testimony or put the witness back on, Mr. Nance,
5 or are you just going to question him?

6 MR. NANCE: As a technical mat-
7 ter, I guess I have a couple of questions for him on cross
8 from his direct examination by Mr. Roberts, and then only a
9 couple of additional questions for what would be our direct
10 case because so much of it has already been covered by Mr.
11 Roberts.

12 MR. LEMAY: If we had questions
13 we could reserve questions for the witness, then.

14 MR. NANCE: By all means, fine.

15 MR. LEMAY: When you finish
16 your case.

17 MR. NANCE: Yes, sir.

18 MR. LEMAY: I have no ques-
19 tions. Does anyone else have -- Mr. Roberts.

20 MR. ROBERTS: Mr. Chairman, may
21 I take care of one formality and move the admission of Exhi-
22 bits One through Eleven?

23 MR. LEMAY: Yes. Exhibits One
24 through Eleven will be admitted.

25 As I stated before, the record

1 will be open two weeks, also, for your briefs as well as ad-
2 ditional comments.

3 I would like to ask Mr. Chavez
4 if he will if he could ask a question of Mr Wiseman. Do you
5 mind, Mr. Wiseman?

6 MR. CHAVEZ: I'm Frank Chavez,
7 District Supervisor of the Aztec District of the Oil Conser-
8 vation Division.

9
10 QUESTIONS BY MR. CHAVEZ:

11 Q Mr. Wiseman, did the contracts entered
12 into with Southland, Dugan, and Amoco drive up the WACOG of
13 El Paso?

14 A No, they are all priced below our
15 weighted average cost of gas on file with the FERC.

16 They all have broad market-out provisions
17 and they would all have a current price of -- can I say
18 this, Mr. Pearce -- El Paso, can I say El Paso's current
19 market outlet --

20 MR. PEARCE: No.

21 A Okay. They're all priced at our market-
22 out price which is below our weighted average cost of gas.

23 Q Mr. Wiseman, do you know for a fact the
24 contract entered into with Amoco on the wells that it oper-
25 ates was as a result of previous negotiations where they

1 could add rates or exhibits to the --

2 A I conducted those negotiations over
3 seventeen months. I'm well aware of that fact.

4 Q Okay. That's all.

5 MR. LEMAY: Are there any other
6 questions of the witness as the witness for Mr. Roberts?

7 MR. NANCE: Yes.

8 MR. LEMAY: Mr. Nance, you wish
9 to recall the witness or you want to just --

10 MR. NANCE: No, I would like to
11 ask questions in the form of cross.

12 MR. LEMAY: I see. Okay. Please
13 continue.

14 MR. NANCE: Sort of an awkward
15 position to be in.

16

17 CROSS EXAMINATION

18 BY MR. NANCE:

19 Q Mr. Wiseman, is it your testimony that El
20 Paso generally offered to Merrion similar provisions at com-
21 parable times to those offers made to other producers in
22 this area?

23 A Are you referring to those contracts that
24 I was reviewing with Mr. Roberts?

25 Q That's correct.

1 A Yes. I first -- I first met with Mr.
2 Merrion in his office sometime during the summer of 1984, I
3 believe was our first meeting, and probably have had four
4 meetings with him on that subject and related subjects ever
5 since, and we have made a number of overtures to Mr. Merrion
6 along the same lines and in fact I would say offering
7 arrangements which are probably better than those offered to
8 some of these other entities, particularly in terms of the
9 amount of additional dedications that we would have been
10 willing to take on, and each of those meetings and propo-
11 sals, and I frankly don't recall whether they were -- they
12 were reduced to written proposals, although I suspect there
13 were some written proposals, but I know for a fact there was
14 many spoken proposals, many conceptual proposals were made,
15 each of which were not acceptable to Mr. Merrion.

16 It was his decision based on whatever his
17 economics were and we respected that.

18 Q The other question that I would have, Mr.
19 Wiseman, there has been some discussion of the contract that
20 El Paso has with Southland Royalty and general recognition,
21 I think, of the fact that Southland Royalty is now an affil-
22 iate of El Paso Natural Gas Company through its having been
23 acquired by the Burlington family.

24 Could you tell us, please, what the rela-
25 tionship of Southland was to El Paso Natural Gas Company at

1 the time this particular contract was entered into?

2 A El Paso's, what I've referred to as con-
3 tract cure negotiations with Southland, were concluded long
4 before, significantly before, a matter of months before, any
5 tender offer was made by Burlington.

6 Those of us involved in the contract dis-
7 cussions were not aware of any tender proposals made to --
8 to be made by Burlington until it was announced and we had
9 no prior knowledge of them becoming an affiliate. To my
10 knowledge, no one in El Paso, as far as I know, knew about
11 it; certainly no one in the gas supply area, and I can spe-
12 cifically recall that at the time we had not concluded nego-
13 tiations with Meridian, our primary, major affiliate, if you
14 will. We had not concluded negotiations on contract here
15 with Meridian and we're having difficult discussions with
16 them, and I specifically recall thinking at the time of the
17 tender offer to Southland that it was very fortunate that we
18 had already concluded our contract here with Southland since
19 they were going to become an affiliate.

20 Q Thank you, Mr. Wiseman.

21 MR. LEMAY: Do you want to re-
22 call him as a friendly witness or just take off and hear
23 him.

24 MR. NANCE: Let me go ahead and
25 go through that formality, if I may.

1 A Do you want me to come down there?

2 MR. LEMAY: I think Mr. Wiseman
3 needs to get up and walk around.

4 A Thank you.

5 MR. NANCE: El Paso would re-
6 call the witness then as a friendly witness. I have only a
7 couple of questions on direct that pertain to matters that
8 were not specifically covered in testimony that you've al-
9 ready presented, Mr. Wiseman. I need to at least comment
10 parenthetically that I feel like El Paso's case has been
11 somewhat diluted by this -- the approach that was taken here
12 and that our ability to present our case in a format that we
13 had originally intended has somewhat been taken away from
14 us, but I do not think that the substance of the testimony
15 is any different from what it otherwise would have been.
16 There is perhaps a difference in timing or a difference in
17 emphasis that has resulted in -- from his being examined by
18 Mr. Roberts and do want to note that we concurred and cer-
19 tainly expect to have any reason to complain at this point.

20

21 MICHAEL W. WISEMAN,

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

24

25

1 DIRECT EXAMINATION

2 BY MR. NANCE:

3 Q Mr. Wiseman, there are some points that
4 you could describe concerning circumstances under which El
5 Paso's contracts with other parties were negotiated during
6 this fairly recent time of 1984 and 1985 and apparently, as
7 far as the Amoco contract is concerned in 19 -- early 1986.

8 Your testimony was that substantially all
9 of those contracts, those new contracts that were entered
10 into, were the results of favorable concessions, perhaps,
11 that we had received from producers under contract cure ne-
12 gotiations that we had with them, is that correct?

13 A That's correct. We received significant
14 consideration from all the producers.

15 Q Okay. There was at least one other con-
16 tract that was provided to Mr. Roberts that is not -- has
17 not been made an exhibit in this proceeding, but it is also
18 a contract in this area, and that is a contract with Tenne-
19 co, and a related contract with Conoco, as we understand.

20 What were the circumstances surrounding
21 the execution of those contracts?

22 MR. ROBERTS: Mr. Chairman, --

23 MR. LEMAY: Mr. Roberts.

24 MR. ROBERTS: I don't think
25 anything was submitted into evidence which would indicate

1 that that contract goes to wells that are in the Gavilan
2 Mancos Oil Pool, and --

3 MR. LEMAY: Which contract --
4 excuse us, but which contract are you talking about?

5 Is this a contract that you
6 submitted in evidence?

7 MR. ROBERTS: No, no, I did not
8 submit it.

9 MR. NANCE: These were the Lin-
10 drith Unit Wells.

11 MR. LEMAY: They are referred
12 to in that letter that we have?

13 MR. NANCE: Yes, sir. Okay, to
14 the extent -- okay, to the extent that they are not consid-
15 ered part of this -- part of this pool, the--it may not be
16 germane, but I just at least wanted to extend this as basis
17 for El Paso's negotiations of new contracts and in the area,
18 if not in the pool, and may I offer it at least to that ex-
19 tent?

20 MR. LEMAY: Do you object to
21 that, Mr. Roberts?

22 MR. ROBERTS: I want to lodge
23 my objection for the record.

24 MR. LEMAY: We'll take that un-
25 der consideration and we'll either accept or reject the evi-

1 dence based on future deliberation.

2 MR. NANCE: That's fine.

3 Q Mr. Wiseman, you have indicated our res-
4 ponse to Mr. Merrion's request of El Paso and our on-going
5 effort to try to accommodate his -- his wishes, although the
6 terms that he was suggesting seemed not to coincide with our
7 needs on each occasion.

8 You have also indicated what El Paso's
9 current proposal still would be to Mr. Merrion to offer him
10 an outlet for his gas.

11 Do you feel that El Paso has made a good
12 faith effort to find a solution to the problems in this
13 case?

14 A Yes, I do. Mr. Merrion testified to, and
15 I don't think either of us are really exact on what the date
16 was, but I believe it was in late 1984, perhaps December,
17 1984, when he first talked to Richard Jordan, who was one of
18 my subordinates at that time, about these wells, and Richard
19 discussed with him the provisions of what he referred to as
20 the \$2.00 contract.

21 He declined that contract at that time.
22 To my way of thinking at that time, he was offered a con-
23 tract and rejected it.

24 He was also offered, as part of the fair-
25 ly extensive conversations that I had with him from time to

1 time in his offices and on the telephone, about contract re-
2 negotiations and our contract cure program, he was offered a
3 number of opportunities wherein exchange for a certain con-
4 sideration El Paso would be willing to provide him a con-
5 tract not unlike these contracts -- depending upon when we
6 entered into it, something along the lines of these con-
7 tracts, the five contracts, or so, that I went through with
8 Mr. Roberts.

9 That could have happened at any time
10 starting in the summer of 1984 and continuing into 1986 when
11 we still had contract cure negotiations going on with
12 various people.

13 So that was the second opportunity.

14 We've also suggested that Northwest Pipe-
15 line is a significant purchaser in this pool and to the ex-
16 tent that he entered into a contractual arrangement with
17 Northwest Pipeline, we would provide free transportation to
18 Northwest under our Basin Exchange Agreement, which is a
19 free exchange between the two parties.

20 We also suggested that if he were to con-
21 nect the gas to us, he might have an opportunity to sell it
22 either to El Paso Gas Marketing Company at that time, or to
23 another either direct end user or perhaps another marketing
24 entity along the same lines.

25 And along those lines I should point out

1 there was -- there was a little bit of discussion, I be-
2 lieve, in your cross examine of Mr. Merrion, about the
3 gathering and transportation fees associated with selling
4 that gas on the spot market.

5 If that gas were sold in the spot market
6 and it were sold to what is called the displacement customer
7 in our market area, that is a customer who is burning nat-
8 ural gas in our market area, there is no 23 cent gathering
9 fee. There is a field, fuel, and shrinkage fee, that number
10 is currently 10 percent, representing the compression fuel
11 and the shrinkage out in the field and that is a 10 percent
12 shrinkage factor would be the only reduction.

13 There is also a mainline fuel reduction
14 of 5 percent which affects, basically affects the net back
15 price that the end user would pay Mr. Merrion, but to the
16 extent that were sold to an existing gas consumer on our
17 system, which is a pretty good description of a displacement
18 customer, that 23 cent gathering fee would not apply because
19 that existing customer in the structure of his -- of his
20 traditional market rates, is already paying those gathering
21 costs.

22 So in summary, I'd answer your question
23 in summary, I believe we've made a number of proposals to
24 Mr. Merrion including offering him one contract, offering
25 him a vehicle for another contract, and offering three dif-

1 ferent alternatives to assist him in marketing his gas.

2 He stated that he doesn't like Northwest
3 Pipeline, he likes El Paso, and he would prefer to sell to
4 us. I don't know -- I find it a little bit strange that El
5 Paso is being hauled before the Commission before he has
6 even talked to the major purchaser in the Gavilan Mancos
7 Oil Pool.

8 So I believe El Paso has acted very much
9 in good faith in these negotiations and done everything we
10 can, short of El Paso simply assuming the liability for an
11 over-supply of gas and offsetting Mr. Merrion's liability of
12 having an investment and not getting any return on it at
13 this point.

14 Q Mr. Wiseman, is it your opinion that El
15 Paso has in any way unreasonably discriminated against Mr.
16 Merrion?

17 A I do not believe we've discriminated
18 against Mr. Merrion in any way.

19 Q Is it your opinion that if these wells
20 were connected to El Paso's system and El Paso were in fact
21 required to purchase the gas, that it would tend to work an
22 economic hardship on El Paso?

23 A Yes, it is.

24 MR. NANCE: Mr. Chairman, I
25 have no further questions.

1 MR. LEMAY: I need to ask
2 whether this November 4th letter, the response to Mr Mer-
3 rion, is part of the record and whether that was accepted by
4 both counsel for the record.

5 MR. ROBERTS: Mr. Merrion has
6 stated that he did not receive that letter.

7 MR. NANCE: Mr. Chairman, this
8 copy that we have is an unsigned copy as was the practice
9 at El Paso that an unsigned copy on plain paper rather than
10 El Paso's letterhead paper would be maintained in our files
11 and so it's difficult for us with the copy that we have to
12 be absolutely sure that -- that an original of that letter
13 was ever received by Mr. Merrion.

14 MR. LEMAY: Is there any objec-
15 tion to have that be part of the record with the stipula-
16 tions that Mr. Merrion does not recall seeing it and also
17 that there's no guarantee that it reflects the original that
18 might have been sent?

19 MR. NANCE: El Paso's primary
20 purpose in having the letter made a part of the record if
21 that's appropriate would simply be to show that we did in
22 fact respond in writing to Mr. Merrion's request and did not
23 simply leave the request unanswered.

24 MR. ROBERTS: I have no objec-
25 tion to its admission but with the stipulation we stated,

1 Mr. Chairman, that Mr. Merrion does not acknowledge that he
2 received that letter and there has been no -- no proof that
3 it was received.

4 MR. LEMAY: May I see it for a
5 minute?

6 MR. LEMAY: Mr. Wiseman, cross
7 examination?

8 A Mr. Chairman, with regard to that copy in
9 your hand --

10 MR. ROBERTS: I have no ques-
11 tions.

12 A -- our policy, the way we handle our mail
13 is that that file copy is detached at the time of mailing
14 from the original, detached from the original at the time of
15 mailing, so it's certainly my belief that in fact we did
16 mail it.

17

18 CROSS EXAMINATION

19 BY MR. LEMAY:

20 Q I see. My purpose in this is to try and
21 get an idea what was unacceptable in Mr. Merrion's letter,
22 which is Exhibit Four, page seven.

23 You stated in this letter that the stipu-
24 lations on take-or-pay were unacceptable.

25 Is it our understanding that the market-

1 out price that was offered by Mr. Merrion isn't an accep-
2 table part of the negotiation?

3 A No, sir. The primary problem relates to
4 if El Paso were to assume contractual obligation to purchase
5 200 MCF a day of non-swing gas, that that would normally sit
6 in the first priority for production. That would cause 200
7 MCF of gas to fall off the other end because there's not 200
8 MCF of additional market, just 200 MCF of additional supply.

9 The second problem that I would have,
10 which is something that has come up even since that time, is
11 that at present El Paso is not purchasing any NGPA vintage
12 nonswing gas. That is being purchased under the -- under a
13 -- outside of the contract and under a contract with El Paso
14 Gas Marketing Company.

15 To the extent that we do not have the
16 unilateral right to do that in many of our contracts, the
17 producers in delivering that gas to El Paso Gas Marketing
18 are accepting the conditions of our written proposal that
19 says that it's outside the contract but they preserve any
20 rights that they may have in the litigation area for El Paso
21 not taking that gas, for El Paso Natural Gas Company not
22 taking that gas under its contract.

23 I would see that -- that particular sit-
24 uation being an additional log on the fire of the litigation
25 that's currently pending between Merrion Oil and Gas and El

1 Paso, which has served to aggravate the conditions of that
2 litigation.

3 Q I wasn't trying to aggravate any addi-
4 tional litigation, that's for sure.

5 I was trying to get a clear view of El
6 Paso's position concerning the offer and counter-offers that
7 have been -- that have transpired in the mail here. I won-
8 dered if in view of what you've said, you say market condi-
9 tions today would even negate your letter of November 4th,
10 1986, as to your intent signing up additional casinghead
11 gas?

12 A I'm saying that that's an additional
13 problem.

14 Q I see.

15 A But the fact simply remains that El Paso
16 in agreeing to purchase that gas would be taking on addi-
17 tional liability, either for not producing it as the con-
18 tract would require us to do so, because of our reduced mar-
19 ket right now, and to give you an idea, we've got about 800
20 -- 809 cubic feet a day of nonswing gas and about 600-mil-
21 lion cubic feet a day of market, to give you an idea of the
22 -- of the current situation.

23 El Paso would be assuming certain finan-
24 cial liability, whether it be for not taking this gas under
25 a contract where we had agreed to do so, or for take-or-pay

1 liability on the other end with whoever's 200 MCF a day did
2 not get produced.

3 So we would be assuming financial liabil-
4 ity. That liability presently is Mr. Merrion's liability to
5 the extent that he's gone out and drilled a well for which
6 he does not have a market at this time, so he's got an in-
7 vestment with no return currently.

8 And his options for getting return on
9 that investment are clearly to sell the gas into the spot
10 market.

11 Q I was trying to approach that from a dif-
12 ferent avenue, Mr. Wiseman, and to the extent that you are
13 taking casinghead gas as a common carrier in this field and
14 will take on additional wells, would it be conceivable that
15 -- that your takes could be reduced proportionately in the
16 Gavilan Field to accommodate those wells that are shut in?
17 Would that be a policy that El Paso has instituted in the
18 past or could live by in the future?

19 A I can't speak for what the management of
20 the company would agree to, but again, El Paso Natural Gas
21 Company is not purchasing any gas from this field unless
22 there are some NGA wells under contract. To my knowledge
23 there are not. There is only NGPA vintage gas under this
24 list of contracts we've looked at and that gas is not being
25 purchased by El Paso natural Gas Company at this time.

1 Q It's been released and it's being carried
2 by El Paso Marketing, is it?

3 A El Paso Gas Marketing is purchasing and
4 reselling that gas at spot market prices. We are -- we are
5 merely the transporter, El Paso Natural Gas.

6 That is -- that is going to be the situa-
7 tion for the foreseeable future.

8 MR. LEMAY: Are there any other
9 questions of Mr. Wiseman?

10 A I do not know what the purchasing, cur-
11 rent purchasing of Northwest Pipeline is. They may be pur-
12 chasing.

13 MR. LEMAY: Mr. Chavez.

14
15 QUESTIONS BY MR. CHAVEZ:

16 Q Mr. Wiseman, did -- would it be accept-
17 able today if you added that 200 MCF of nonswing of Mr. Mer-
18 rion's and take 200 MCF of just swing gas off at the other
19 end or somewhere else?

20 A To the extent that that swing gas isn't
21 even being produced right now, that would still aggravate
22 somebody's problem. If you stop and think about what we are
23 producing right now, we are producing only NGA vintage non-
24 swing gas and a limited amount of NGA vintage swing source
25 gas. That gas has no other outlet short of filing for and

1 receiving abandonment from the FERC. So if -- to the extent
2 that we take 200 MCF from Mr. Merrion, the only way that we
3 could offset that would be if -- and not -- not gore
4 somebody else's ox, would be if Mr. Merrion had 200 MCF a
5 day of NGA nonswing gas that he shut in, and it would have
6 to be in wells where he was 100 percent working interest
7 owner.

8 That would be the only way where El Paso
9 would be undamaged by being obligated to take additional
10 supplies. That's the only thing that comes to mind that
11 would work.

12 Q Thank you.

13 MR. LEMAY; Any other
14 questions of Mr. Wiseman?

15 Mr. Taylor.

16
17 CROSS EXAMINATION

18 BY MR. TAYLOR:

19 Q Mr. Wiseman, you said that around 1982 or
20 sometime in 1982 you started -- El Paso initiated either a
21 moratorium or a no new purchase --

22 A That's correct.

23 Q Since that time you did indicate, how-
24 ever, that you had renegotiated contracts or taken on addi-
25 tional gas supplies pursuant to the renegotiations or al-

1 ready dedicated acreage.

2 A That's correct.

3 Q To the closest of your estimation how
4 much additional gas supply have -- has been taken on since
5 that time?

6 A I'd be guessing; just an off the wall es-
7 timate, I don't believe we've increased our deliverability
8 with these new purchases by more than -- you referred to in
9 our contract here program, I'd be surprised if we added more
10 than 3 percent to our deliverability.

11 At the same time we have entered into a
12 number of release arrangements and uncontracted some gas
13 that had been contracted to us, reducing our deliverability.

14 Q Also I didn't understand your explanation
15 of why you couldn't take this gas and in a sense write it
16 off against some take-or-pay liability of Mr. Merrion's. If
17 you take this gas and directly write gas you're taking from
18 these wells against any liability you had, or you get to him
19 each month, if you're not taking gas from him or taking gas
20 from him from other wells, that wouldn't affect other produ-
21 cers, would it?

22 A Again, the -- you have to remember the
23 nature of this gas that he would like under contract, being
24 nonswing gas.

25 Q Right.

1 A And that gas will be produced. It's not
2 gas where we're incurring a take-or-pay liability; it's gas
3 we'd have to be producing every day or we'd defeat the whole
4 purpose of putting this -- putting this on --

5 Q No, but you would write off this gas
6 against other take-or-pay liability you may have owing or
7 come due to him from other wells that you have.

8 A But from a physical take point of view,
9 someone else on our system would suffer whichever well
10 didn't get on production that made 200 MCF a day somewhere
11 in a different pool; that gas would not get produced and we
12 would incur take-or-pay liability there.

13 Q Well, you may or may not incur take-or-
14 pay liability there. Would you absolutely incur take-or-pay
15 liability?

16 A Take-or-pay liability, yes.

17 Q Right, against -- against all other --

18 A Some swing source production.

19 Q -- all other wells that are nonswing?

20 A It's a theoretical calculation, but yes,
21 it's 200 MCF a day of take-or-pay liability.

22 Q Well, I don't understand it. Does all
23 your nonswing gas have take-or-pay liability connected with
24 it?

25 A Nonswing gas?

1 Q Yeah, your --

2 A Our swing source gas does.

3 Q But you're not taking any swing source
4 gas, are you?

5 A Yes, we are. Some NGA swing source gas.

6 Q Okay, thank you.

7 MR. LEMAY: Are there any other
8 questions of Mr. Wiseman?

9 MR. NANCE: Mr. Chairman, I have
10 one question on redirect, if I may.

11

12 REDIRECT EXAMINATION

13 BY MR. NANCE:

14 Q Mr. Wiseman, do you know if El Paso's
15 purchases have added to El Paso's total reserves?

16 A Our new dedications as part of contract
17 cure?

18 Since the contract cure program started,
19 our new dedications have not offset the decline in deliver-
20 ability. Whether or not it actually physically added to re-
21 serves, it may or may not have; as to deliverability, which
22 is the more immediate problem, it has not -- it has not in-
23 creased what our deliverability was before. It, obviously,
24 our deliverability would be somewhat lower. It continues to
25 be something in the range of 2.9-billion cubic feet a day of

1 deliverability, with a market of about 600-million cubic
2 feet a day.

3 MR. LEMAY: Any further
4 questions? The witness may be excused, and we'll have
5 closing arguments and any statements.

6 MR. ROBERTS: Mr. Chairman, we
7 would submit closing in written form if you would desire
8 that to be done.

9 MR. LEMAY: We'd welcome that.
10 Is that agreeable, Mr. Nance?

11 MR. NANCE: I have six points
12 that I would make in three minutes and I can handle it just
13 as easily here as in writing, but if that's your preference,
14 we certainly will.

15 MR. LEMAY: I think given the
16 time if you'll do it in writing we'll appreciate that.

17 Do we have any other -- anyone
18 in the audience that would like to submit a statement at
19 this time concerning this case?

20 No other statements?

21 We'll take the case under ad-
22 visement.

23 The hearing is adjourned.

24

25 (Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY 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 this portion of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR