

NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date FEBRUARY 27, 1992 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
KEVIN E. O'CONNELL	Hallwood Petroleum Inc.	DENVER, CO
W. Perry Pearce	Montgomery & Andrews	Santa Fe
Bill Hawkins	Amoco Production Co	Denver Co
W. J. Kellerman	Phillips Petroleum	Santa Fe
TR Moore	Phillips Petroleum	Farmington
Kirk Cline	Phillips Petroleum	Farmington
Paul West	Unocal	Farmington
Bill Hastings	Marathon	Houston
Ron Falsch	MARATHON	Midland
Vic Lyon	GAS CO / NM	Santa Fe
Tom Lowry	Marathon	Midland
William A. Tully	Samuel, Tully, & Co.	Santa Fe
Richard Tully	Richard T.C. Tully, P.A.	Farmington
Dave Simmons	Locke-Taylor Drilling Co.	Farmington
Bill Irwin	UNOCAL	Farmington
Mark Corley	Chevron	Midland
Alan Bohling	Chevron	Midland

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NAME	REPRESENTING	LOCATION
Charlotte Bedono	Conoco	Midland
Biel Headly	Conoco	Midland
Ernest L. Padilla	Padilla + Smyth	SF
H. B. Babe Kendrick	El Paso Natural Gas	El Paso
James Bruce	Huntley Law Firm	QBO
Jon M. Bowden	BHP Petroleum	Houston
Donald Reinhardt	Landman	Houston
Louis Jones	MERIDIAN	Farmington
Melissa Torbet	BHP Petroleum	Houston
Robert J. McNeil	BHP Petroleum	Houston
James P. Siebenthal	BHP Petroleum	Houston
GEORGE DUNN	MERIDIAN	Farmington
PAUL MOLLO	GAS CO. N.M.	ALB
Evelyn Downs	UCD	Hobbs
Mike William	"	Porter
Kr	Beggs	SF
DAVE BONEAU	VATES PETROLEUM	ARTESIA

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1 CHAIRMAN LeMAY: This is the Oil
2 Conservation Commission. My name is Bill LeMay,
3 Chairman. On my left is Commissioner Bill Weiss,
4 on my right is Commissioner Gary Carlson,
5 representing the Commissioner of Public Lands.

6 To begin with, I'd like to call case
7 10450, Application of the Oil Conservation
8 Division for hearing on its own motion to accept
9 nominations and other evidence and information to
10 assist in determining the April 1992 through
11 September 1992 gas allowables for prorated pools
12 in New Mexico.

13 At this time I'd like to call for
14 appearances in Case 10450.

15 MR. STOVALL: Mr. Chairman, Robert G.
16 Stovall of Santa Fe representing the Division.

17 CHAIRMAN LeMAY: Thank you, Mr.
18 Stovall.

19 MR. KELLAHIN: Mr. Chairman, I'm Tom
20 Kellahin of the Santa Fe law firm of Kellahin,
21 Kellahin & Aubrey. I'm here today for Marathon
22 Oil Company in association with Mr. Tom Lowery.
23 We want to provide data and information on the
24 Blinbry, the Indian Basin Upper Penn.

25 In addition, I'm here today for

1 Hallwood Petroleum, Inc., and we want to provide
2 information and data on the Catclaw Draw Morrow
3 Gas Pool.

4 CHAIRMAN LeMAY: Thank you, Mr.
5 Kellahin.

6 Additional appearances?

7 MR. PEARCE: May it please the
8 Commission, I'm W. Perry Pearce of the Santa Fe
9 office of the law firm of Montgomery & Andrews,
10 appearing today on behalf of Phillips Petroleum
11 Company, to provide information relating to the
12 Basin Dakota Gas Pool. I have one witness.

13 CHAIRMAN LeMAY: Thank you, Mr.
14 Pearce.

15 Additional appearances?

16 MR. PADILLA: Mr. Chairman, my name is
17 Ernest Padilla of Santa Fe for John H. Hendrix
18 Corporation. We have no witnesses and merely
19 want to read a statement into the record.

20 CHAIRMAN LeMAY: Thank you, Mr.
21 Padilla.

22 Mr. Carr.

23 MR. CARR: May it please the
24 Commission, my name is William F. Carr. I'm with
25 the law firm of Campbell, Carr, Berge & Sheridan

1 of Santa Fe. In this case we represent Amoco
2 Production Company, Union Oil Company of
3 California, and Chevron USA, Inc.

4 Amoco and UNOCAL will present testimony
5 concerning the fields in the San Juan Basin.
6 Chevron USA, Inc., will present testimony
7 concerning the preliminary allowable for the
8 Indian Basin Upper Pennsylvanian Pool. I have
9 one witness for each of those companies.

10 CHAIRMAN LeMAY: Thank you, Mr. Carr.

11 Additional appearances in the case?

12 At this time will those witnesses who
13 will be giving testimony, please stand and we'll
14 swear you at one time.

15 (The witnesses were duly sworn.)

16 Mr. Stovall.

17 MR. STOVALL: I call my first witness,
18 Mr. Merrett.

19 RONALD H. MERRETT

20 Having been duly sworn upon his oath, was
21 examined and testified as follows:

22 EXAMINATION

23 BY MR. STOVALL:

24 Q. Mr. Merrett, for the record would you,
25 please, state your name and place of residence.

1 A. My name is Ronald H. Merrett. I reside
2 in Albuquerque, New Mexico.

3 Q. How are you employed, Mr. Merrett?

4 A. I'm Director of the Office of
5 Interstate National Gas Markets for the Oil
6 Conservation Division.

7 Q. And have you previously testified
8 before this Commission with respect to general
9 trends and gas market demand for the state of New
10 Mexico?

11 A. Yes, I have.

12 Q. Are you prepared today to provide
13 testimony with respect to the trends as you
14 predict them for the next six months for markets
15 for New Mexico gas from prorated pools?

16 A. I would say yes, except I qualify that
17 by saying not specifically from prorated pools,
18 but for all pools.

19 Q. So your testimony today will relate to
20 perceived or projected demands for New Mexico
21 gas, period?

22 A. That's generally correct.

23 Q. And you have prepared some exhibits for
24 presentation today?

25 A. I've prepared exhibits. I will speak

1 from those exhibits, which I will project on the
2 screen. The members of the Commission have black
3 and white copies. And copies can be made
4 available for members of the audience upon
5 request.

6 Q. Would you go ahead and go to Exhibit 1
7 and start your presentation with respect to what
8 you predict historically and how you base that
9 historically, your predictions for the New Mexico
10 gas market.

11 Because these exhibits are not marked
12 on the screen, for the purpose of the record, so
13 I'll ask you to identify them by the title of the
14 exhibit so that the record will reflect which
15 exhibit we're looking at.

16 A. The first exhibit is entitled, "New
17 Mexico Gas Production History 1935 through
18 1990." The purpose of this exhibit is merely to
19 show that New Mexico natural gas production in
20 total has increased -- with one year exception --
21 has increased steadily from 1985 through 1991.

22 In 1991 our preliminary estimate is
23 that gas production is one trillion cubic feet,
24 approximately one trillion cubic feet a year.
25 That is subject to adjustment.

1 The second exhibit is entitled,
2 "Monthly New Mexico Natural Gas Production."
3 The purpose of this exhibit is to show the
4 seasonal trends in production, which presumably
5 reflects demand during the year.

6 You will see from this exhibit that
7 typically during the period April through the
8 first of October demand is lower than it is in
9 the period September through the end of March.
10 This is partly because of seasonal demand caused
11 by weather. That's the main reason for that.

12 It's not very clear from these set of
13 graphs, but the peaks and troughs appear to have
14 flattened out a little bit, particularly apparent
15 on the green line 1990, but also on the purple
16 line or pink line 1991. This is because in the
17 summer months the pipelines seem to carry a
18 fairly high frequency into storage, which they
19 were not doing so much in earlier years.

20 So it's my view we will still see in
21 the period April 1 through September 30, 1992,
22 we'll continue to see this trend of lower demand
23 in the summer months.

24 A. The next exhibit is entitled, "New
25 Mexico Natural Gas Production." And it shows the

1 split between coalbed methane conventional San
2 Juan gas and Permian conventional. It merely
3 shows you the split in production between those
4 three different types of gas. And the
5 significance of that will become apparent.

6 The next slide is called, "Trends: New
7 Mexico Natural Gas Production." This merely
8 shows you that coal seam gas production continues
9 a relatively steady rate of increase through the
10 end of December 91. The conventional gas
11 production shows, in the northwest, that is,
12 shows a fairly steady decline. And the total
13 northwest production continues to rise.

14 So we are seeing a continuous rise in
15 coal seam methane production and a reasonably
16 consistent decline in conventional gas
17 production.

18 Q. This is, for those who can't read the
19 slide in the back, this is actually just
20 northwest gas and does not include Permian
21 southeast gas?

22 A. That's correct. The next slide is
23 called, "Coalbed Methane Producing Wells." This
24 does not represent the total number of wells
25 drilled, but does represent the number of wells

1 in production for each of the months. And as you
2 see, there is a continuous and steady increase in
3 the number of coal seam wells connected and
4 producing, and we expect that trend to continue.

5 Before I leave that slide, perhaps I
6 should say that it is our opinion, which is not
7 necessarily that of the industry, but it's our
8 opinion that coal seam natural gas wells will
9 continue to be produced in almost any price
10 scenario. I don't intend to talk much about
11 price today, but the price of natural gas at the
12 wellhead is expected to remain low during the
13 period under review.

14 But, nonetheless, for various reasons,
15 including but not exclusively the federal tax
16 credit, the coal seam gas wells will continue in
17 our view to be connected and produced. There is
18 now adequate pipeline capacity to move almost any
19 amount of coal seam gas or other gas out of the
20 San Juan Basin since the completion of expansions
21 to the El Paso system and the connection of a new
22 pipeline by Transwestern linking the coal seam
23 gas, linking the coal seam gas wells in the San
24 Juan Basin to their mainline. So there is no
25 restriction on pipeline capacity.

1 Q. If I might ask, do you see any reason
2 to see this trend of increasing the number of
3 wells to change within particularly the six month
4 period we're talking about?

5 A. Well, the opportunity to become
6 eligible for a federal tax credit will expire at
7 the end of 1992 unless renewed by the Congress.
8 We have no idea whether it will be renewed or
9 not. You can argue it both ways.

10 So since there is that uncertainty, it
11 would seem logical that holders of coal-gas
12 leases would want to drill their wells and get
13 some production started in order to become
14 eligible for the tax credit. Even if they cannot
15 monetize immediately, at least they would be
16 eligible.

17 Final series of slides concerns
18 reserves. This is a general national slide
19 concerning reserves. We can see from this slide
20 that New Mexico with 19.8 Tcf of proven reserves
21 is second nationally behind only Texas, if you
22 exclude the offshore federal and state reserves.
23 So New Mexico's reserves have in fact increased.

24 I have a slide here showing New
25 Mexico's reserves. This slide is entitled, "New

1 Mexico Proven Natural Gas Reserves, Estimated
2 1991." And, as you see, New Mexico's reserves
3 are continuing to increase, and we expect this
4 increase to continue for several years as the
5 coal seam gas in the San Juan Basin is further
6 developed and more than offsets the decline in
7 conventional wells.

8 You can see this rather more clearly in
9 this slide entitled, "Reserves Northwest
10 Conventional Coal Seam," where the coal seam
11 reserves show the greatest -- show the rise, show
12 the increase, the conventional reserves for these
13 two years, 1990 and 1991, are flat. The
14 southeast reserves went up slightly but they are
15 essentially flat. So the big increase is in coal
16 seam gas reserves, and we expect that to
17 continue.

18 That concludes my slides and concludes
19 my testimony.

20 Q. Let me just ask you if you can reach
21 any generalized conclusions with respect to New
22 Mexico's ability to market its gas, its ability
23 to meet demand for its gas, and market trends as
24 a result of your information and knowledge?

25 A. I mentioned earlier the increased

1 pipeline capacity now available in Transwestern
2 El Paso. In addition to that, Northwest Pipeline
3 has expanded its capacity. And there is a great
4 deal of flexibility for movement of gas by
5 pipelines through the state.

6 There is probably a surplus of
7 interstate pipeline capacity from the San Juan
8 Basin to the markets at the moment. This leads
9 me to believe that pipelines will be forced to
10 discount their transportation rates in order to
11 keep the pipes full.

12 So although the prices will be flat,
13 low and flat, throughout the period on review,
14 the reductions in pipeline transportation rates
15 may offset this and encourage New Mexico
16 producers to continue to produce.

17 In addition, the coal seam gas is, in
18 my view, likely to be the last gas to be shut-in
19 because it has relatively low production costs
20 and has the potential of earning the tax credit,
21 even if it cannot be monetized immediately.

22 So, in our view, the coal seam gas will
23 continue to flow, and the New Mexico producers
24 will have more than enough pipeline capacity to
25 deliver their gas to the markets.

1 Q. Is there anything further you wish to
2 add to your testimony at this time?

3 A. No.

4 MR. STOVALL: Mr. Chairman, I have
5 marked the exhibits in the order shown by Mr.
6 Merrett as Exhibits 1 through 8 on my copies. I
7 don't think they've been marked on your
8 individual copies. And I'd move the admission of
9 those exhibits at this time.

10 CHAIRMAN LeMAY: Without objection,
11 Exhibits 1 through 8 will be admitted into the
12 record.

13 Are there additional questions of the
14 witness?

15 Mr. Kellahin.

16 EXAMINATION

17 BY MR. KELLAHIN:

18 Q. Mr. Merrett, a point of clarification,
19 sir, have you as part of your duties made an
20 assessment for this proposed -- for the
21 reasonable market demand for any of the
22 individual prorated pools in New Mexico for the
23 next proration period?

24 A. No, we have not.

25 MR. KELLAHIN: Thank you.

1 CHAIRMAN LeMAY: Additional questions
2 of the witness?

3 Commissioner Carlson.

4 EXAMINATION

5 BY COMMISSIONER CARLSON:

6 Q. Ron, have you looked at -- they
7 extended that tax credit now to tight sands gas
8 again. Have you looked at that in the same way
9 you've looked at coal seam as far as the
10 production from qualifying wells on tight sands?

11 A. No. We haven't done any detailed
12 analysis of tight sands, no.

13 CHAIRMAN LeMAY: Commissioner Weiss.

14 EXAMINATION

15 BY COMMISSIONER WEISS:

16 Q. What is the excess capacity of the
17 pipelines now?

18 A. Hard to say because they're still in a
19 state of development. It's my feeling we
20 probably have at the moment probably half a Bcf a
21 day surplus out of the San Juan Basin. But as
22 more wells come on, that would be used up. But
23 then there's more pipeline capacity being brought
24 in, so it's very hard to say that. But there is
25 surface capacity in a fairly substantial amount.

1 COMMISSIONER WEISS: That's all. Thank
2 you.

3 CHAIRMAN LeMAY: Mr. Merrett, just one
4 question.

5 EXAMINATION

6 BY CHAIRMAN LeMAY:

7 Q. Do you expect any increase in demand,
8 especially in the California market, over this
9 proration period? EOR market, will that be an
10 incremental market for New Mexico producers?

11 A. Yes, it is up to perhaps about four or
12 five hundred million a day. There is a
13 conversion of crude oil burning to natural gas
14 burning in the EOR market. But part of that is
15 taken up by supplies from Wyoming coming down the
16 new Kern River pipeline, which has just been
17 opened. So it's hard to tell whether that will
18 impact New Mexico's producers, because there are
19 other producing areas now available to the
20 California market.

21 Demand in California is expected to be
22 relatively flat this year. Of course, you can
23 never tell what's going to happen with nuclear
24 power plants, which have a very big impact on the
25 production of electricity.

1 And also we still don't know whether
2 the hydro-operations in California Sierras and
3 the Northwest will be producing significant
4 amounts of low-cost electricity. Those are
5 always unknowns. But all the forecasters seem to
6 predict a fairly flat market demand for this
7 period.

8 CHAIRMAN LeMAY: Thank you.

9 Additional questions?

10 MR. STOVALL: Mr. Chairman, I would
11 like to ask one follow-up to Commissioner
12 Carlson's.

13 FURTHER EXAMINATION

14 BY MR. STOVALL:

15 Q. With respect to the tight sands gas,
16 the first question is: Do you have knowledge of
17 whether or not any of the areas which have been
18 designated for tight sands and which are eligible
19 for the credit are within any of the prorated gas
20 pools?

21 A. I do not know that.

22 Q. Would you anticipate then, as a general
23 question, that would the advantages and the
24 conclusions you've reached with respect to the
25 continuing production of coal seam apply to those

1 gases because of the economic benefits of the tax
2 credit? Would it put it on a competitive footing
3 with the coal-gas?

4 A. There may be people in the audience
5 that are better qualified to answer that question
6 than me. I think there are certainly some
7 benefits to be had from the tight sands gas
8 credit. But just how that will impact the
9 producers, I really don't know.

10 MR. STOVALL: I have nothing further
11 then.

12 CHAIRMAN LeMAY: Additional questions?
13 Thank you, Mr. Merrett. You may be
14 excused.

15 Call your next witness, Mr. Stovall.

16 MR. STOVALL: Mr. VanRyan.

17 LARRY VanRYAN

18 Having been duly sworn upon his oath, was
19 examined and testified as follows:

20 EXAMINATION

21 BY MR. STOVALL:

22 Q. Would you, please, state your name and
23 place of residence.

24 A. My name is Larry VanRyan, and I
25 currently temporarily reside in Santa Fe. I'm

1 in the process of moving here.

2 Q. And how are you employed, Mr. VanRyan?

3 A. I'm employed as the Chief Petroleum
4 Engineer for the Oil Conservation Division for
5 the State of New Mexico.

6 Q. How long have you been so employed?

7 A. Since the first of February.

8 Q. And what were you -- what was your
9 employment experience prior to that time?

10 A. Well, I have a petroleum engineering
11 degree, which I obtained in 1962. And since that
12 time I've worked for Standard Oil of California,
13 for El Paso Natural Gas Company, for Northwest
14 Exploration Company, Southland Royalty Company,
15 and of recent experience, I've been a consultant
16 in the San Juan Basin.

17 Q. And where has most of your experience
18 been? Has it been in New Mexico or has it
19 been --

20 A. Since 1967 the majority of my
21 experience has been in New Mexico.

22 Q. And in your current capacity as Chief
23 Engineer for the Oil Conservation Division, have
24 you had the opportunity to become familiar with
25 the allowable system as it is currently

1 implemented today?

2 A. Yes, I have.

3 Q. And are you prepared to present
4 testimony and make preliminary recommendations
5 with respect to allowables in the -- actually, 17
6 prorated gas pools in the State of New Mexico?

7 A. Yes.

8 Q. Have you prepared exhibits which
9 present those preliminary recommendations?

10 A. Yes, I have.

11 MR. STOVALL: I move the qualifications
12 of Mr. VanRyan as an expert petroleum engineer in
13 gas prorationing.

14 CHAIRMAN LeMAY: Mr. VanRyan is so
15 qualified.

16 Q. Mr. VanRyan, would you briefly just
17 summarize the purpose of your testimony and the
18 purpose of this hearing and what the Division is
19 presenting and recommending today in general
20 terms?

21 A. Well, in general, we're recommending
22 the allowables that will be assigned to the
23 prorated pools in the state, both in the
24 northwest portion of the state and the southeast
25 portion of the state. And we are doing this on a

1 six-month basis, which has been in effect now, I
2 believe, for a short period, a relatively short
3 period of time.

4 We're trying to set up an allowable on
5 a six-month basis so that will allow people a
6 little more flexibility in obtaining market and
7 also in producing their wells.

8 What we have done to set these up is we
9 have used past histories of production from the
10 prorated pools. We've used the same period of
11 time in 1991, from April through September, to
12 establish what the pool sales were.

13 We've also used the marginal pool
14 allowables during those periods of time or
15 marginal production during the same periods of
16 time to arrive at a value of production for the
17 non-marginal wells, and those are the prorated
18 wells in the prorated pools. We've done this for
19 both the northwest and the southeast part of the
20 state.

21 Q. And the period for which the order
22 coming out of this hearing will be applicable is
23 April 92 through September 92; is that correct?

24 A. That's correct. And that's the same
25 period of time. We're trying to be consistent

1 with what Mr. Merrett showed as far as the
2 periods where production is a little bit lower
3 than it is in the winter months, sometimes
4 substantially lower.

5 Q. Now, I think you've testified that you
6 have prepared some recommendations in the form of
7 exhibits. Is the Division advocating these as
8 allowables to be set for the prorated pools?

9 A. These are just guidelines which we are
10 trying to establish. And one of the reasons for
11 this hearing today is if anybody else has any
12 information to bring to light to help us to
13 establish these allowables, that's why we're
14 here, to obtain that information.

15 We don't always know what's going on in
16 the field, as far as gas marketing, or as far as
17 working in the pools themselves, which may
18 increase the deliverability of the wells.

19 Q. Let's turn to your specific
20 recommendations and first turn to the southeast
21 portion of the state. Would you go to Exhibit A
22 and summarize the manner in which the information
23 is presented, that is, let's, for example, pick
24 any one of the fields and just go through it line
25 by line and explain how the exhibit gets from the

1 top to the bottom.

2 A. Okay. As I mentioned, line 1 on
3 Exhibit A, is the average monthly sales for the
4 pools for the period April 91 through September
5 of 91. Next, we have a line in there for
6 nominations, and that's one of things that we'll
7 be taking up today.

8 Third is adjustments that we feel from
9 what knowledge we have that should be added to
10 the production from the pools. Those are added
11 to the average production for the 91 period to
12 give us what we're recommending as a monthly pool
13 allowable for the 1992 period that we're
14 discussing here.

15 The fifth line is the historical
16 production for the marginal wells in these pools
17 for the period April 91 through September 91. I
18 might mention now, this is a little bit of a
19 change from what we have sent out when we sent
20 out the notice for this hearing.

21 We feel a little more comfortable with
22 using the production from April 91 through
23 September 91. What we had sent out to everybody
24 was October through December of 91, not being
25 quite equivalent to the seasonal demands that

1 we've seen earlier.

2 By subtracting line 5 from line 4, we
3 come up with the production for the non-marginal
4 wells in these pools. Line 7 is the number of
5 non-marginal acreage factors for the pools. And
6 line 8 is simply line 6 divided by line 7.

7 Q. Line 8 is really the bottom line, if
8 you will, the allowable for an acreage factor of
9 1 is what you're recommending then?

10 A. Yes, that's correct. For an acreage
11 factor of 1, that's what would be allowable for
12 that proration unit.

13 Q. Now, if I'm not mistaken, if I look at
14 this exhibit, all items, except for lines 2, in
15 which there is no nominations at this time, and
16 line 3, are actually statistically- or
17 mathematically-derived numbers; is that correct?

18 A. Yes, they're past history.

19 Q. And line 3, then, is adjustments which
20 the Division has proposed, and in all cases they
21 are positive or increased adjustments to pool
22 allowables, is that right, in the pools where
23 there has been an adjustment?

24 A. Yes, that's correct.

25 Q. Would you characterize these

1 adjustments as being scientifically-derived or
2 estimated adjustments based on some
3 non-scientific factors, if you will?

4 A. They are not scientifically-derived.
5 These are estimates of what we feel are needed in
6 these pools to give them a fair allowable. In
7 some cases they are to bring us in line with the
8 acreage factor at the bottom that we have had
9 historically or to bring us in line in certain
10 pools where we have a minimum allowable.

11 Q. And you would hope today that industry
12 will present some items to plug in to line 2 or
13 line 3 that would help get something that's at
14 least realistic in view of the industry?

15 A. Yes. This is the whole purpose of this
16 meeting -- or one of the purposes is to have
17 these people have some input into this to help us
18 make our decision.

19 Q. Let's turn now to the northwest in
20 Exhibit B. And that exhibit is structured
21 slightly differently because of the calculation
22 mechanism in the northwest; is that not correct?

23 A. Yes, for establishing the allowables in
24 the northwest part of the state, deliverability
25 is a factor, where it is not a factor in the

1 southeast part of the state.

2 Q. And where does that show up? Rather
3 than go through the whole exhibit and restate
4 everything line by line, where does that show
5 up? And explain the differences, if you would.

6 A. Well, in line 8, we have a figure
7 there, it's called the acreage factor times the
8 deliverability factor. That factor then is used
9 to calculate line 10. And line 10 is that figure
10 which is determined by using deliverability,
11 where we do not use deliverability in the
12 southeast part of the state.

13 There's additional figures that go into
14 these. The non-marginal production is allocated
15 either on a 25-75 percent split or on 60-40
16 percent split, depending on acreage and
17 deliverability. So it gets quite a bit more
18 complicated in the northwest part of the state.

19 Q. In other words, if you look at the
20 southeast, Exhibit A, if you take the line 8, if
21 you've got a well with an acreage factor of 1 in
22 its proration unit, the gas proration unit,
23 that's essentially the allowable for that well;
24 is that correct?

25 A. That it is the monthly allowable for

1 that well.

2 Q. And if it's anything less than or more
3 than 1, you just multiply it and get that
4 allowable for a monthly allowable?

5 A. That's correct.

6 Q. But it's not quite such a simple
7 formula for the northwest and you have to look at
8 the formulas and do a little bit more complex
9 mathematical analysis to get the actual allowable
10 for a specific proration unit in the northwest;
11 is that correct?

12 A. Yes, that's correct.

13 Q. And it's not possible to do it because
14 deliverability factors are different for each
15 proration unit; is that correct?

16 A. That's correct.

17 Q. Do you have anything further you wish
18 to add to your testimony about these exhibits or
19 the Division's preliminary recommendations?

20 A. No. I believe we've covered
21 everything.

22 MR. STOVALL: I have no further
23 questions of this witness, and I move the
24 admission of Exhibits A and B in this case.

25 CHAIRMAN LeMAY: Without objection,

1 Exhibits A and B will be admitted into the
2 record.

3 Questions of the witness?

4 Mr. Kellahin.

5 MR. KELLAHIN: Thank you, Mr.
6 Chairman.

7 EXAMINATION

8 BY MR. KELLAHIN:

9 Q. Mr. VanRyan, I'm interested in the
10 pools in southeastern New Mexico. For example,
11 if we'll focus on the Blinebry Pool, let me ask
12 you some questions about the analysis the
13 Division has undertaken to derive the guidelines
14 that are presented today.

15 For line 1, the average monthly pool
16 sales, how is that number generated?

17 A. That was generated by summing up the
18 monthly sales as reported by the Division for the
19 period April through September 91.

20 Q. If you're going to get that number off
21 the C-111's, the gas purchaser reports?

22 A. Yes, that's correct.

23 Q. And they would not come off the C-115,
24 operator production reports?

25 A. No. They're from the C-111's.

1 Q. What progress has the Division made
2 with reconciling any discrepancies between what
3 the operator reports as production from his wells
4 versus what is shown on the sales report?

5 A. In my current time in the Commission,
6 I've not looked at that but, I know in the past
7 in the records, there have been several people
8 look at that. And I don't know that we have
9 arrived at a given figure which we say is
10 correct.

11 We're currently in a state of flux of
12 trying to adjust our computer programs and to
13 also eventually adjust what production report
14 method we're going to use for the allowables.

15 Q. Do you have with you a copy of the
16 preliminary guideline for allowables that was
17 sent out in the docket?

18 A. Yes, I do.

19 Q. I'd like to have you help me understand
20 some of the principal changes between the one
21 that went out in the docket and the revised
22 guidelines that you've presented this morning.
23 Again, let's focus on the Blinebry quickly.
24 There is a small change in the acreage factor for
25 the Blinebry?

1 A. Yes, there is.

2 Q. And when you look at line 5, the
3 monthly marginal pool allowable, does that equate
4 to the marginal pool sales for that period?

5 A. Yes. For the period of April -- the
6 Exhibit A is for the period of April 91 through
7 September of 91. On the preliminary that we've
8 sent out, that was for the period October of 91
9 through December of 91.

10 Q. Looking at line 5 and then changing the
11 acreage factor the non-marginal wells in line 7,
12 are those the two principal changes between the
13 preliminary allowable and the revised allowable
14 for that pool?

15 A. Yes, they are.

16 Q. Let's turn to the Catclaw Draw Morrow
17 for me. Again, there's a change in the acreage
18 factor. The original preliminary allowable that
19 went out with the docket had a 2.99 acreage
20 factor; it's been reduced to 2?

21 A. Yes.

22 Q. Have you verified the reliability of
23 the No. 2 as the acreage factor that should be
24 utilized?

25 A. Since we sent out the original, the

1 preliminary information, we have looked at that
2 pool because there was a question about the
3 actual acreage factor for the non-marginal
4 wells. I'm not exactly sure that 2 is correct
5 now. I feel we may only have one prorated well
6 in that pool. We're in the process of trying to
7 line that out and come up with the correct
8 factor.

9 Q. When you look at row or line 8 for
10 Catclaw Draw, the original schedule had 90,000
11 Mcf, the revised schedule drops it down to 75,000
12 Mcf?

13 A. Yes.

14 Q. Show me how that changed, what causes
15 that change.

16 A. In the original that we had sent out,
17 we had included an adjustment under line 3 of
18 242,000-plus to add up to a total of pool
19 allowable of 421,900. In the Exhibit A, we did
20 not add that much into the pool. And what we
21 were trying to do in this case was to arrive at
22 an acreage factor allowable of 75,000, which was
23 what had been assigned to that pool in the
24 previous proration period, the one we're under
25 right now.

1 Q. There are some pools for which you have
2 not yet assigned an adjustment factor in line 3.

3 A. Yes. Yes. To the best -- in those
4 pools, we didn't have any knowledge that would
5 make us want to make a change, but we are open
6 for line 2 to accept recommendations or
7 nominations from other people.

8 Q. And the fact that for the Catclaw Draw
9 we see an adjustment factor in line 3, that does
10 not preclude further adjustments in that number
11 based upon operator evidence, do they?

12 A. No. That's correct.

13 Q. Let me turn to the Indian Basin Upper
14 Penn Pool. Scanning through the two
15 spreadsheets, the original versus the revised,
16 there is obviously a substantial change in the
17 acreage factor. How comfortable are you that the
18 6.49 is the correct acreage factor to apply for
19 the non-marginal wells?

20 A. It's more accurate than the 3.49. That
21 was simply an error when we sent that out.

22 Q. It appears to me that the other major
23 adjustment in the Upper Penn is that you have
24 recognized the downtime on the Marathon gas plant
25 in coming up with the entry for the monthly

1 sales, I think it is?

2 A. Yes, that's correct. And line 1, we
3 did not use the full six-month period because we
4 found out that the plant was shut down for 12
5 days in September. So we have a footnote there
6 that is actually for a five-month period,
7 excluding September.

8 Q. So if I'm looking at the original
9 guideline versus the revised exhibit today, the
10 two major changes that cause line 8 to increase
11 are the acreage factor and the recalculation of
12 the average sales, recognizing the downtime in
13 the Marathon gas plant?

14 A. Those are the major factors along with
15 the factor that line 5 is a smaller factor also.
16 And this is one of the reasons that we went to
17 using the marginal pool allowable for the same
18 period of time is to take another period of
19 time.

20 MR. KELLAHIN: Okay. Thank you, sir.

21 CHAIRMAN LeMAY: Thank you, Mr.

22 Kellahin.

23 Additional questions of the witness?

24 Mr. Carr.

25 EXAMINATION

1 BY MR. CARR:

2 Q. Mr. VanRyan, just to be sure I
3 understand the Exhibit B as it relates to the
4 guidelines that were attached to the notice of
5 this hearing, if we look at the information for
6 the pools in the San Juan Basin, if I go to
7 column No. 6 in both of these exhibits, that is
8 the monthly pool allowable; correct?

9 A. Yes, that's correct.

10 Q. And if we go over and look at the
11 Blanco Mesa Verde Pool, the guideline had
12 recommended an initial recommendation of 4.8
13 Bcf; is that what that number is?

14 A. Yes, that is correct.

15 Q. In the exhibit that you have offered
16 today, that number has been increased to 6.9 Bcf?

17 A. Yes.

18 Q. So we're looking at just between the
19 notice of this hearing and what we're looking at
20 today of 2 Bcf increase in that pool alone?

21 A. That's correct.

22 Q. Just to be sure I'm reading this
23 correctly.

24 A. Yes.

25 CHAIRMAN LeMAY: Mr. Pearce.

1 MR. PEARCE: Thank you.

2 EXAMINATION

3 BY MR. PEARCE:

4 Q. Mr. VanRyan, I have a couple of
5 questions that I want to ask to make sure I
6 understand, and then I have a philosophical
7 question to run at you, I think. If you'd look
8 at the today's exhibit for the pools in northwest
9 New Mexico --

10 A. Uh-huh.

11 Q. -- for prorated pools, in the previous
12 preliminary, there was an adjustment in the Basin
13 Dakota Pool, was there not?

14 A. Yes, there was.

15 Q. And that was not repeated in the
16 exhibit you're using today?

17 A. That's correct.

18 Q. If we look in this exhibit at line
19 No. 4, monthly pool allowable April 92 through
20 September of 92, that is the allowable that you
21 believe should be assigned; is that correct?

22 A. Yes.

23 Q. And I notice that there is a
24 significant difference between that number on the
25 preliminary and the number that you're using

1 today. See that difference 6.9 to 5.8?

2 A. Yes. And that has to relate to the
3 fact there's no adjustment in Exhibit B where
4 there was adjustment in the preliminary.

5 Q. Now, we sort of get out of specific
6 numbers. Did I understand you to say that we're
7 really -- the number exercises really pointed at
8 the bottom line?

9 A. In this particular case it's pointed at
10 the bottom two lines for the northwest part of
11 the state.

12 Q. And how did the Division decide what it
13 believed was the appropriate numbers to put in
14 those two lines?

15 A. In this particular case the
16 preliminary, we were trying to arrive at some
17 appropriate figures there. In the Exhibit B
18 prepared for today, we went back and by changing
19 what we looked at as far as the marginal
20 production for these specific pools from April 91
21 through September 91, as opposed to the
22 preliminary which had October 91 through December
23 of 91, we came up with a more realistic figure
24 for the marginal production in these pools.

25 The effect that had, then, was without

1 increasing the total pool allowable, we were
2 increasing the non-marginal well allowable in
3 these pools and coming to the same figure. We
4 feel we're much more accurate now than we were
5 when we were using the other figure.

6 The problem with using October to
7 December, as Mr. Merrett showed you, that's the
8 high demand months for natural gas for the San
9 Juan Basin. And during that period of time, the
10 line pressure is much lower so the wells produce
11 much better, particularly the marginal wells
12 which are the poorer wells.

13 So by changing the marginal pool
14 allowable, what the wells will produce, we feel
15 we're much more accurate now, and we don't have
16 to make those adjustments.

17 Q. And the 5.41 AD factor shown on the
18 bottom line, which had been 4.9 --

19 A. Yes.

20 Q. -- tell me again why you believe 5.41
21 is the appropriate number?

22 A. This matches the history of the pool.

23 Q. I'm sorry.

24 A. And I feel much more comfortable using
25 natural production and a lot less adjustments if

1 we can to arrive at a basis for this. And that's
2 why we went to this is to have less adjustments.

3 Q. Do you happen to know what the AD
4 factor for the Basin Dakota Pool for the last
5 six-month proration period was?

6 A. I don't have that figure with me. I
7 can't recall.

8 Q. Similarly, you don't have the number
9 with you of what the acreage factor was in that
10 previous six-month period?

11 A. No, I don't. We've not been comparing
12 these for the same problem that we've not been
13 comparing April through September figures with
14 the March -- with the other figures, the October
15 through March figures.

16 Q. In both your testimony and the
17 testimony of Mr. Merrett, you've mentioned demand
18 during the summer season as being lower. And you
19 mentioned earlier that there was a change in
20 gathering line pressure, I believe, which you
21 think accounted for, in part at least, the lower
22 marginal production in the summer months; is that
23 correct?

24 A. Yes, that's correct.

25 Q. Are you aware, if there is some

1 strategic marketing decision-making going on in
2 the basin, of producers intentionally holding gas
3 off of the market in the summer?

4 A. I have read some newspaper articles
5 that refer to that, but do I know specifically
6 and for a hard fact? No, I don't.

7 Q. Do you know if there are wells in the
8 Basin Dakota which are presently constrained
9 because of allowables, shut-in?

10 A. From the production, the proration
11 production figures, I do know of some wells that
12 are overproduced, so they would be restrained or
13 could be restrained.

14 MR. PEARCE: All right. Thank you,
15 sir. I don't have anything else. Thank you.

16 CHAIRMAN LeMAY: Additional questions
17 of the witness?

18 Commissioner Carlson.

19 COMMISSIONER CARLSON: No questions.

20 CHAIRMAN LeMAY: Commissioner Weiss.

21 COMMISSIONER WEISS: Yes.

22 EXAMINATION

23 BY COMMISSIONER WEISS:

24 Q. You're probably the wrong man to ask,
25 but how are these complexities that are seen in

1 the northwest proration schedule, how are they
2 arrived at? They're different from the
3 southeast.

4 A. They're quite a bit different. In the
5 early days of the field up there, it was decided
6 that the deliverability or the capability of the
7 well to produce should be considered into the
8 allowable for those wells.

9 Q. Who decided that?

10 A. It was an early rule of the Oil
11 Conservation Division.

12 COMMISSIONER WEISS: No more
13 questions. Thank you.

14 CHAIRMAN LeMAY: Anything else of the
15 witness? If not, he may be excused.

16 Thank you, Mr. VanRyan.

17 Mr. Stovall, does that conclude your --

18 MR. STOVALL: That completes my case.

19 I have nothing further, Mr. Chairman.

20 CHAIRMAN LeMAY: Mr. Kellahin.

21 MR. KELLAHIN: Yes, sir. Thank you.

22 Mr. Chairman, I'd like to deal with the
23 Catclaw Draw Pool first. And at this time, call
24 Mr. Kevin O'Connell, petroleum engineer with
25 Hallwood Petroleum, Inc.

KEVIN O'CONNELL

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

EXAMINATION

BY MR. KELLAHIN:

Q. Mr. O'Connell, would you, please, state
your name and occupation.

A. My name is Kevin E. O'Connell. I'm a
petroleum engineer and drilling and production
supervisor for Hallwood Petroleum in the western
district.

Q. Have you previously testified as an
expert witness before the Oil Conservation
Commission on allowable hearings?

A. Yes, sir, I have.

Q. Are you familiar with the OCD
preliminary allowables for the expiration period
for the Catclaw Draw Morrow Pool?

A. Yes.

Q. In addition, have you seen the
Division's revised preliminary guidelines that
they have submitted to the Commission this
morning?

A. Yes, sir.

Q. Based upon your study of all that

1 information and your background familiarity with
2 this reservoir, do you have recommendations and
3 comments with regards to your pool and what ought
4 to be done with establishing allowables for that
5 pool?

6 A. Yes, we do.

7 MR. KELLAHIN: Mr. Chairman, I tender
8 Mr. O'Connell as an expert witness.

9 CHAIRMAN LeMAY: His qualifications are
10 acceptable.

11 Q. Let me direct your attention, first of
12 all, to the package of exhibits. And looking at
13 Exhibit No. 1, is a collection of displays and
14 summaries, and if you'll turn to Exhibit 1, page
15 1, would you identify and describe your
16 conclusions?

17 A. This is an exhibit that pertains to the
18 Catclaw Draw Unit 1YN, No. 13 proration unit.
19 That's a two-well proration unit with an acreage
20 factor of 1. Going into the previous proration
21 period, which would be the winter period, or
22 October through March, this well was classified
23 as a non-marginal well.

24 And our analysis, we feel this well
25 should currently be reclassified as it meets all

1 the state requirements for reclassification to
2 the marginal unit status.

3 Q. Let me interrupt you at this point.
4 When we look at the preliminary allowable
5 schedule the Division circulated with the docket,
6 they had a non-marginal acreage factor of 2.99?

7 A. Yes, sir.

8 Q. What three wells in the pool composed
9 that factor?

10 A. I'm not 100 percent sure which wells
11 are in there because there's been some
12 discrepancy on which are or aren't or should or
13 should not be the non-marginal. But I believe it
14 contained the Catclaw 13 and 1Y and the -- or it
15 should have contained the Catclaw 13 and 1Y and
16 the Catclaw Draw No. 9. Those should have been
17 the two non-marginal units into the previous
18 period.

19 There was an error on the schedule.
20 The Catclaw 9 shows an acreage of 2.00, which is
21 incorrect. It's a 640-acre unit, and it should
22 be a 1.00.

23 Q. Going into the summer proration period,
24 the revised schedule has dropped the acreage
25 factor down to 2 at this point?

1 A. Correct.

2 Q. What does your study cause you to
3 conclude should be appropriate acreage factor
4 going into the summer proration period?

5 A. We think it should decrease down to
6 1.00. And as Mr. VanRyan pointed out, he's not
7 so sure but maybe that is the right number, 1.00,
8 because there has been some discrepancy over the
9 past on what is or is not a non-marginal unit in
10 the field.

11 Q. Based upon your study what would the
12 well be? Identify the well that would be the
13 non-marginal well.

14 A. It would be the Catclaw Draw No. 9
15 proration unit.

16 Q. Go ahead and continue, then, with your
17 summary conclusions on page 1 of Exhibit 1.

18 A. We just went through the steps, and the
19 well was last in a zero over-under status in
20 April of 89. It was significantly overproduced
21 to about a quarter of a Bcf. But since then it's
22 worked off all of its overproduction.

23 This proration unit's production is now
24 less than the assigned monthly allowable. It has
25 not made its monthly allowable in, I believe,

1 it's eight months. And now the unit is currently
2 underproduced. And a lot of this is due to the
3 recent increases in the F1 factor in the field.

4 Q. Let's turn to page 2. Your display
5 shows the OCD preliminary allowable based upon
6 the docket, does it not?

7 A. Yes, sir. The preliminary?

8 Q. Yes, sir.

9 A. Yes.

10 Q. And as we go down the lines of the
11 display, you might give us the number that would
12 fit the revised schedule, and we can see the
13 comparison between Hallwood's recommendation for
14 allowables and the OCD revised guideline.

15 A. Okay.

16 Q. First of all, with line 1.

17 A. Well, this basically, I've just
18 extracted these columns, or line 1 through 8,
19 exactly as they are on the OCD schedule. And
20 I've compared their preliminary numbers to our
21 numbers.

22 The preliminary number was 179,000 for
23 average monthly pool sales, 179,266. The revised
24 number from the OCD is 187,858. We show -- and
25 I've got some following exhibits that will

1 support this pretty good -- the actual production
2 for the last summer period, April through
3 September, was up in the 250,000-a-month range.

4 Again, we're getting into a problem of
5 do we use C-111's or C-115's? Our numbers, which
6 are the bulk of the field's production, are from
7 C-115 data, which is reported directly to the
8 OCD. And we are the first transporter on the
9 majority of the wells through the gathering
10 system we operate.

11 Q. What are the other principal changes in
12 the various components that you want to
13 subsequently address your discussion?

14 A. Well, the main item is line 4, the
15 total monthly -- or the monthly pool allowable
16 for the period. We were very encouraged, before
17 I saw the revised numbers this morning, because
18 the OCD had a number of 421,900, we arrived at a
19 number of just under 429,000.

20 We were within 1.6 percent on the
21 numbers, which is a pretty good accomplishment.
22 I think we're moving in the right direction,
23 because this field can and will produce over
24 400,000 a month right now.

25 I'm a little concerned to see the

1 monthly pool allowable on the revised number back
2 down to 297,103. As I say, I don't know where
3 this comes from exactly, but I think I can show
4 that the production numbers should be higher.

5 And then the only other major problem,
6 or part 2 of that, is whether we use 1 or 2 as
7 the number of non-marginal acreage factors. If
8 we go to 1, as in our numbers, then it shifts.
9 The marginal pool production has got to rise
10 accordingly, because if you have a couple other
11 units that are reclassified, that will shift that
12 production.

13 The other thing I want to point out,
14 Mr. VanRyan this morning made a statement that we
15 were currently under a 75,000 F1 factor, and that
16 number is actually 127,000 as result of our
17 November 14 rehearing. So the way I understand
18 it, they were trying to stay at that 75,000, and
19 we're actually under 127,000.

20 So you'll see -- you know, if you try
21 to stay at an F1 of 127,000, where we're at now,
22 then our number is relatively close to that, of
23 149,000. That's the main point there.

24 Q. All right. As part of your study, have
25 you made a determination of the relationship

1 between the market demand for pool production,
2 the deliverability of the wells in that pool, and
3 the proposed allowables that you're requesting
4 for the pool?

5 A. Yes, sir.

6 Q. Do you have a market demand that in
7 your opinion is reasonable if the Division allows
8 you or the Commission approves the allowable
9 levels that you're seeking for the summer period?

10 A. Yes.

11 Q. Let's go through some of the rest of
12 your displays and talk about the recent total
13 field production. That's the bar graph, I think,
14 that follows --

15 A. Yes. It's entitled, "Recent Total
16 Field Production." What I did there is I looked
17 back over the last eleven-month period, April
18 1991 through February 1992, with February being
19 an estimate.

20 And basically that plot just shows the
21 total field production has increased from April
22 of 1991 of 166,000 per month to just under
23 400,000 a month. February will be about 387,000
24 Mcf per month. February is a little bit shorter
25 month. So if February was a 31-day month, it

1 would easily top 400,000.

2 Q. Draw a comparison for us based upon the
3 recent months of total field production and how
4 that relates to market demand.

5 A. Just that we have been able to produce
6 and have been able to sell this increase in gas
7 that we've established out there. And we do have
8 the market demand for it.

9 The other thing I'd like to point out
10 on there, if you look at just the six-month
11 summer period, April through September, you can
12 see that the actual production was up around, if
13 you average those, it is around 250,000 as
14 opposed to 170- to 180,000 Mcf per month.

15 Q. Mr. Merrett testified a while ago that,
16 based upon a study of all production in New
17 Mexico, he saw a continuation of the seasonal
18 swing in gas production and sales in New Mexico.
19 Do you see a seasonal swing in production in your
20 pool?

21 A. No. We're starting to see that swing
22 disappear. We can sell gas in the summer. And
23 I'm not so sure, it may not be too hard to get
24 better summer prices, if we can lock up a market
25 in advance, than what we've seen over the recent

1 winter.

2 Q. Let's turn to the pie chart that's the
3 next display. What's the purpose of the display?

4 A. The main purpose I wanted to show on
5 here, because there may be some concerns that the
6 Catclaw No. 9, which is what we're recommending,
7 is basically the only non-marginal unit in the
8 pool, that it may be getting maybe its undue
9 share of production or dominating the production
10 from the field.

11 And this pie chart just shows, although
12 it is the largest piece of the pie, it's still
13 only 33 percent, or a third of the total pool
14 production. There are some other substantial
15 units out there that produce anywhere from 10 to
16 20 percent of the total pool production.

17 You know, that's the main thing I
18 wanted to point out. You know, if this situation
19 were reversed, I'd be a little concerned if you
20 had one well dominating 60 to 70 percent of the
21 pool's production. But you can clearly see that
22 there are some substantial producers out there
23 and that it doesn't unduly dominate the field
24 production.

25 The other thing you can also arrive at

1 from there is that if you take this total pool
2 production of 420- to 430,000 a month of
3 capability and marketability and if you
4 multiplied it times 67 percent, which would be
5 the marginal, come up with a number in the 260-
6 to 280,000 range, which that is useful to go back
7 into the allowable determination, that shows that
8 that market -- or that the non -- excuse me, the
9 marginal production has got to increase some.

10 Q. If the Commission adopts Hallwood's
11 requested allowable for the summer period, have
12 you made a determination if you're going to have
13 any capacity problems either in the gathering
14 system or the distribution system for production
15 of gas from the pool?

16 A. No, we don't anticipate any problems.

17 Q. Let's turn to the last display in the
18 exhibit package.

19 A. This display is a comparison of the
20 monthly average pool allowable, sales, and F1
21 factor for the four -- the four summer periods,
22 one being the previous three, 89, 90, and 91, and
23 then the fourth is the upcoming one.

24 The bulk of this data was taken right
25 off the data that was supplied with the

1 preliminary well estimate. There was a
2 comparison for these four well periods with one
3 modification in the sales for the last summer, I
4 increased to what we believe is the more accurate
5 number, 254,000 Mcf a month as opposed to 179.

6 You know, this plot and why I wanted to
7 present it, it's important because it illustrates
8 that because of some of these changes that we've
9 made out here and the success that we've had, the
10 sales have increased substantially even in the
11 summer periods, and sales have, starting last
12 summer, have overtaken the allowable. And that
13 in turn created the need for the allowable
14 increase that we sought and had received.

15 The other thing that's important out
16 here is that because we've got this need and
17 we've increased the allowable, the F1 has got to
18 come off this well. You know, you look back
19 through the last three periods, and the F1 is
20 running about 15 to 25 percent of the allowable.

21 And even if the Commission adopts some
22 of the current numbers, which may seem high on an
23 initial look, if you look at them on this plot,
24 they're still in that same general ballpark. The
25 F1 has got to increase in accordance with the way

1 the allowables and sales have increased.

2 And I just want to present this because
3 this leaves you with some confidence as to that
4 F1 has got to increase accordingly.

5 Q. Identify and describe for us Hallwood
6 Exhibit 2.

7 A. That's just our nomination letter that
8 we provided to the Commission with our estimated
9 nominations for gas during the six-month period
10 that we're upcoming. And it basically averages
11 about 383,000 Mcf a month for Hallwood's gas.

12 MR. KELLAHIN: That concludes my
13 examination of Mr. O'Connell. We would move the
14 introduction of his Exhibits 1 and 2.

15 CHAIRMAN LeMAY: Without objection,
16 Exhibits 1 and 2 will be admitted into the
17 record.

18 Questions of the witness?

19 MR. STOVALL: If nobody else does, I
20 have some questions.

21 CHAIRMAN LeMAY: Mr. Stovall.

22 EXAMINATION

23 BY MR. STOVALL:

24 Q. The only real statistical question I've
25 got for you on information is you've testified

1 that there is a substantial difference between
2 the C-111 volumes which the Division used and the
3 C-115's; is that correct?

4 A. It appears there's a difference.

5 Q. I think you said Hallwood was the first
6 transporter on how many of the wells?

7 A. We're first transporter on nine of our
8 thirteen wells.

9 Q. And so you've filed the C-111's on
10 those wells; right?

11 A. Yes. And we also nominate now for the
12 other four wells in which gas companies --

13 Q. Okay. I'm not worried about the
14 nominations at this point. I want, for the
15 Division's benefit and in terms of doing an
16 analysis, have you looked to see where the
17 differences are between the C-111 and C-115
18 figures? Are you able to point that out so the
19 Division can verify or determine how to get more
20 accurate in that area?

21 A. No, I can't point directly to and say
22 where the problem is. It seemed to me that
23 C-115's are the more accurate numbers. They're
24 reported right from the producer, and they take
25 off lease gas usage. And the volumes sold are

1 right on there. And that seems to me to be the
2 number we ought to key in on instead of who or
3 how or where the gas is getting transported.

4 Q. That's a philosophical question, I
5 guess, and the Commission will have to make some
6 changes in the rules if they want to do that. I
7 guess the other answer is the C-111's reflect the
8 gas that's being moved away from the wells, so
9 you can make that argument both ways.

10 But I'm more concerned, particularly
11 since Hallwood is actually filing both reports,
12 as to how we come up with substantial
13 differences, and would you be willing at some
14 point to sit down with the Division and do a
15 preliminary analysis and advise the Division so
16 we can make a determination.

17 And if we can find a systematic
18 problem, then we can look at it if it's an
19 individual problem, then we may have to deal
20 specifically with Hallwood on the specific
21 field. But would you be prepared or willing to
22 do that kind of analysis so that we can?

23 A. Yeah.

24 Q. There shouldn't be that much
25 discrepancy, I wouldn't think.

1 A. I'm a little confused on how there
2 could be such a discrepancy, and we'll have to
3 look at that some more.

4 Q. Let me ask you some questions just in
5 terms of what Hallwood wants and the net effect
6 of what you want. How many gas proration units
7 are there producing from this pool? Does this
8 reflect all of them on your exhibit?

9 A. Well, there's --

10 Q. The pie chart is one I'm looking to.
11 Does that have -- or is that just Hallwood's?

12 A. We'll, we've got eight, and there's
13 three outside operators or three other operators.

14 Q. So the total number of gas proration
15 units in the pool is eleven; is that correct?

16 A. It's either eleven or twelve.

17 Q. And the number 9 you're seeing has got
18 10 percent of the gas proration units and 30
19 percent of the production, so it is a, if you
20 will, something of a superstar in the pool; is
21 that correct?

22 A. Yeah, it's a good well. It will
23 produce nearly 5 million a day.

24 Q. Now, if I go back and take your
25 mathematical calculations the way you've arrived

1 at the numbers on -- again, it's not real
2 critical what the numbers are at this point; it's
3 the methodology I'm concerned with -- is
4 essentially what you are suggesting is that the
5 Division should set the allowable, for all
6 practical purposes, based upon the pool's
7 capacity to deliver; is that correct?

8 A. Well, I don't know if we -- what we
9 would like to see is the allowable set basically
10 at or near the current allowable of 127,000.

11 Q. Okay. For an F1 factor of 100?

12 A. Correct.

13 Q. Does that restrict the No. 9 well, I
14 think, the big one?

15 A. Yes, it will restrict it some. I mean,
16 you know, if we wanted to, we could produce 8 to
17 10 million a day out of that well alone. I don't
18 think that will be prudent, and that's not our
19 intent, or we're not trying to get to that
20 level. We're trying to keep, you know, at a
21 level 127- to 140,000 Mcf a month.

22 Q. So, in other words, I guess the next
23 question then I'll ask is that even if we grant
24 the allowable that Hallwood is asking for, the
25 superstar well in the pool is being effectively

1 restricted in production so that it is, in
2 effect, it is protecting correlative rights --

3 A. Yes.

4 Q. -- and not allowing that well to
5 produce gas from other proration units?

6 A. Yeah. It's not being produced
7 wide-open at full maximum capacity. It's being
8 produced, and that's what we're trying to
9 maintain. We're trying to maintain a level that
10 we feel is a reasonable and prudent level of
11 production, which is in those ranges.

12 Q. Let me take you back. As I remember
13 from your de novo hearing, Hallwood presented
14 testimony in the last proration period that that
15 well had some reworking done in the previous
16 summer, I guess summer of 91; is that correct?

17 A. Yes.

18 Q. And have you seen any production trends
19 from that well? Is production staying pretty
20 level so far?

21 A. Yeah. We've only lost about 3 to 400
22 pounds of flowing tubing pressure, and we've
23 produced nearly a Bcf out of it. So we've seen
24 no real production decline out of it because it
25 hasn't been produced, you know, at full rate

1 where it could get on a natural decline curve,
2 you know. We anticipate it will probably start
3 on a natural decline over the next
4 year-and-a-half to two years.

5 Q. Have you seen any effect on the
6 production from that well and other wells in
7 terms of pressure drops or anything that you
8 would attribute from the production of that well?

9 A. No.

10 Q. How long would you anticipate that that
11 well will continue to produce, assuming we set an
12 allowable somewhere in the range you're asking of
13 F1 factor of 127,000? How long would it be
14 before that well would eventually decline to
15 where that allowable was no longer restrictive?
16 Do you have an estimate just as an engineer?

17 A. I think in a year-and-a-half to
18 two-and-a-half years it's going to get on a
19 natural decline.

20 MR. STOVALL: I have no further
21 questions.

22 CHAIRMAN LeMAY: Thank you, Mr.
23 Stovall.

24 Additional questions of the witnesses?

25 COMMISSIONER CARLSON: Yes.

1 CHAIRMAN LeMAY: Go ahead, Commissioner
2 Carlson.

3 EXAMINATION

4 BY COMMISSIONER CARLSON:

5 Q. Is the well No. 9, is that currently
6 overproduced?

7 A. Yes. It's overproduced about 220,000
8 Mcf. But the current, the current O/P limit now
9 for the field is 761,000, so it's not -- you
10 know, not in any danger of being shut-in. But it
11 does have some overproduction as a result of our
12 testing last summer when we only had a shadow
13 allowable of 22,000 a month.

14 Q. On page 2 of your first exhibit, line
15 5, could you explain again the discrepancy
16 between your numbers and the Division numbers?

17 A. Well, I think it relates directly to
18 the fact that -- it relates directly to the
19 number of non-marginal units. If we shift from
20 three, as was originally done, down to one,
21 you've got to shift some of that formerly
22 non-marginal production over into the marginal
23 allowable category.

24 Q. Okay. So that's assuming that your
25 unit 1Y and 13 are classified as marginal?

1 A. Yeah, because it would -- right there
2 would just shift about 40,000 Mcf a month. So if
3 you took the Commission numbers there, that would
4 put you up around 190- to 200,000.

5 And then I think some of the other is
6 just from some of the other recompletion work
7 we've done, we've got some other wells that are
8 doing pretty good and they're producing quite a
9 bit. And their production may have lagged a
10 little or not be reflected in these, because some
11 of that work was completed halfway or two-thirds
12 through last summer.

13 So it's not reflected in that period
14 that they're using, April through September,
15 yeah. So that's where the difference, in my
16 opinion, comes from.

17 Q. Who are the other operators in the
18 field?

19 A. Texaco, Barbara Fasken, and Hondo.
20 They have four units. One is a two-well unit.
21 All their wells are marginal. They've been
22 marginal for several years. And their production
23 is very steady at 45- to 50,000 a month total on
24 a year-round basis. It doesn't fluctuate very
25 much at all.

1 Q. Are they aware of what you're proposing
2 today?

3 A. Yes. I don't know if they're aware of
4 what we're proposing, but they were -- of today's
5 we haven't provided it to them, but at the
6 previous two hearings, they were in support and
7 we received written support from them to increase
8 non-marginal allowables in the pool. And all
9 three companies were highly supportive of it
10 because it really had no impact or bearing on
11 their current status.

12 Q. Okay.

13 CHAIRMAN LeMAY: Commissioner Weiss.

14 COMMISSIONER WEISS: Yes.

15 EXAMINATION

16 BY COMMISSIONER WEISS:

17 Q. As I recall, the order we signed off on
18 here said something about deprorating this pool.
19 What's the status of that?

20 A. Well, that was just a -- I don't
21 remember the exact phrase.

22 Q. I don't either.

23 A. It just said, you know, that was one
24 avenue we may want to pursue. We really don't
25 foresee any need to pursue that at this time.

1 It's --

2 Q. You like Santa Fe; huh?

3 A. Yeah. That's what I was trying to get
4 at. It's a very manpower and time and effort,
5 and we just don't see an immediate benefit from
6 that at this time.

7 Q. From deprorating?

8 A. From deprorating. Judging from where
9 the pool allowables were at and the direction
10 we're moving on the non-marginal units, I think
11 we're headed in the right direction. And after
12 one or two more periods, the system is going to
13 be taken over and working just like it's intended
14 to where it's going to be based strictly on how
15 much you produce a well. And it will -- I think
16 it will be working for everybody.

17 COMMISSIONER WEISS: No more
18 questions. Thank you.

19 EXAMINATION

20 BY CHAIRMAN LeMAY:

21 Q. To follow up Mr. Weiss' question, did
22 you read the findings in the previous order on
23 the rehearing?

24 A. Yes, sir.

25 Q. Do you remember the finding where it

1 was suggested that Hallwood look at deprorating
2 the field?

3 A. Yeah. Like I say, I don't remember the
4 exact --

5 Q. Well, I'd just like to raise the
6 spectrum. If it's easy to come here for
7 adjustment of allowables and you're satisfied
8 with the allowables the Commission gives you for
9 the one well, because in essence we are doing
10 nothing more than kind of tracing that one well
11 of yours with allowables in the field, and I
12 think the Commission raised the issue of whether
13 it's in the best interests to prorate only one
14 well and chase it around with allowables because,
15 you know, that's not the purpose of prorating,
16 just prorate one well.

17 You can take -- I mean, we use the
18 example of North Indian Basin, and I think the
19 same could be said of that field. But when
20 you're only prorating one well, you're really not
21 prorating that well. We're taking nominations
22 from you, and you're saying what the well will
23 make or what you think is prudent for that well
24 to make and then you're asking us to adjust
25 allowables based on, in essence, what the MER of

1 that one well would be.

2 I raise this question because you have
3 two answers that I understood in your testimony:
4 One, the number 9, it will produce nearly 5
5 million a day?

6 A. Correct.

7 Q. Additional question, when asked, you
8 said it would produce 8 to 10 million a day,
9 again, referring to the number 9.

10 A. We're holding it at 5 million a day,
11 which is basically in line with the current F1 of
12 the well.

13 Q. Well, then, is your first question
14 wrong; it will produce nearly 9 million a day --
15 I mean 5 million a day; that should be scratched
16 from the record because your other answer is more
17 reflective of the quality of that well. It will
18 produce 8 to 10 million a day?

19 A. I guess -- let me clarify that. The
20 well is currently producing nearly 5 million a
21 day. It could produce 8 to 10 million a day.

22 Q. Fine. I think I understood you to say
23 it -- well, that's fine. I'm just trying to
24 clarify your answer to that question. It will
25 produce nearly 5 million a day I think was one of

1 your answers. It will do more than that then?

2 A. Oh, yeah. We don't want to and aren't
3 planning to produce it at that. That's the -- I
4 guess the statement I'm trying to get across is
5 we're not, you know, out there just producing
6 everything wide-open.

7 Q. Well, "everything" meaning that one
8 well. I assume your other wells are producing
9 wide-open if they're marginal?

10 A. Yeah, basically they are.

11 Q. And this well, you claim, you have a
12 market that does not fluctuate with seasonal
13 demand. Could I ask you what that market is?

14 A. Well, I'm not our gas marketer for the
15 field, and maybe I shouldn't be talking about gas
16 marketing. But we do have a good contract with
17 Gas Company of New Mexico, and we can market most
18 anything we produce. I guess that's the best way
19 to leave it.

20 Q. Well, is it a spot market, do you know,
21 every 30 days, or do you have a long-term
22 contract with the Gas Company?

23 A. We have a long-term contract with them
24 through a five-month winter period. And they
25 have an option or first call to take during other

1 periods.

2 Q. Well, now, we're setting the allowables
3 for not the five-month winter period, but we're
4 setting the allowables for the slack demand
5 period. And, therefore, I guess my question
6 would pertain to not the five-month winter
7 period, but this upcoming period, April through
8 September.

9 A. Yeah. But we can go out -- we can --
10 even though or it may be the slack summer period,
11 we have the option and we can sell our gas during
12 that period and intend to do so this summer.

13 Q. On the spot market; do you know?

14 A. Yes.

15 Q. So that's a 30-day market?

16 A. Yes, during the other seven months of
17 the year.

18 Q. Is your assumption, then, that Gas
19 Company of New Mexico would not want all of the
20 gas that you could provide during the slack
21 period so, therefore, your option to sell on the
22 spot would be exercised?

23 A. Yes. But they do still have first call
24 on it if they choose.

25 Q. Are you familiar with Gas Company of

1 New Mexico's market, if it's very seasonal or if
2 it's pretty much equal year-round?

3 A. Down in this area it's pretty much,
4 because my understanding is the market for a lot
5 of this gas is not directly tied to the heating
6 season.

7 Q. It's not with Gas Company of New
8 Mexico?

9 A. I mean, our particular market for
10 them.

11 Q. Your particular market for Gas Company
12 is not tied to the seasonal heating?

13 A. A lot of it is tied to industrial use
14 in the area. But then, again, we can go
15 off-system. If we can get a market, we can sell
16 the gas through the summer period, and we can
17 sell at the rates we're currently producing at.

18 Q. Well, that's a big "if," isn't it? I'm
19 trying to say that if you look at the charts that
20 were presented up there, you look at the
21 production and it's seasonal from New Mexico.
22 All wells, not prorated wells, but all wells.

23 So collectively one would assume,
24 wouldn't they, that there's a seasonal market,
25 that there's less market in the summertime than

1 there is in the wintertime collectively?

2 A. Yeah. But I think in isolated cases
3 we're starting to see that dissipate some and --

4 Q. In isolated cases?

5 A. Being small fields that, you know, can
6 produce 5 to 10, 14 million a day.

7 Q. That they have a market that's
8 different than the collective market of all wells
9 in New Mexico?

10 A. I think that's possible, yes. A lot of
11 it depends on who you market with or where you
12 can get a contractor.

13 Q. It's possible?

14 A. Yeah. I mean --

15 Q. Maybe I'm getting a little out of your
16 line here.

17 A. I'm not a gas marketer, as I stated,
18 and I think maybe we are getting a little out of
19 the range.

20 Q. Possibly. You're coming here and
21 asking for, in essence, for 5 million a day, when
22 during the peak season, I took it from your
23 testimony, you were satisfied with 4.2 million
24 adjusted at the last hearing, 127,000 Mcf, and
25 that's high demand.

1 And you're saying yes, but we have this
2 well, and we'd really like 149,767, which is 5
3 million a day, during a demand period when
4 collectively demand is less than it was during
5 your high demand period. You've experienced 300
6 to 400 pounds pressure drop over some frame of 1
7 Bcf, I think you testified, so there is some
8 pressure drop. There is some depletion, I'm
9 understanding, to the reservoir?

10 A. Well, there has to be some depletion.

11 Q. I would assume that, yes, unless you
12 have a coal seam gas well or something that goes
13 up. I'm trying to understand.

14 A. You know, I guess where maybe I
15 should -- as I stated earlier, we're trying to
16 keep the F1 at or near its current level, 127,000
17 Mcf.

18 Q. Without taking seasonal demand into
19 consideration collectively?

20 A. Yeah.

21 Q. Because you can run counter to seasonal
22 demand.

23 A. That's what I understand from our gas
24 marketer, if we know in advance of how much we
25 can produce, then he can actively try to sell

1 that gas, and we can find certain markets.

2 Q. And you have no plans to ask the
3 Division to deprorate the pool because you assume
4 that allowables can chase that one well around as
5 long as it's capable of producing?

6 A. Yeah. I think, you know, back to your
7 statement on the deproration or the purpose of
8 proration, I don't recall where the proration --
9 whether you had one marginal unit or whether you
10 had 500 was the purpose of proration.

11 We feel like there's a purpose for
12 keeping proration, keeping spacing out there,
13 keeping setbacks, and letting the system work
14 like it's intended to. I think deproration would
15 be counterproductive for this field right now.

16 Q. The reason why you think deproration
17 would be counterproductive, can you explain to us
18 why?

19 A. I think just the effort to do it. It
20 would take, as shown in Burton Flats Field, that
21 took nearly two years, I believe. And, you know,
22 there's no cost benefit from it from our
23 perspective. And if I understand you right,
24 you're concerned about the Commission keeping
25 track of one well.

1 Q. Well --

2 A. But the system will work on its own
3 nearly automatically once we get through one or
4 two more proration periods, because it will be
5 tied strictly to production and past production
6 and sales and future sales and it will work.

7 The other, I guess, supportive reason
8 for not deprorating is if we happen to drill some
9 additional wells or have some continued success
10 out there and you wind up with some more
11 non-marginal units potentially.

12 Q. Well, I guess I would ask you, from
13 your testimony, you're saying it's too much
14 effort and bother for Hallwood to come and try to
15 deprorate, but it's not much bother for the
16 Division to keep that well on the record and keep
17 it on the proration system because the
18 alternative would be an effort on your part or
19 Hallwood's part to come in to present a case to
20 be deprorated; is that what you're saying?

21 A. Well, I just don't see whether it would
22 benefit either party. I don't -- I don't see
23 where it would benefit the OCD or Hallwood.

24 Q. What benefit is there to chase one well
25 with allowables? When, in essence, you're not

1 asking -- you're asking for an allowable that is
2 more like an MER allowable. If this field was
3 not prorated, would you produce it above 5
4 million a day?

5 A. Probably not.

6 Q. So the net effect of not having this
7 field prorated would at the present time not have
8 any effect on your marketing plans or production
9 plans, would it?

10 A. The net effect from --

11 Q. If this field was not prorated today,
12 what difference would there be in the field's
13 history in the future for you to predict it or in
14 the past, this proration period we're in right
15 now? What difference would not having proration
16 be effective in this field? What difference
17 would that have right now if the field was not
18 prorated?

19 A. From a production standpoint?

20 Q. Yes, production marketing standpoint.

21 A. It would probably have very little
22 difference.

23 Q. But yet your testimony is that it's
24 important to keep the field prorated. I can't
25 understand that. If there's no difference in

1 production in marketing, why prorate? I guess
2 you're saying, "Why deprorate?"

3 A. Well, exactly.

4 Q. I have a hard time understanding the
5 value of proration in this field, what you're
6 saying, Mr. O'Connell.

7 A. But proration was originally
8 established by the OCD. And I don't see where
9 the burden to deprorate falls on the operator.

10 Q. Would you feel differently if we gave
11 you an allowable of a million a day for the No.
12 9?

13 A. Yeah. And that's where we were at and
14 where we're trying not to go back to.

15 Q. I see. So it would make a difference
16 if we, in our collective wisdom, if we decided to
17 assign you an allowable of a million a day. You
18 feel that would be necessary to deprorate the
19 field?

20 A. Well, or continue with the processes.
21 We've made some good headway, and I thought we
22 were working cooperatively towards --

23 Q. Might I suggest you look at the recent
24 order that was issued by this Commission, and
25 don't just look at the results of the order, but

1 look at the findings and discuss that with your
2 management.

3 A. Can I --

4 Q. Please comment, yes.

5 A. You would prefer, then, the operator,
6 or us, you would prefer, as the Commission, to
7 deprorate then; is that the way I'm reading it?
8 The Commission is in favor of deprorating?

9 Q. I can only -- I can't collectively at
10 this point put it in the record what we favor,
11 but I think it's important when we issue an order
12 to look at both the findings and the conclusions
13 and the order itself. And I would just at this
14 point ask you to look at the findings of that
15 last order of the Commission.

16 A. Yeah.

17 CHAIRMAN LeMAY: That's all.

18 Mr. Kellahin.

19 MR. KELLAHIN: Mr. Chairman, I don't
20 want to prolong the discussion on this point, but
21 I don't think Mr. O'Connell needs to take the
22 heat for that decision. It's my heat to take. I
23 deprorated Burton Flat for Oxy. I know how
24 difficult it is. I've spoken to Hallwood
25 management about that process.

1 We are terribly aware of the order in
2 the rehearing. Mr. Stovall and I, I think, have
3 a significantly different point of view on
4 prorationing. One of the comments he made in
5 framing a question to Mr. O'Connell presumed that
6 prorationing must restrict a high-capacity well.

7 As you know from the brief we filed in
8 the rehearing of the Hallwood case, my personal
9 opinion of that is that that is wrong, that it is
10 easier for Hallwood in this particular instance
11 to have allowables set based upon market demand
12 and have allowables set on the greatest capacity
13 of the well to produce.

14 There's an unknown here, and that is
15 the drainage impacts. Mr. O'Connell has
16 demonstrated to me repeatedly that this
17 superpower well is going to be restricted. And
18 when you have the capacity of a well restricted
19 in order to meet market demand, you meet the
20 fundamental criteria for prorationing.

21 Prorationing in New Mexico is market
22 demand prorationing. And we only have it on a
23 pool basis when the total pool deliverability
24 exceeds the market demand for that pool. We tend
25 to, I think, get confused in our thinking about

1 prorationing and sometimes use prorationing as a
2 great big Band-Aid to protect against
3 hypothetical drainage, disadvantages between
4 recoveries of gas within a given pool.

5 I resisted making the burden of proof
6 and the complicated engineering and reservoir
7 studies necessary to demonstrate the drainage
8 concept within the prorationing system. We had
9 to do that for Oxy and Burton Flat. It is not
10 easy. You simply don't file an application.
11 Kevin and others have got to do some detailed
12 geologic studies and some reservoir engineering
13 recovery data to support that.

14 We're pursuing the notion of
15 deprorating the pool, but based upon my legal
16 opinion to that client, they have not undertaken
17 that exercise because I have concluded it is very
18 difficult. We'll take your comments today back
19 to that company and reevaluate the position and
20 see if we can't do something that makes everybody
21 happy about this pool.

22 CHAIRMAN LeMAY: Thank you, Mr.
23 Kellahin. I'd just like to point out, if I can,
24 that because South Burton Flats had a shadow
25 allowable of one-year period, that's not

1 NEW MEXICO OIL CONSERVATION COMMISSION

2 STATE OF NEW MEXICO

3 CASE NO. 10450

4

5 IN THE MATTER OF:

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9

The Oil Conservation Division calling
a hearing on its own motion to accept
nominations and other evidence and
information to assist in determining
April 1992 through September 1992 gas
allowables for the prorated gas pools
in New Mexico.

10

11

12 BEFORE:

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14

15

WILLIAM J. LeMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
GARY CARLSON, COMMISSIONER

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20 REPORTED BY:

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24

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DEBBIE VESTAL
Certified Shorthand Reporter
for the State of New Mexico

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I N D E X

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1 necessarily a precedent-setting procedure for all
2 pools that would be deprorated. I think there
3 were 60-some wells that were subject to that
4 deproration order.

5 I might suggest that you get together
6 with counsel and in some way discuss the merits
7 of implementing some of our findings in the
8 previous order. Thank you.

9 MR. KELLAHIN: Thank you, Mr.
10 Chairman.

11 CHAIRMAN LeMAY: Any additional
12 questions of the witness?

13 Thank you, Mr. O'Connell.

14 Anything else on this particular
15 field? Why don't we take a break now, if that's
16 all right, counselor, and you can resume with
17 your additional other witnesses.

18 (A recess was taken.)

19 CHAIRMAN LeMAY: Continue, Mr.
20 Kellahin.

21 MR. KELLAHIN: Thank you, Mr.
22 Chairman. Mr. Chairman, with your permission,
23 I'd like to deal with my client's recommendations
24 on the Blinebry Pool, it's Marathon Oil Company.
25 I have two witnesses concerning that pool, a

1 reservoir engineer and a gas marketing expert.
2 I'd like to first call Mr. Ron Folse. He spells
3 his last name F-o-l-s-e. And he is the petroleum
4 engineer.

5 I've already distributed our exhibit
6 package. It addresses the Blinebry. Because
7 we're dealing with the same case number, I have
8 lettered Marathon's exhibits for the Blinebry,
9 and then in the Indian Basin Upper Penn Pool,
10 those exhibits will be numbered. We propose to
11 utilize exhibit letters A through G for the
12 Blinebry.

13 RONALD J. FOLSE

14 Having been duly sworn upon his oath, was
15 examined and testified as follows:

16 EXAMINATION

17 BY MR. KELLAHIN:

18 Q. Mr. Folse, for the record, would you,
19 please, state your name and occupation.

20 A. My name is Ronald J. Folse, F-o-l-s-e.
21 I'm the Senior Reservoir Engineer with Marathon
22 Oil in Midland.

23 Q. Mr. Folse, on previous occasions have
24 you testified as an expert witness on behalf of
25 your company concerning the Oil Commission

1 allowable hearings?

2 A. Yes, I have.

3 Q. What pool or pools did you previously
4 testify about?

5 A. The Blinebry Pool.

6 Q. Are you familiar with the preliminary
7 allowable schedule that was circulated with the
8 docket by the Division for this hearing?

9 A. Yes, I am.

10 Q. And this morning, when you received Mr.
11 VanRyan's revised schedule, have you examined
12 that schedule?

13 A. Yes, I have.

14 Q. Based upon your studies and
15 observations of the production, the allowables,
16 and what you had been advised by your company as
17 the market demand for production from this pool,
18 do you have recommendations for the Commission
19 for allowables for the Blinebry prorated gas
20 pool?

21 A. Yes, I do.

22 MR. KELLAHIN: We tender Mr. Folse as
23 an expert witness.

24 CHAIRMAN LeMAY: His qualifications are
25 acceptable.

1 Q. Mr. Folse, before beginning our
2 discussion, let me have you, sir, turn to what is
3 marked as Exhibit A. Would you identify and
4 describe that for me.

5 A. Exhibit A is the letter we, Marathon,
6 sent out to all operators in the Blinebry Pool
7 indicating our proposal to increase the monthly
8 allowables to 45,000 Mcf per month for
9 non-marginal wells.

10 Q. So that the Commission can understand
11 where you and I will ultimately get with your
12 testimony, let's take the Exhibit A that is the
13 revised schedule, do you have that copy of that
14 that was handed out this morning?

15 A. Yes, I do.

16 Q. Go down the Division preliminary
17 schedule, as shown on the revised exhibit for the
18 Blinebry and, without giving me the exact
19 numbers, just generally describe where you
20 recommend changes to be made so that ultimately
21 the allowable assigned to the pool will give you
22 an opportunity to produce a reasonable market
23 demand for that production.

24 A. The line 1, the average monthly pool
25 sales is 354,000 Mcf. I am proposing this

1 morning an adjustment on line 2 of 227,000 Mcf to
2 arrive at a monthly pool allowable of 581,000.
3 Line 5, 131,000, is the marginal pool allowable,
4 subtracting that number from the line 4 results
5 in a monthly non-marginal pool allowable of
6 450,000. And using a non-marginal acreage factor
7 of 10 results in a line 8 of 45,000.

8 Q. Let's describe your allowable request
9 level in terms of the last line entry, the 45,000
10 Mcf number. How does that compare to the
11 allowable that was applied for the pool on the
12 last proration schedule?

13 A. The 45,000 is the comparable to
14 one-and-a-half million cubic feet a day --

15 Q. Yes.

16 A. -- for 1 acreage factor. And the
17 previous request by Marathon was 50,000.

18 Q. Let's turn to page 2 of the exhibit,
19 which will be Exhibit B in the package. Identify
20 and describe for us that display.

21 A. This is a map of the Blinebry Pool with
22 the marginal and non-marginal gas wells
23 indicated. The smaller dots are for marginal gas
24 wells. The larger dots represent the
25 non-marginal gas wells. As in the left lower

1 corner, the different colors represent different
2 gas transporters.

3 Q. Do you recall from memory and can you
4 describe for us the general number of marginal
5 wells and non-marginal wells in the pool?

6 A. Generally there are approximately 97
7 total wells in the pool of which 14 wells are
8 non-marginal.

9 Q. Turn to Exhibit C. We might want to go
10 ahead and use Exhibit C to let you edit that
11 exhibit. Am I correct in understanding it was a
12 demonstration of Marathon's allowable level
13 request in the far right column as it compares to
14 the preliminary schedule issued by the Division
15 in the docket and does not yet reflect the
16 revised Division allowable estimates?

17 A. That is correct.

18 Q. Help us edit this so that we understand
19 what your allowable requests will be based upon
20 the current revised schedule.

21 A. Based on my current revised schedule,
22 to go along with the update, based on Exhibit A
23 as proposed by the Commission today, line 1, the
24 average monthly pool sales would require revision
25 to 354,110. An adjustment, as we've proposed

1 here in the right-hand column, instead of
2 205,955, it needs to be revised to 227,241 for a
3 revised monthly pool allowable of 581,351.

4 Based on the Exhibit A proposed today,
5 the monthly marginal pool allowable is then
6 131,351. The monthly non-marginal pool allowable
7 would then be 450,000. The number of
8 non-marginal acreage factors would then be 10, as
9 in Exhibit A, resulting in a monthly acreage
10 allocation factor of 45,000.

11 Q. Describe for me the conclusion you
12 reached from examining Exhibit D, which is the
13 next display.

14 A. Exhibit D is the allowables, sales, and
15 overproduction status of well Lou Worthan No. 9,
16 one of Marathon's non-marginal wells.

17 Q. Why did you select this particular
18 non-marginal well for presentation?

19 A. We selected this particular well. It
20 is one of two non-marginal wells that Marathon
21 currently has. And at the end of the period,
22 based on the increases in allowables for the
23 current proration period, we can see that the
24 sales are exceeding the monthly allowable.

25 Q. When you look at the last months of

1 entry in January 92 and look at the comparison of
2 the relationship between the allowable, which
3 will be the blue line that's horizontal, there is
4 a slight decline in sales. What is happening in
5 January and what is the forecast for February and
6 March for production from that well?

7 A. The production or monthly sales from
8 this well in January is 46,320, which is a
9 decrease from December of 50,130. With early
10 production data in February, we have projected
11 that production would be 45,192.

12 Q. Forecast of production, then, is not
13 going to follow the decline established in
14 January for sales in that well?

15 A. That's correct.

16 Q. In your opinion, do your two
17 non-marginal wells have the deliverability or the
18 capacity to produce their share of the allowable
19 to be assigned on your proposed allowable level?

20 A. Yes, they do.

21 Q. Let's turn to the production on the
22 other non-marginal well that you operate in the
23 pool. Identify and describe this display.

24 A. This is a graph of the allowables,
25 sales, and overproduction status of the Lou

1 Worthan No. 12 Marathon-operated well.

2 Q. This is Exhibit E?

3 A. Exhibit E.

4 Q. Okay.

5 A. The graph is similar to the numbered
6 previous exhibit and indicates that the well's
7 production is currently over the allowables of
8 38,125.

9 Q. Describe for us your forecast of sales
10 and production from this well in relation to its
11 allowable?

12 A. The production, as indicated here, in
13 December peaked at 54,313. The January sales
14 figure was 47,970. A projected February
15 production will be approximately 45,000.

16 Q. Turn now to Exhibit F and identify and
17 describe that display.

18 A. Exhibit F is the graph of all the
19 non-marginal wells Marathon operates, which there
20 are four, indicating in particular in the last
21 several months that Marathon has equaled or
22 exceeded the current allowables of over 125,000.

23 Q. All right. Let's turn to Exhibit G.

24 A. Exhibit G is the graph of the Blinebry
25 Pool total Marathon operated wells, including

1 marginal and non-marginal wells, indicating sales
2 are exceeding the total allowables of our wells.

3 Q. Having studied the production of your
4 wells and the ability of those wells to produce,
5 what is the relationship of that productivity to
6 the anticipated reasonable market demand for
7 production from your wells for this next
8 proration period?

9 A. The market demand currently exceeds
10 deliverability.

11 Q. When you look at the past proration
12 period, what is the status of the pool on a pool
13 basis between being overproduced or underproduced
14 in terms of the allowables; do you know?

15 A. The current status of all non-marginal
16 wells in the pool is underproduced.

17 Q. And when you look at the status of your
18 wells, they are overproduced on the allowable,
19 are they not?

20 A. That is correct, yes.

21 Q. But they are within the O/P limit for
22 that production?

23 A. That's correct.

24 Q. From your perspective as the engineer
25 involved in this particular pool for your

1 production, and not addressing the marketing
2 issues I'll talk to the next witness about,
3 summarize for us your conclusions about the
4 justification for your allowable request.

5 A. I guess, first of all, we pool
6 production right now. Market demand for the pool
7 production exceeds total pool deliverability.
8 Marathon is able to sell all its gas production,
9 and we believe that other operators have adequate
10 markets to sell all of their gas that they can
11 produce.

12 Also, the proposed allowable for the
13 total pool of 581,351 is not in excess of market
14 demand and, if anything, is less than market
15 demand.

16 Q. What is your ultimate conclusion, then,
17 about the level of allowable request that you're
18 seeking for the pool?

19 A. The ultimate conclusion is that we wish
20 to be allowed to produce at the requested rates,
21 45,000.

22 MR. KELLAHIN: That concludes my
23 examination, Mr. Chairman, of Mr. Folse.

24 We would move the introduction of
25 Marathon Exhibits A through G.

1 CHAIRMAN LeMAY: A through G will be
2 admitted without objection.

3 Questions of the witness?

4 Mr. Padilla.

5 MR. PADILLA: Let me get up here, Mr.
6 Chairman.

7 EXAMINATION

8 BY MR. PADILLA:

9 Q. Mr. Folse, did I understand your
10 testimony that the total pool allowable was
11 underproduced?

12 A. That's correct, yes.

13 Q. Could that be a reflection that there
14 is an adequate market for selling gas from that
15 pool?

16 A. There is a possibility. Could be the
17 possibility that producers are curtailing
18 production also.

19 Q. But one may be the possibility that
20 there is an inadequate market; therefore, there
21 is no production; correct?

22 A. The possibility, I guess.

23 Q. Did you endeavor to find out what the
24 total market deliverability for the pool was?

25 A. I believe our marketing people will

1 answer that question. I did not.

2 Q. As I understand your testimony, you're
3 projecting a total demand for the pool based upon
4 what Marathon's market is; isn't that correct?

5 A. That's correct.

6 Q. You did not go out and find out whether
7 other producers had markets for sale of gas in
8 that area?

9 MR. KELLAHIN: Mr. Chairman, with all
10 due respect to Mr. Padilla, I think those
11 questions are more appropriately addressed to the
12 marketing expert.

13 CHAIRMAN LeMAY: As I understand, he'll
14 have a marketing expert that will either provide
15 those or be able to --

16 MR. PADILLA: Well, Mr. Chairman, if I
17 may respond to that, he did testify to market
18 demand, and I'm asking those questions in terms
19 of what his knowledge is about market demand.

20 CHAIRMAN LeMAY: Counsel, do you want
21 to address that? I did hear some comments by the
22 witness concerning market demand.

23 MR. KELLAHIN: No. All questions about
24 market demand were predicated on what his company
25 expert had told him what market demand was for

1 the pool, and in relation to that, then, he has
2 described what his wells can produce.

3 CHAIRMAN LeMAY: So his expertise was
4 limited basically to the response of what the
5 wells could produce, but the market demand was an
6 assumption that he was given.

7 MR. KELLAHIN: Sure. And he gets that
8 assumption from Mr. Hastings, who's sitting right
9 here, eagerly willing to answer Mr. Padilla's
10 questions.

11 CHAIRMAN LeMAY: Fine. Thank you.

12 Will that be acceptable, Mr. Padilla
13 and Mr. Hastings?

14 MR. PADILLA: I'll talk to Mr. Hastings
15 about market demand. I will continue.

16 Q. Let me go on to the, I believe on your
17 Exhibit E -- and I don't have a copy of that --
18 you were testifying concerning the No. 12 well?

19 A. That's correct.

20 Q. Can you tell me how that well got to
21 the state of being overproduced?

22 A. It arrived at the state of
23 overproduction, as can be seen on the graph,
24 beginning in January 1989. The graph comes in
25 through the period of January 92. The graph

1 indicates the allowables, sales, and
2 overproduction status of the well.

3 Q. Doesn't that show the major times that
4 you were selling gas would be during the
5 wintertime?

6 A. In previous years, these wells were
7 being produced as per proration schedules under
8 the production guidelines of following the
9 proration schedules. The current production
10 management by Marathon is, as opposed to previous
11 years, we are producing the wells pretty much
12 capacity at what we are allowed to produce.

13 Q. Now, I notice up here starting in
14 January of 1989, it seemed like -- well, first of
15 all, what does the red line indicate?

16 A. The red line is the overproduction
17 status of that well on a cumulative basis.

18 Q. And starting in January through about
19 April of 1989, it became overproduced starting
20 back there; isn't that correct?

21 A. Prior to January 89, it had an
22 overproduction status over 40,000.

23 Q. Then you had another peak in January of
24 1990 after that; isn't that also correct?

25 A. A peak of sales?

1 Q. Of production or sales. I'm not sure
2 what that second line is.

3 A. The green line is sales.

4 Q. Okay. So your sales were essentially
5 during these periods January through April and
6 January through April of those years; correct,
7 1989, 1990?

8 A. That's correct, in those years.

9 Q. And then going into, starting in the
10 fall of October of 1992 -- or 1991, I should say,
11 you start another increase on sales?

12 A. That's correct.

13 Q. So is it fair to say that your sales
14 generally occur during the winter months or on
15 some seasonal basis?

16 A. That is basically what occurred in this
17 case, was as a result of production restrictions
18 on the lower months, in the summer months.

19 Q. Does this exhibit show how this well
20 conforms the allowables during the time that you
21 don't have those peaks?

22 A. Repeat the question.

23 Q. In other words, you have peak sales
24 from January through April 1989 and from January
25 1990 through April and then, again, in the latter

1 part of 1991, you also have a peak increase. In
2 terms of monthly production, between, say, July
3 or April of 1990 and October of 1991, it seems to
4 level off. How do allowables in production
5 conform during that time?

6 A. Production was driven by allowables
7 through those periods.

8 Q. This draft seems that it's pretty --
9 that they conform pretty well to each other
10 during that time. How about on the -- on your
11 Exhibit D, do we have the same scenario on that
12 No. 9 well as we had on the No. 12 well?

13 A. Yes, we do.

14 Q. Let me go back and ask you about -- you
15 indicated that you, Marathon, owned four
16 non-marginal wells; is that correct?

17 A. That's correct, yes.

18 Q. On the other two non-marginal wells
19 that Marathon owns there, do you have an
20 overproduction problem?

21 A. We have no production problems. They
22 are not producing over the current allowable.

23 Q. Why is that?

24 A. The capacity of those wells are not as
25 great as the two wells we've presented here, the

1 deliverability.

2 Q. And those wells are not overproduced?

3 A. I believe they're slightly overproduced
4 at the current time. They are overproduced at
5 the current time.

6 Q. Are they out of range as far as
7 overproduction is concerned with the -- compared
8 to the two wells that you've shown on Exhibits D
9 and E?

10 A. They are are not as much overproduced
11 as those two are.

12 Q. How about, Mr. Folse, the remaining ten
13 non-marginal wells in the field, are those wells
14 overproduced?

15 A. There appears to be through the
16 December report one well that is currently
17 overproduced. The other wells appear to be
18 underproduced.

19 Q. Essentially, it seems to me, that this
20 is a Marathon problem as far as overproduction is
21 concerned; isn't that correct?

22 A. A Marathon problem of being
23 overproduced?

24 Q. Overproduced on its four wells.

25 MR. KELLAHIN: Object to the form of

1 the question. I think it's argumentative the way
2 it's framed.

3 CHAIRMAN LeMAY: You probably ought to
4 rephrase the question, Mr. Padilla, and rephrase
5 it.

6 MR. KELLAHIN: The problem is equally
7 attributable to low allowables.

8 CHAIRMAN LeMAY: I'll remind counsel he
9 is incompetent to testify as a witness.

10 MR. KELLAHIN: Even when I'm right, Mr.
11 Chairman.

12 MR. PADILLA: I don't know whether
13 that's an objection, Mr. Chairman, or whether
14 it's --

15 MR. STOVALL: I think it's banter
16 between the Chairman and counsel.

17 CHAIRMAN LeMAY: Just a little bit of
18 fun, Mr. Padilla. But you might want to rephrase
19 the question.

20 MR. STOVALL: Mr. Chairman, if I might
21 just ask the question, it is not in the form of
22 an objection, but I've got a -- I've been
23 listening to the questioning and trying to, as I
24 pointed out, the Division is not really an
25 advocate of anything at this point. It's created

1 a starting point.

2 And it would be most helpful, I've
3 asked Mr. VanRyan if he understands what Mr.
4 Padilla's concerns are with respect to Marathon's
5 testimony, and he doesn't and I don't know. I
6 don't know if the Commission does or not.

7 But I wouldn't mind if Mr. Padilla
8 would mind if he would explain his concerns so
9 that we can put his questions into the context of
10 those concerns and evaluate the witness'
11 testimony in response to those concerns. It's
12 not very helpful to us at this point, from the
13 Division's standpoint anyway, I don't know about
14 the Commission.

15 MR. PADILLA: Let me explain, Mr.
16 Chairman, there is a request before the
17 Commission to increase the allowables to 45,000.
18 We have in our prepared statement, and that's all
19 the testimony -- it's not even testimony; it's
20 merely a statement that we intend to read into
21 the record. We provided that yesterday to Mr.
22 Stovall and Mr. Kellahin.

23 MR. STOVALL: I was in meetings all day
24 yesterday, so I apologize for not having seen
25 that.

1 MR. PADILLA: Our position is contained
2 in that. We feel that the allowables are simply
3 going sky high. And manifested by Mr. Folse's
4 testimony, it seems to me that Marathon intends
5 to solve an allowable overproduction problem
6 through increasing allowables. It's simply
7 that.

8 The following question I would have of
9 Mr. Folse is simply whether or not an increase in
10 the allowable to 45,000 would solve Marathon's
11 problems over the next six months.

12 CHAIRMAN LeMAY: I think that's a fair
13 question.

14 Mr. Kellahin?

15 MR. KELLAHIN: I'd like to have the
16 witness answer.

17 CHAIRMAN LeMAY: Fine. Thank you.

18 THE WITNESS: The increased allowable
19 to 45,000 --

20 MR. PADILLA: Yes, sir.

21 THE WITNESS: -- would bring more into
22 line Marathon's overproduction.

23 MR. PADILLA: I don't believe I have
24 any further questions.

25 CHAIRMAN LeMAY: Thank you.

1 Mr. Kellahin.

2 MR. KELLAHIN: Mr. Chairman, I think
3 Mr. Stovall's point is well taken. I'm a little
4 at a disadvantage to put my witnesses on and then
5 have Mr. Padilla read a statement on behalf of
6 Mr. Hendrix.

7 I would request that that statement be
8 distributed to the Commission now so that my
9 witnesses can deal specifically with the concerns
10 that Mr. Padilla's clients have, and we can stop
11 fishing around on things that are of no
12 consequence. I would like the statement in now
13 so that we can comment on it.

14 CHAIRMAN LeMAY: That's up to Mr.
15 Padilla. Generally statements aren't subject to
16 cross-examination. They're strictly put in the
17 record for the Commission's consideration. But
18 if he cares to distribute it now, that's fine.

19 MR. PADILLA: I have already
20 distributed it to the Commission this morning,
21 Mr. Chairman. I would be happy to read it at
22 this time if that's convenient.

23 CHAIRMAN LeMAY: Would that be
24 beneficial to you, counselor?

25 MR. KELLAHIN: Mr. Chairman, I can

1 read. I've got a copy of it. I simply want the
2 opportunity of my witnesses to comment on what's
3 contained in the written statement. If the
4 Commission wants to have Mr. Padilla read it to
5 us, I guess that's within your discretion.

6 MR. STOVALL: Mr. Chairman, if I might
7 make a comment on that. Just in the context of
8 it, again, I apologize, as I say, to Mr. Padilla
9 for not having read it yesterday, but I spent the
10 entire day in other meetings.

11 I view the allowable hearing as a
12 non-adversarial information-gathering hearing for
13 more of a rule-making for the Commission, and I
14 certainly think that anything that comes in, the
15 more you understand the context in which it comes
16 in, the better you're able to evaluate it. If we
17 could read it, I think it would be great.

18 CHAIRMAN LeMAY: I don't think the
19 Commission is stupid. If we are, we shouldn't be
20 here. We understand you have overproduced
21 wells. And we understand that if you want some
22 higher allowable, to get that under. We
23 understand Mr. Hendrix has underproduced wells
24 for whatever reasons. I think that's obvious.

25 You can play around with those concepts

1 if you want, but I think -- I can't see where
2 there's any ambiguity in what the positions are.
3 I've not read the statement, but it seems fairly
4 obvious to me where the parties are coming from.

5 MR. KELLAHIN: Well, the positions are
6 clear; it's the reasonings that need to be
7 discussed.

8 CHAIRMAN LeMAY: That's why we're
9 having your witness here under
10 cross-examination.

11 Please proceed, Mr. Padilla.

12 MR. PADILLA: Well, at this point, Mr.
13 Chairman, let me read our statement, and then Mr.
14 Kellahin can redirect on that basis.

15 CHAIRMAN LeMAY: I don't think we've
16 had a long-standing policy that statements are
17 not subject to cross-examination. If it would
18 help to clarify your position, please read it.
19 But it's not something that's subject to
20 cross-examination, unless you have a witness who
21 wrote the statement that you want to put on.

22 MR. PADILLA: I don't, Mr. Chairman.

23 CHAIRMAN LeMAY: Fine.

24 MR. PADILLA: The John Hendrix
25 Corporation operates 66 wells covering 3,440

1 acres in the Blinebry Pool. The Hendrix
2 Corporation proposes a decrease in the monthly
3 acreage allocation factor (F1 factor) for
4 Blinebry non-marginal wells from 24,906 Mcf per
5 month to 21,840 Mcf per month, which was the
6 average pool allowable for 1990 and was
7 sufficient to economically and efficiently
8 produce from the pool. In 1988, the allowable
9 was 12,180 Mcf per month, and the 1989 allowable
10 was 15,420 Mcf per month.

11 Our principal reasons for proposing a
12 decrease in the allowables are, one, an increase
13 in allowables will further flood the gas market
14 with gas, in great part due to Canadian imports
15 in San Juan coal seam gas. Two, the price for
16 gas has fallen below its replacement cost.

17 In support of the foregoing, we call
18 the Commission's attention to Northern Natural
19 Gas Company's most recent spot market pricing
20 letter, which set March prices at 90 cents per
21 MMBtu for gas well gas and 80 cents MMBtu for
22 casinghead gas. A copy of that letter is
23 attached hereto as Exhibit A.

24 To continue to increase gas allowables
25 and further flood the market with gas production

1 can only result in one thing: continued weaker
2 gas prices. This is contrary to the interests of
3 the state of New Mexico, as we will have to
4 produce substantially more gas for the same or
5 less economic term resulting in waste. Waste has
6 been statutorily defined as production from any
7 gas well or from any gas pool in excess of the
8 reasonable market demand.

9 The simple result of any Commission
10 action that would deliver gas to an already
11 saturated marketplace would be a decrease in
12 prices leading to a premature abandonment of gas
13 wells. This would result in waste and would be
14 violative of correlative rights of the producer,
15 mineral owner, and the state of New Mexico.

16 By decreasing allowable gas, recovery
17 will be maximized, and the waste of this precious
18 natural resource would be prevented. Controlling
19 the market by providing cheap gas is not in the
20 best interests of the State of New Mexico.

21 CHAIRMAN LeMAY: Thank you, Mr.
22 Padilla, for that philosophical statement. We
23 appreciate your input. That's not subject to
24 cross, and we'll put it in the file for
25 consideration.

1 Are there any additional questions of
2 the witness?

3 MR. PADILLA: I have none.

4 CHAIRMAN LeMAY: Thank you.

5 Do you have any redirect?

6 MR. STOVALL: I have some questions, if
7 I might.

8 CHAIRMAN LeMAY: I'm sorry. Excuse me,
9 Mr. Stovall.

10 EXAMINATION

11 BY MR. STOVALL:

12 Q. The first question I've got with
13 respect to the Exhibit A, you've apparently sent
14 this to all operators in the pool; is that
15 correct?

16 A. That's correct.

17 Q. I assume that you're satisfied that Mr.
18 Hendrix, at least, has answered the letter with a
19 non-concurrence?

20 A. Correct.

21 Q. Have you heard from any other operators
22 in the pool? Have you gotten any responses?

23 A. I have heard from Conoco, and I have
24 discussed the proposed increased in allowable
25 with Chevron. And Conoco had basically no

1 problem with our increase in the allowable, and
2 Chevron at that time felt the same way.

3 Q. Let me ask you, looking at Exhibit B,
4 that probably is some corporate relationships I'm
5 not exactly clear on, and I don't want to make
6 any assumptions. I don't see Conoco or Chevron
7 either as operators on Exhibit B.

8 MR. KELLAHIN: Those are transporters.

9 MR. STOVALL: Oh, I'm sorry. I thought
10 they were operators. Then I withdraw that
11 question.

12 Q. Your letter also states that you would
13 like to raise the F1 factor to allow wells to
14 produce at their capacity; right?

15 A. That's correct.

16 Q. Now, presumed in that, we'll let your
17 marketing expert testify as to that, but there is
18 a presumption in that request that there is a
19 market, notwithstanding some of the price issues
20 that Mr. Hendrix raises, that there is a market
21 for all of the gas which the pool is capable of
22 producing; is that correct?

23 A. That's correct.

24 Q. Are you familiar with the New Mexico
25 statutory scheme for proration and the

1 requirements for proration?

2 A. For the southeastern area?

3 Q. No. I'm talking about the statute and
4 why proration exists and what the language of
5 that statute is?

6 A. No.

7 Q. At the risk of opening a box of
8 Pandora's, as we so fondly refer to it in New
9 Mexico --

10 MR. KELLAHIN: Pandora left the box
11 earlier this morning I think, Mr. Chairman, and
12 if Mr. Stovall wants to engage in a legal
13 discussion with my engineer, I would resist that.

14 CHAIRMAN LeMAY: I think -- this is an
15 engineer, Mr. Stovall. We are opening a lot of
16 boxes here with the philosophical comments that
17 are coming forth and statutory comments.

18 Please, if you would, just direct your
19 cross-examination to the expertise of the
20 witness, which he's an engineer.

21 MR. STOVALL: I think I'll save the
22 questions for the marketer.

23 CHAIRMAN LeMAY: If he's legally
24 competent to answer, I would say that's fine.

25 Additional questions of the witness?

EXAMINATION

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BY COMMISSIONER CARLSON:

Q. What percent -- we have the total production from the comparable period last year. Marathon operates four non-marginal wells. What percent of that total production is from Marathon's wells?

A. On the non-marginal wells?

Q. Well, let's do non-marginal and marginal, Marathon's production.

A. It would appear to be about 25 percent.

Q. And what percent of the deliverability from the field is attributable to Marathon wells; do you know?

A. Right offhand, I do not.

Q. And you said you had heard from two operators within the field, is that Conoco and --

A. And Chevron.

Q. -- and Chevron. How many non-marginal wells do each of those companies operate?

A. Conoco has at this time no -- they have all marginal wells. Chevron has five non-marginal wells.

Q. Is Chevron on those non-marginal wells,

1 have they overproduced or underproduced?

2 A. Of the five, one is overproduced
3 through December's statement.

4 CHAIRMAN CARLSON: That's all I have.

5 CHAIRMAN LeMAY: Commissioner Weiss.

6 COMMISSIONER WEISS: I have no
7 questions.

8 CHAIRMAN LeMAY: I have one.

9 EXAMINATION

10 BY CHAIRMAN LeMAY:

11 Q. I guess I'm five short. You have
12 four. There's ten other non-marginals. Does Mr.
13 Hendrix own the other five non-marginal producers
14 in the field?

15 A. Mr. Hendrix has one non-marginal well.
16 Mobile has one non-marginal well. Arco has one
17 well. Exxon has one well. And the list I'm
18 looking at is based on 10.25. And Texaco has one
19 non-marginal well, with the revision to it of
20 10.0. I haven't been able to look at that
21 statement yet.

22 Q. That's fine. That will be helpful.
23 You said you had a no objection. Is that to be
24 interpreted as neither support nor objection?
25 Did any of the operators support your increase in

1 allowables?

2 A. In discussing with Conoco and Chevron,
3 they basically had no objection. There were --
4 those were the only discussions we had, and we
5 had no support for the increased allowable.

6 Q. Did you hear from Mobil, Arco, Exxon,
7 or Texaco concerning your request for higher
8 allowables?

9 A. We did not.

10 Q. Did you contact them?

11 A. We did not.

12 MR. KELLAHIN: You contacted them with
13 this letter.

14 THE WITNESS: Yes, with the letter.

15 CHAIRMAN LeMAY: Thank you, counselor.
16 Additional questions of the witness?

17 MR. KELLAHIN: No, sir.

18 CHAIRMAN LeMAY: If not, he may be
19 excused.

20 Call your next witness, counselor.

21 MR. KELLAHIN: Mr. Chairman, I'd like
22 to call Mr. William Hastings.

23 WILLIAM H. HASTINGS

24 Having been duly sworn upon his oath, was
25 examined and testified as follows:

EXAMINATION

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BY MR. KELLAHIN:

Q. Mr. Hastings, would you, please, state your name and occupation.

A. My name is William H. Hastings. I am supervisor of resale and marketing in natural gas property development for the western United States, Marathon operations, as well as western Canada.

Q. Within your area of responsibility for marketing Marathon's gas, does it include production out of the Blinebry Pool?

A. Yes.

Q. Describe generally what it is that you do with the production out of the Blinebry Pool, and then we'll talk about the Blinebry Pool specifically. Just describe for me your area of responsibility.

A. Well, my area of responsibility encompasses a number of Marathon's operations besides just New Mexico: Wyoming, Alberta, Oregon, New Mexico, instate California, Oklahoma, Texas. Our primary focus in this area is to sell base load. And by base load, I mean non -- non-seasonal users of gas for industrial

1 purposes. And that's our primary focus.

2 Q. How long have you had this
3 responsibility for your company?

4 A. I've been in the western United States
5 for five years now.

6 Q. Prior to working for Marathon, were you
7 working in gas marketing in the industry for
8 another company?

9 A. No. I've been with Marathon for twelve
10 years, and prior to being in natural gas trading,
11 I was in foreign exchange trading in our Ohio
12 office, at that time corporate office.

13 Q. Would it be within the scope of your
14 expertise to know what the reasonable market
15 demand is for production, not only from the
16 Marathon wells, but the market demand for
17 production out of the Blinebry Pool?

18 A. Absolutely. Yes.

19 MR. KELLAHIN: We tender Mr. Hastings
20 as an expert witness.

21 CHAIRMAN LeMAY: His qualifications are
22 acceptable.

23 Q. Let's talk first in some generalities
24 about how the gas marketing system works for
25 production out of the Blinebry. Give us a quick

1 lesson in how that production is taken to
2 market.

3 A. Well, there's a nomination process for
4 each pipeline transporter that is in the area.
5 We have agreements, transportation agreements,
6 with each of the pertinent transporters to move
7 the gas downstream from the wellhead.

8 It right now can go to -- in any of
9 three directions into Arizona and New Mexico to
10 some copper smelting companies that we sell gas
11 to. We are in the midst of moving a large
12 quantity of gas into the Houston ship channel
13 across Texas.

14 And then the third option is to move
15 gas to Chicago to the distribution companies and
16 industrial plants in the Chicago area and
17 fertilizer plants upstream from Chicago in Kansas
18 and Iowa.

19 We have long-term contracts with a
20 number of these companies. And we generally
21 stick to the same production area each month,
22 although we vary production allocations to these
23 different customers depending on what we perceive
24 the operational problems to be in that field.
25 But generally for Blinbry, we've flowed it to

1 the copper smelter.

2 Q. Is there a market demand for production
3 from the Blinbry that is accurately reflected by
4 Marathon's proposed allowable limits?

5 A. Yes. The market demand, because of the
6 price situation that we have now, is actually
7 stronger than it was when prices were higher.
8 And as we get into it, I think I can demonstrate
9 that.

10 Q. Do you perceive, if the Marathon
11 allowable level request is approved, that there
12 will be any discrimination between the various
13 transporters of gas taken from this pool?

14 A. Well, I would propose that if the
15 allowable is approved as we have requested and
16 there are other partners in the area in the same
17 pool that cannot market their gas, we would
18 purchase the gas from them to keep them from
19 being harmed by the potential drainage or
20 whatever.

21 We have enough market to satisfy the
22 entire pool, not just Marathon's pool, but the
23 entire pool requests.

24 Q. Are you --

25 A. I'm sorry. That price is significantly

1 above what Hendrix brought before the table
2 earlier.

3 Q. Are you currently aware of any
4 distribution or gathering -- let's start with the
5 gathering. Are you aware of any particular
6 gathering problems among the transporters within
7 the pool so that their wells would be impaired or
8 their ability to get gas to market would be
9 impaired at Marathon's allowable level request?

10 A. No. The gathering issue is not at
11 issue. If it were, it would be because of higher
12 line pressures, which would be in excess or an
13 extra supply of gas moving into the system that
14 wasn't anticipated. In that case, there are a
15 number of wellhead compressors that can meet that
16 line pressure if there is an increase.

17 But in speaking with Northern, as was
18 presented six months ago by Mr. Gilbert, there is
19 no concern that line pressure would increase.

20 Q. What about the distribution system,
21 then, after the gas production is gathered? Are
22 there any constraints or limitations within the
23 distribution system to take the gas from this
24 pool to market?

25 A. Prior to a week ago, there may have

1 been from time to time. But with the opening of
2 the Transwestern San Juan lateral, the expansion
3 of the El Paso system out of the San Juan Basin,
4 with the opening of Kern River transmission from
5 Wyoming to California, with the expansion of the
6 Northwest Pipeline System from Wyoming into the
7 San Juan Basin, there's plenty of space.

8 Space won't be a problem for the next
9 ten years. I think Mr. Merrett pointed that out
10 earlier.

11 Q. You've had an opportunity to review Mr.
12 Hendrix' statement that was provided as part of
13 the attachment to the prehearing filing, have you
14 not, Mr. Hastings?

15 A. Yes, I have.

16 Q. Mr. Hendrix states two principal
17 reasons why he proposes a decrease in allowable.
18 Do you have that statement before you?

19 A. Yes, I do.

20 Q. One of the first things he addresses
21 help with the proration system is to keep
22 allowables low because an increase in allowables
23 would further flood the gas market with gas, in
24 great part due to Canadian imports in the San
25 Juan coal seam gas. Do you concur in that

1 statement?

2 A. I absolutely disagree --

3 Q. Why?

4 A. -- completely. I have a long answer
5 for that, somewhat long answer. We're facing a
6 crossroads right now in the state, in this state
7 in particular. I can tell you that because I'm
8 selling gas in Wyoming, and we move gas from
9 Alberta. And we move gas from the San Juan
10 Basin, coal seam gas, unprorated.

11 We are facing a critical point right
12 now. If we cannot secure some long-term markets,
13 there are new pipelines proposed over and above
14 the ones that have been completed already -- I'm
15 talking about two from Canada into California --
16 that will completely take away the market that
17 we've enjoyed with our New Mexico wells for all
18 these years unless, unless we can move gas on an
19 unrestricted, reasonably unrestricted basis for a
20 long period of time. And that's exactly what
21 we're trying to do right now.

22 If we don't do that, if we don't, if
23 we're not able to move our gas on an unrestricted
24 basis, the Canadian companies will secure the
25 California markets with 15-year contracts. The

1 Canadian companies will move into the Houston
2 area and secure the very markets I talked about
3 earlier on a 15-year basis. And our New Mexico
4 production will be relegated backwards to a
5 pure-swing production. And that swing will
6 become worse and worse as the base load
7 disappears.

8 And I think that unless we do something
9 right now, within six months, before the Canadian
10 lines begin construction, we're going to be faced
11 with a very, very severe problem with New Mexico
12 wells.

13 And what will have happened will be
14 that the Alberta production outside the United
15 States will be imported into the United States
16 and replace the prorated production that we have
17 right now in southeast New Mexico.

18 Q. Can reduced allowables under a
19 prorationing scheme that sets those allowables
20 less than current market demand have a positive
21 impact on price?

22 A. No. The gas that we're talking about
23 in southeast New Mexico is an absolute drop in
24 the bucket. To give you an idea, the new
25 capacity from Wyoming, which is mostly -- or will

1 be mostly tight sands credit gas -- is 700
2 million a day. That wasn't there last year.

3 When Altamont is finished, the Kern
4 River capacity will go to 1.5 Bcf a day. That
5 wasn't there last year. The El Paso expansion
6 out of the San Juan Basin will result in an
7 incremental of 300 million a day of gas going to
8 California and an incremental of 340 going
9 eastward. That wasn't there last year.

10 And, lastly, the Transwestern lateral
11 will result in an incremental of 340 million a
12 day going to California and another 300 going
13 eastward. So we're facing some very, very stiff
14 competition, and we're facing it now. We've seen
15 it already with the new lines opening up. And we
16 need to be able to tell our markets that we're
17 going to get them the gas.

18 Q. What will happen to the Blinbry Gas
19 Pool production's share of the gas market if the
20 allowables are set low and that gas stays in the
21 reservoir? What happens to its share of the
22 market?

23 A. I think if you look at the numbers with
24 the proposed capacity of 2.3 to 2.8 Bcf a day
25 into California, the market itself is already

1 served by 4.3 Bcf a day capacity. The market
2 burns 5 Bcf a day. Seven hundred million a day
3 is produced in the state. We have approximately
4 50 percent more capacity into California with all
5 these projects than is needed right there.

6 Now, I don't need to tell you that in
7 an open market, free entry and exit system, that
8 that means price competition at the border in
9 California. It is anticipated at current growth
10 rates, California grows with a good growth rate
11 at 1.5 percent year on year. It will be ten
12 years before all of those pipelines are full.

13 What we're trying to do now is to
14 capitalize on what we see as a long-term price
15 problem and get some long-term markets at what we
16 think are premium prices.

17 Q. In your opinion, as a gas marketer, is
18 it good market strategy for Hendrix to
19 underproduce their wells in the expectation that
20 that might have some influence on price?

21 A. Well, just the opposite. If we're
22 forced to underproduce or shut-in, if we're
23 forced to do that, if we have to do that, what we
24 have is an impaired investment. We've already
25 invested the money, as has Hendrix.

1 Our outside auditors every year look
2 for underproducing assets. If we're not able to
3 produce gas, a certain amount of gas per the
4 amount of reserves that we have on the books,
5 then we're forced to right them down.

6 So I would say that if we're forced to
7 shut them in, that would be a premature
8 abandonment of the property because we would have
9 to write them down as nonfunctional assets versus
10 being able to sell the gas now and purchase
11 whatever the other producers in the pool can't
12 sell.

13 Q. Can the use of the regulatory
14 prorating system be one that would influence
15 price based upon volume taken out of the pool?

16 A. No. I think the proration system
17 hasn't influenced price. The proration system
18 has prevented a certain portion of gas, the
19 conventional gas in this state, from finding
20 long-term markets.

21 The gas from Alberta, gas from Wyoming,
22 the San Juan Basin coal seam gas all have 15-year
23 commitments to the pipelines that were built, and
24 they're trying to match that up with 15-year
25 contracts in California. We cannot do that with

1 prorated gas.

2 We can do it with Wyoming gas. We can
3 do it with San Juan coal seam gas. We have a
4 very tough time doing it with prorated gas
5 because of the uncertainty that the market
6 perceives with a prorated gas flow. They can't
7 afford to have their plant go down because the
8 proration volume drops. They just can't afford
9 it.

10 Q. The second principal reason Hendrix
11 cites for opposing Marathon's allowable level
12 request is the price for gas is falling below its
13 replacement cost. Do you have any comments or
14 observations or opinions about that?

15 A. I disagree with that. I think
16 replacement cost is not defined here. I don't
17 know what's being addressed through the term
18 "replacement cost." I assume it's the cost of
19 reserves, the cost to develop reserves.

20 Right now, at the risk of giving away
21 confidential information, an average well to the
22 Blinbry in Tubbs, and there are other
23 formations, costs \$600,000, \$500- to \$600,000.

24 At current prices, at the contract
25 prices we're proposing, would generate with 1.5

1 million a day, which is the standard production
2 rate from the well, will generate \$789,000 a year
3 in revenue before severance tax is paid to the
4 state.

5 So we expect at prices now, with the
6 low unit drilling costs, that the well would
7 still pay out in one year and the state would
8 receive severance taxes on production that
9 wouldn't ordinarily be there.

10 I guess my overall point is we're
11 sitting in this room right now and we've seen
12 graphs from Mr. Merrett, and if you notice, Mr.
13 Merrett did not put any data up there on Canada.
14 And Canada is absolutely flooding the US market
15 with gas.

16 We haven't seen the data. If you'd
17 like to see the data at a later date, I can get
18 it to you. They are coming into this country,
19 and they are going to take our markets, our
20 domestic production markets, with 15-year
21 contracts.

22 And unless we do something now, even
23 next year might be too late. I really think that
24 next year we're going to lose out on some of
25 these that we have already unless we do something

1 now or we're going to go back to a swing, a very
2 sharp swing on production status.

3 Q. From your perspective, do you see a
4 seasonal swing in the present or in the near term
5 for gas production out of this prorated gas pool?

6 A. Well, it was mentioned early, Gas
7 Company of New Mexico. Gas Company of New Mexico
8 is a seasonal buyer. They are mostly serving the
9 homeowner in Santa Fe. The industrial loads that
10 Gas Company of New Mexico have had have been
11 taken by producers like Marathon, like Chevron,
12 that transport the gas downstream.

13 We currently sell to the Centex plant
14 north of Albuquerque, to the University of New
15 Mexico. We're working on Kirtland Air Force
16 Base. We sell to a number of smaller wood
17 products companies.

18 All of those used to be served by Gas
19 Company of New Mexico. They are no longer
20 served. That base load has gone away to
21 long-term contracts. And so Gas Company of New
22 Mexico itself has become a larger and larger
23 swing buyer.

24 Our markets are addressing the Clean
25 Air Act. The Clean Air Act has mandated

1 reformulated gasoline. And the primary
2 reformulator is methyl tertiary butyl ether,
3 which uses natural gas as a feedstock.

4 Those Mtbe units are being built right
5 now. We're selling 8 million a day to one in
6 Wyoming. And there's one in Houston, Texas, that
7 we're trying to serve with this gas as a
8 feedstock, which means that except for when the
9 plant has a turnaround, the gas is going to flow
10 everyday of the year.

11 MR. KELLAHIN: Thank you, Mr. Chairman.

12 CHAIRMAN LeMAY: Thank you.

13 Questions of the witness?

14 MR. PADILLA: I don't have any Mr.
15 Chairman.

16 CHAIRMAN LeMAY: Thank, you Mr.
17 Padilla.

18 Additional questions?

19 Commissioner Carlson.

20 EXAMINATION

21 BY COMMISSIONER CARLSON:

22 Q. Are these contracts that you're selling
23 Blinebry gas, are they 15-year contracts?

24 A. The contract with Lyndel is five, five
25 years with a rollover. And the contract with

1 Phelps-Dodge is five years. And the contract
2 with Union Carbide will be ten years.

3 Q. Are those warranty contracts? Are they
4 like basin-pool specific?

5 A. They are not warranty contracts. They
6 are not basin-pool specific. We can get gas --
7 well, we try and use Marathon gas. We try not to
8 buy gas. There's gas in Texas. There's San Juan
9 gas that's available. But we'd rather use the
10 Marathon gas because we've invested money to get
11 that deliverability. But it's not basin
12 specific.

13 Q. So the purchaser doesn't know if it's
14 prorated gas or not that he's purchasing?

15 A. He does. The purchaser does know that
16 it's prorated gas. We do not have the option to
17 curtail, based on government regulatory
18 production limits, we don't, because those
19 production limits are not in place.

20 For instance, in Wyoming there is no
21 limitation up there. No limitation rules. None
22 in Colorado. Up until this point, there hasn't
23 been any in Oklahoma.

24 And, really, New Mexico has been the
25 one state that has prorated fairly strongly. And

1 as a bottom line, we don't have the right to cut
2 them back. If they get cut back by a proration,
3 then we've got to make up what their added cost
4 is, if we can't come up with the gas.

5 Q. Right. He doesn't know if he's buying
6 gas from a specific pool in New Mexico or buying
7 gas from one of your other properties?

8 A. It used to be that they didn't, and
9 then they wound up getting burned. And I think
10 now, the Lyndel Petrochemical, for instance,
11 burns 210 million cubic feet a day. It's a huge
12 complex. There's actually two complexes.

13 They know what's going on. And they
14 know -- they want to know where they're buying
15 the gas. They don't want to be kept in the
16 dark. If you can't tell them, then they'll find
17 somebody else.

18 So the buyers are becoming very
19 sophisticated under the new market system.

20 COMMISSIONER CARLSON: That's all.
21 Thank you.

22 CHAIRMAN LeMAY: Commissioner Weiss.

23 EXAMINATION

24 BY COMMISSIONER WEISS:

25 Q. Are there others that share your views

1 on the threat of Canadian gas? Is that
2 well-known?

3 A. I think it's well-known. If it isn't,
4 it's going to be this month. I think, if you
5 look at what prices were last year and the year
6 before that and the year before that, before the
7 Canadian gas showed up, then some people are
8 asking how come prices are so low, and the answer
9 is that the Canadian imports have gone up on an
10 annual rate of 8 percent for the last four
11 years. And they're expecting to go up at 6
12 percent per year for the next four or five
13 years. That's the answer.

14 And I think if people don't realize
15 that, then they're going to find out pretty quick
16 with Kern River open and with the Pacific Gas
17 transmission line being built. But I do think
18 that -- I don't know if there's anyone else out
19 here that would care to support me, but I do
20 think that most people realize now, and the trade
21 publications especially, that we have a real
22 problem with excess gas coming from Canada.

23 EXAMINATION

24 BY CHAIRMAN LeMAY:

25 Q. You've raised so many interesting

1 issues. I'm not going to get into all of them,
2 Mr. Hastings. But your responsibility is the
3 western states; you don't buy gas from Oklahoma
4 or Texas?

5 A. We buy in Oklahoma, and we buy gas in
6 Texas.

7 Q. Don't you have prorated fields in both
8 those states?

9 A. We do not. We do have proration rules,
10 but the proration rules in Oklahoma are
11 different. They are not based on -- whatever we
12 think we can produce, we get to produce. It's
13 not a question of limiting production versus what
14 we think we can produce.

15 Q. Then with the assumption that this
16 current law in the legislature would not go
17 through?

18 A. Assuming that the current law will not
19 go through, and we have reason to believe that
20 the Associated Gas Distributors in the northeast
21 are going to file a claim or an action to try and
22 stop it. Even if, even if it gets in place,
23 they're only proposing to cut 400 million cubic
24 feet a day. And, again, that might sound like a
25 lot of gas; it's a drop in the bucket, because

1 the Canadians are proposing 1.5 Bcf a day of
2 added pipeline capacity.

3 So we have doubts and we've testified
4 to that effect in Oklahoma City last week that
5 those proration rules will cause big problems for
6 the state of Oklahoma and cause big problems for
7 some of the producers in there.

8 You've just got to take a look at the
9 global picture and stand back a little bit and
10 see what's happening to us. We've got to quit
11 arguing amongst ourselves in these states and
12 look at Canada a little more closely.

13 Q. In that regard, can I ask you a little
14 clarification on a couple of your statements?

15 A. Yes.

16 Q. One, were you assuming that both
17 Altamont and/or PGT would be that PGT expanded
18 and Altamont built?

19 A. Yes.

20 Q. Is that your statement? Do you happen
21 to know if they've gotten clearance from FERC or
22 if they've gotten -- needed expansion?

23 A. PGT and Altamont have -- PGT has FERC
24 clearance; Altamont, I'm not sure of. Both of
25 them have issued irrevocable letters of credit to

1 Nova, which is to the intra-Alberta pipeline,
2 which means that if they don't build those lines,
3 then Nova is compensated to the tune of \$400
4 million, I think it is, for Nova's expansion to
5 meet the needs of Altamont and PGT.

6 Q. Are you familiar with the recent CPUC
7 case in --

8 A. Yes.

9 Q. -- in San Francisco, as well as the
10 application to expand the PG&E system --

11 A. Yes.

12 Q. -- to meet any expansion in the PGT?

13 A. Yes.

14 Q. And would it be fair to say that that's
15 going through; do you think? Is that subjective,
16 or are you saying since it's already approved,
17 it's a done deal?

18 A. I know how the Canadian producers, as I
19 mentioned, we have responsibility for western
20 Canada. I've been to Calgary, and I know the
21 producers up there. Their focus is not on any
22 price forecast. They are not looking at a
23 forecast. They're not trying to figure out what
24 the market is going to do in the year 2000.

25 What they do is they I find out what

1 they can get for fifteen years or ten years with
2 cogeneration or whoever, industrial, take that
3 back to the wellhead, figure out what their
4 investment cost is going to be. And if they make
5 an acceptable rate of return, they're going to do
6 it.

7 Q. But don't they have to have a pipeline
8 to do it with? And isn't PGT completely full
9 now?

10 A. PGT is full now, but the expansion, I
11 think they're planning to start this summer.

12 Q. But isn't there a difference between
13 planning and a done deal, because that's being
14 opposed, isn't it, before the CPUC?

15 A. No.

16 Q. Aren't there contracts, they're talking
17 about stranded demand charges and things that
18 would have to allocate costs based on that
19 expansion, and there is opposition to it, as I
20 understand it?

21 A. Well, CPUC is opposed to -- not to
22 expansion. The CPUC, in fact, would have ten
23 pipelines put into the state as opposed to five,
24 only because that gets the consumer a lower
25 price. And their main interest is having enough

1 market power to wield one pipeline against
2 another. And it's exactly what they're doing
3 now. It's exactly why the CPUC feels it has some
4 leverage with the minister in Alberta.

5 And if you'll notice, in settlement
6 proceedings, Alberta is trying to work a way out
7 of it because they know that if California can't
8 get Alberta gas, they're going to gas from
9 someplace else and not even miss Alberta.

10 So I think that the situation is, five
11 years ago the producers had the leverage; now
12 California has the leverage. California can
13 dictate what happens.

14 Q. One more question. You mentioned Kern
15 River. Are you familiar with the capacity in
16 Kern River right now, whether it's running full
17 or not?

18 A. It's not running full yet.

19 Q. One more question. Concerning the
20 guarantee to the marketplace and how we could in
21 our allowable system help out gas marketing,
22 because we certainly want to sell New Mexico gas,
23 are you familiar with what we've introduced as
24 the concept of minimum allowables on certain
25 fields?

1 A. I'm vaguely familiar with it, not in
2 detail.

3 Q. We have two fields at least, Jalmat and
4 Eumont, where there are minimum allowables, which
5 serve to guarantee the marketplace that gas would
6 be available from that field at a minimum level,
7 so that be contracted. Would that be helpful in
8 your -- in the Blinebry field, where you need to
9 have a guaranteed supply of gas for a period of
10 years, and I guess the threat of cutting those
11 allowables below a certain level would make some
12 of our gas noncompetitive?

13 A. Well, it depends what the minimum is.
14 If you set it at 10,000, then we still have a
15 problem I guess. If you set it where we've asked
16 for it, then it would lessen the problem.

17 Q. Well, my question really was, no matter
18 what the minimum allowable was set at, wouldn't
19 that give you the flexibility to contract that
20 minimum amount without marketplace fear that it
21 would not be available, assuming your reserves
22 were adequate to supply that market?

23 A. With the threat that you could drop it
24 to the minimum?

25 Q. Well, it's not -- the minimum would be

1 more -- would take away the threat of taking away
2 the gas supplied to the marketplace. That would
3 be available at a minimum supply because the
4 Commission order so dictated.

5 A. Yes.

6 Q. So that would be helpful?

7 A. Anything that guarantees some semblance
8 of stability and the ability to flow what the gas
9 wells have produced is helpful. Anything.

10 CHAIRMAN LeMAY: Thank you.

11 Additional questions of the witness?

12 COMMISSIONER CARLSON: I have one.

13 CHAIRMAN LeMAY: Yes.

14 FURTHER EXAMINATION

15 BY COMMISSIONER CARLSON:

16 Q. You mentioned that Alberta producers go
17 out and negotiate a 15-year contract, take that
18 price, and send it back to the wellhead, check
19 the rate of return, and see if that's
20 acceptable. How does that differ from the way
21 any United States producer sells his gas?

22 A. Well, their gas up there -- their gas,
23 our gas -- is shallower, much shallower than gas
24 here in the United States, in the lower 48, on
25 the whole and has much thicker pay. So their

1 economies of scale are tremendous.

2 To give you an example, Shell just
3 announced plans to develop the Caroline field,
4 which is northwest of Calgary 50 miles. That's a
5 3 Tcf field. 3 Tcf, that's a number that I
6 haven't heard for a long, long time in the lower
7 48.

8 So when we're talking about putting a
9 compressor on a 10 Bcf reserve well, that's a
10 heck of a lot different than when Shell looks at
11 putting a sweetening unit for 3 Tcf. They could
12 sell gas at 30 cents and make money.

13 The only problem they have up there is
14 the capacity out of the country. And they'll go
15 a long way to make sure that that capacity gets
16 put in.

17 Q. But they can live with a 30-cent net
18 back at the well?

19 A. Well, I haven't done the numbers, and I
20 think maybe 30 cents might be too low, but they
21 can live with some very low prices. They already
22 are. Their net-backs up there are horribly low.
23 If we think we're in trouble here, they've got
24 very low net-backs. And they're still talking
25 about building pipelines.

1 It's just because their reserve base,
2 the unit cost of development, divided by the
3 reserves of their development is extremely low,
4 much, much lower than what we have here in this
5 country. And they are aided periodically by
6 drilling credits and royalty holidays that the
7 government puts in, which, you know, we don't
8 have down here.

9 Q. But isn't their average royalty
10 somewhat higher than the average royalty here?

11 A. Their royalty is higher by about 6
12 percent than ours. But to deal with that
13 problem, the government will give them a royalty
14 holiday, which means that the first gas that they
15 produce up to a royalty value of \$2 million
16 Canadian is free of royalty.

17 So it effectively changes, unless they
18 pay the project out before the royalty starts.
19 And that's on top of a drilling credit that comes
20 and goes periodically. Right now they've got
21 drilling credits for oil, but not for gas.

22 COMMISSIONER CARLSON: That's all.

23 FURTHER EXAMINATION

24 BY CHAIRMAN LeMAY:

25 Q. I have to ask you one more question --

1 A. I'm glad to be here.

2 Q. -- since you raised the prospect of the
3 Caroline field. That's been referred to as a
4 sulfur mine with gas as a by-product?

5 A. That's right.

6 Q. Would it be beneficial if the world
7 price of sulfur would fall and therefore --

8 A. Sulfur has already fallen. The sulfur
9 market this month is absolutely horrible. The
10 problem with sulfur is it's entwined with your
11 gas production so that if you plan on selling gas
12 and sometimes oil, you've got to run your
13 sweetening unit and you've got to sell the
14 sulfur.

15 And so it becomes something that some
16 companies are willing to pay people to take away
17 if it comes to that just to get at the oil and
18 the gas.

19 Q. Well, your 30-cent price, I think that
20 was -- the figure I heard was conditional upon
21 sulfur being sold at a high price world price,
22 like it was six months ago?

23 A. Well, 30 cents is the absolute worst
24 case. I think now if you were to go in with a
25 15-year contract, you would get a premium in the

1 early years, if you would fix the price escalator
2 for the next 15 years. And so they're starting
3 at fairly high California border prices, which
4 net-back to sums that are higher than 30 cents.

5 Down here -- to answer your question in
6 detail -- down here, we don't look 15 years out
7 because, first of all, we don't think we're going
8 to have reserves in 15 years in some of these
9 places. That's our first problem. They do.
10 Canada does.

11 And, secondly, I think a lot of
12 companies try and beat some sort of price
13 forecast. We're all in the business of trying to
14 figure out where the market is going down here.
15 Canada is not in that business. There aren't too
16 many guys up there that are trying to beat a
17 price forecast.

18 They're just trying to make a rate of
19 return on their investment. That's the
20 fundamental difference between our country and
21 their country, and that's what's really getting
22 us right now.

23 Q. Just one other clarifying question to
24 make sure that I think we all understood you.
25 Did you say that Marathon would be interested or

1 would share their market with other producers in
2 these fields?

3 A. Yes. If it allows us to get the
4 allowable that we think we need, yes, we would
5 share the market with other producers in the
6 pool, if they -- if those producers want to do
7 that.

8 Now, the net-back, some companies have
9 this somewhat artificially high expectation for
10 what the net-back ought to be, and we're probably
11 not going to be able to meet that. But if their
12 expectation is we'll get market-plus, then we're
13 going to be able to meet that expectation.

14 Q. I appreciate that comment. Along with
15 the responsibilities in OCD of regulation, the
16 legislature also placed gas marketing
17 responsibilities. So if you've not worked with
18 Mr. Merrett, I would appreciate him working with
19 you.

20 A. I've met with him.

21 CHAIRMAN LeMAY: We certainly want to
22 sell New Mexico gas. Thank you.

23 Additional questions of the witness?
24 You may be excused.

25 We'll take a break for lunch, and we'll

1 pick up, I guess, Indian Basin after lunch.

2 On gas marketing, I wondered if your
3 witness was the same in the Indian Basin Field
4 for gas marketing?

5 MR. KELLAHIN: Yes, sir.

6 CHAIRMAN LeMAY: Return at 1:15.

7 (The lunch recess was taken.)

8 CHAIRMAN LeMAY: We shall continue.

9 Mr. Kellahin.

10 MR. KELLAHIN: Thank you, Mr.

11 Chairman. Mr. Chairman, at this time I'd like to
12 recall Mr. Ron Folse and have the record reflect
13 that Mr. Folse is already qualified as an expert
14 witness and that he continues under oath.

15 CHAIRMAN LeMAY: He's so qualified, and
16 he shall continue under oath.

17 RONALD FOLSE

18 Having been previously duly sworn upon his oath,
19 was examined and testified further as follows:

20 FURTHER EXAMINATION

21 BY MR. KELLAHIN:

22 Q. Mr. Folse, as part of your duties, have
23 you analyzed the preliminary schedule of
24 allowables the Division has circulated and
25 studied that in relationship to the production

1 out of the Indian Basin Upper Penn Pool?

2 A. I have.

3 Q. As part of that study, have you, you
4 and others with Marathon, come to a
5 recommendation to the Commission for allowables
6 to be applied for that production for the next
7 proration period?

8 A. Yes, we have. I have.

9 Q. Have you and Mr. Hastings formulated a
10 recommendation for a level of allowable that
11 reflects the reasonable forecast of market demand
12 for that production?

13 A. Yes, we have. I have.

14 Q. Let's turn to your exhibit package and
15 have you identify and describe for us Exhibit No.
16 1.

17 A. Exhibit No. 1 is an operator map for
18 Indian Basin field for current our producing
19 properties in the Upper Penn Pool. At the top of
20 the map is the various operator names, Marathon,
21 Oryx, Chevron, Texaco, Apache, Amax, and MOK.

22 The wells that are indicated with the
23 green dots are the non-marginal wells, and they
24 also correspond to the acreage factor of 6.49.

25 Q. Let me have you at this time, Mr.

1 Folse, take a copy of the revised guidelines that
2 Mr. VanRyan introduced this morning. Directing
3 your attention to the Indian Basin, Upper Penn,
4 so that we understand the changes that Marathon
5 proposes, will you go through that schedule with
6 us and indicate where we should make a change so
7 that ultimately the column will reflect
8 Marathon's request?

9 A. Yes. The first change Marathon would
10 propose is an adjustment in line 3 of 464,019 for
11 a revised, line 4, monthly pool allowable of
12 3,756,031. Using line 5, monthly marginal pool
13 allowable --

14 Q. You wouldn't change that line; it stays
15 the same?

16 A. I wouldn't change that line. It would
17 remain the same. Line 6, then, would be --

18 Q. It's simply a subtraction of line 4 by
19 the entry on line 5 to get line 6?

20 A. That's correct. And it would be
21 1,505,680.

22 Q. I'm sorry. I missed the number, one
23 million, five hundred five thousand and --

24 A. -- six hundred and eight.

25 Q. Okay.

1 A. Using line 7 of 6.49 results in a
2 monthly acreage allocation factor on line 8 of
3 232,000.

4 Q. The acreage factor has been adjusted
5 between the original OCD forecast and this
6 schedule. This one now shows 6.49. Does that
7 agree with what you have?

8 A. That's correct, yes.

9 Q. And so the end result of line 5 is what
10 number under the Marathon proposal -- line 8, I'm
11 sorry?

12 A. Line 8?

13 Q. Yes, sir.

14 A. Would be 232,000.

15 Q. Let's go to Exhibit 2 and look at the
16 gross gas production as you tabulated it from
17 this pool. Summarize for us using this display
18 the items that are of importance to you as an
19 engineer in analyzing the allowable for the
20 pool.

21 A. This Exhibit No. 2 is a graph of gross
22 gas production at Indian Basin Field in the Upper
23 Penn Pool. The graph is through the period
24 January 1990 through a projection of March 1992.

25 Q. Have there been events that have

1 occurred in the Indian Basin gas production that
2 have disrupted the production?

3 A. There have been three events that have
4 resulted in lower production than normal.

5 Q. What's the first event?

6 A. The first event is in September 1991
7 when Marathon, as operator of the gas plant, had
8 a plant turnaround which resulted in twelve days
9 of plant shutdown.

10 Q. The Division, then, in the revised
11 forecast has already taken into account that
12 month; they have excluded it from the sales
13 averages?

14 A. That's correct, yes.

15 Q. Describe for us briefly the plant
16 turnaround. Is this an event that is going to
17 occur on a regular basis, or is this an unusual
18 event that we are not likely to see in the near
19 term?

20 A. It is an unusual event in that the last
21 plant turnaround was several years ago. It was
22 required to do some plant modifications and
23 electrical work, installation of additional
24 command or control equipment, instrumentation,
25 and modifications just to allow for easier

1 operation of the plant. And it is not the normal
2 plant turnaround.

3 Q. Have all those activities been
4 concluded so that in the next proration period we
5 can reliably forecast on the ability of that
6 plant to take gas from the pool?

7 A. That is correct, yes.

8 Q. When you look at November -- is it
9 November?

10 A. December.

11 Q. I'm sorry. It's December and January
12 the pool production has dropped?

13 A. That's correct.

14 Q. What occurred in the pool?

15 A. In December, December 11th, I believe,
16 we had a six-day plant shutdown due to a fire
17 that occurred. Again, in January, the first week
18 of January, we had a six-day plant shutdown due
19 to a fire.

20 Q. What's your opinion on whether or not
21 plant fires are going to be a foreseeable event
22 that you need to plan for?

23 A. We have, hopefully, taken all
24 precautions and that will not occur again.

25 Q. When you look at Marathon's allowable

1 request level for the next proration period, do
2 the gathering facilities within the Indian Basin,
3 inclusive of the Marathon plant, have the
4 capacity to gather and process the gas that would
5 be generated at the Marathon allowable levels?

6 A. Yes. There will be -- or there will
7 not be any problems with gathering the production
8 based on Marathon's proposed allowables.

9 Q. Anything else about Exhibit No. 2
10 before we go on?

11 A. No, there is nothing.

12 Q. Identify and describe Exhibit 3.

13 A. Exhibit 3 is a letter sent out by
14 Marathon to all the operators in the Indian
15 Basin, Upper Penn Pool, advising them of our
16 proposed increases in the well allowables from
17 the preliminary schedule issued February 7 from
18 the Commission.

19 Q. Again, without great detail, summarize
20 for us the essential points of the request and
21 help us understand how it fits into the current
22 requested allowable.

23 A. The request or proposed allowables in
24 the letter dated February 14, Exhibit 3,
25 indicated we were proposing 205,000 Mcf per month

1 based on a sales figure. After further review by
2 Marathon, we've determined that actual scheduling
3 for the prorations is based on production at the
4 wells, and therefore we've made some revisions.

5 Q. All right. The first letter was sent
6 out before you recognized the impact the plant
7 downtime was having on the sales volume that was
8 used in the allowable calculations?

9 A. That's correct, yes.

10 Q. All right. After that, then, did you
11 send a revised letter to the operators in the
12 pool?

13 A. Yes, we did.

14 Q. How is that shown?

15 A. That is in Exhibit No. 4 by way of a
16 letter to the chief engineer, Mr. VanRyan, via
17 fax to the operators of the Indian Basin Upper
18 Penn Pool, indicating in this letter that, based
19 on our second review of estimates, we also -- we
20 first mentioned the plant turnaround in September
21 and the revisions required to more adequately
22 reflect production from the pool.

23 Secondly, we mentioned the proposal for
24 an F1 factor on line 8 to be increased to 232,000
25 Mcf per month based on production from the

1 wells.

2 Q. And you've described for us already how
3 the 232,000 Mcf fits into Mr. VanRyan's revised
4 allowable schedule?

5 A. Correct.

6 Q. Of those operators contacted, Chevron
7 is here today, and I believe they seek an
8 allowable level that's not as high as yours?

9 A. I believe that is the case.

10 Q. Turn now to Exhibit No. 5. Help us
11 find that well, if you will, on Exhibit No. 1,
12 and then tell us what you conclude from looking
13 at the tabulation of production in relationship
14 to the allowable for that Indian Basin D-1, 234
15 well?

16 A. Correct. Exhibit No. 5 is a graph of
17 well production and allowables for Indian Basin
18 D-1. It is located in the center part of Exhibit
19 1, the section numbered 34. The graph, or bar
20 graph, on Exhibit No. 5 is production from the
21 period January 1990 through a projected volume of
22 March 1992.

23 As indicated in the graph during the
24 year 1990, the well was of marginal well status
25 and underproduced its shadow allowables. As a

1 result of well work and facility modification by
2 Marathon in the early part of January, February,
3 March of 1991, we have increased production from
4 an average below 100,000 per month to
5 approximately 200,000 per month.

6 The September plant turnaround in 1991
7 can also be seen as the reduced rates and also
8 the December and January fire.

9 Q. When you look at the October and
10 November rates, then, how do those compare to
11 your forecasts of future well production?

12 A. The rates in October, November are
13 rates prior to some facility modifications we've
14 done in recent weeks.

15 Q. Do we have actual monthly production at
16 this point that will reflect the additional
17 capacity of the wells that are worked over to
18 produce gas?

19 A. Yes, I do.

20 Q. And that forecast is represented for
21 the blue lines in February and March?

22 A. That's correct, yes.

23 Q. Have you been able to determine what
24 the basis is for the allowable peak in January of
25 19 -- what is it? 1991?

1 A. 1991, January.

2 Q. It's up over 300,000?

3 A. That was 325,000. That was the period
4 of time when it was monthly adjustments. I have
5 no explanation for that.

6 Q. Okay. Let me have you identify and
7 describe Exhibit No. 6.

8 A. Exhibit No. 6 is an overproduced status
9 of well, Indian Basin D-1. As of through
10 December of 1991, it was approximately 165,000
11 overproduced. I might add that it was again a
12 marginal well through September of 1991.

13 Q. And what happened to cause it to no
14 longer be a marginal well?

15 A. It was a result of the work Marathon
16 had done in the earlier part of the year to
17 increase rates.

18 Q. In order to meet your share of the
19 reasonable market demand, has Marathon produced
20 its non-marginal wells in excess of the
21 allowables?

22 A. Yes, we have.

23 Q. Are any of your wells up to the
24 overproduction limitation?

25 A. No.

1 Q. You haven't had to shut your wells in
2 from being overproduced?

3 A. We have not.

4 Q. Turn now to Exhibit 7 and identify and
5 describe that for us, please.

6 A. Exhibit 7 is a graph of the daily rates
7 from the well for the month of February through
8 February 23rd. During the early part of the
9 month, from the 1st through the 10th of February,
10 the average rate was approximately 6-1/2 million
11 cubic feet a day.

12 During February 11th through the 14th,
13 the production facility, or at least separation
14 equipment, were changed out and that accounts for
15 the zero rates during that period.

16 During the 14th through the 19th, or
17 really the 18th, production was brought back
18 on-line and the facility problems were taken care
19 of there.

20 From the 19th through the 23rd, that's
21 the recent data collected, the well has produced
22 in excess of 7.7 million cubic feet per day.

23 Q. Having looked at your non-marginal
24 wells and their capacity and producing rates in
25 relation to past assigned allowables, did you

1 make an examination and look at what the other
2 operators were doing with their non-marginal
3 wells?

4 A. I have looked at the current wells that
5 are non-marginal and operated by other
6 companies. It appears they have not done any
7 work at this time to increase rates.

8 Q. When we look at the Bogle Flats Unit 2,
9 304 well, that's described on Exhibit A, who's
10 the operator of that well?

11 A. Chevron USA.

12 Q. Why have you selected this well as part
13 of your presentation?

14 A. It is currently one of the non-marginal
15 wells in the field. Over recent years it has
16 been the most, from what I can tell, the top
17 producer in the field.

18 Q. What does the display show you?

19 A. The display here for the period January
20 1990 through projected March of 1992, the well
21 production is either slightly above or slightly
22 below allowables throughout the period.
23 Generally the production on the well has averaged
24 between 150- to upwards of 185,000 per month.

25 Q. Have you also tracked the overproduced

1 status of this well?

2 A. Yes, I have.

3 Q. That's Exhibit 9?

4 A. Yes, it is.

5 Q. Describe for us what that shows you.

6 A. Exhibit 9 shows the current
7 overproduction, overproduced status of the Bogle
8 Flats Unit 2 from the period, the same period,
9 January 1990 through March of 1992. Initially,
10 the well was overproduced over 400,000 Mcf, and
11 through December is approximately 140,000
12 overproduced.

13 Q. What conclusions or points do you draw?

14 A. Conclusion is that this well generally
15 has been capable of overproducing the allowables
16 over that period of time.

17 Q. Let's turn now to a marginal well and
18 look at what it's doing in relationship to the
19 allowables. Do you have an example that's
20 typical of a marginal well in the pool?

21 A. I do, yes.

22 Q. That's Exhibit 10?

23 A. Yes, it is.

24 Q. Identify the well and help us find it
25 on Exhibit 1.

1 A. The Exhibit 10 is for North Indian
2 Basin Unit No. 4. It is directly below or south
3 of the top non-marginal well indicated in green.
4 It is in Section 16.

5 Q. Is this a well that you operate,
6 Marathon operates?

7 A. That's correct, yes.

8 Q. All right. Describe for us what this
9 shows.

10 A. This is a graph of the well's
11 production and its shadow allowable through the
12 same period, January 1990 through projected March
13 of 1992. During the period 1990 through -- well,
14 through August of 1991, generally it has always
15 been below its shadow allowable.

16 Marathon performed work in late
17 September, early October on the well, which
18 included additional well perforating and
19 stimulation. In October the rates have been
20 increasing and November -- have increased to over
21 130,000 per month.

22 Q. Describe for us the other operators of
23 non-marginal wells in the pool. Who do we have?

24 A. The other operators are as indicated on
25 Exhibit 1: Oryx, Chevron, Texaco, Apache, Amax,

1 and MOK.

2 Q. And among those operators, there are
3 seven non-marginal wells?

4 A. That's correct, yes.

5 Q. All right. Who's got which ones? You
6 don't have to describe the location of each
7 well. Just tell us which operator has how many
8 non-marginal wells.

9 A. MOK has currently one non-marginal
10 well.

11 Q. Amax doesn't have anything; right?

12 A. That's correct. Amax has zero.

13 Q. Apache doesn't have anything?

14 A. That's correct. Texaco doesn't have
15 any.

16 Q. Okay.

17 A. Chevron has two non-marginal wells.
18 Oryx doesn't have any.

19 Q. Okay.

20 A. And Marathon currently has four
21 non-marginal wells.

22 Q. Are any of the other operators in the
23 pool undertaking at this point the type of
24 workover program that Marathon undertook in the
25 Indian Basin?

1 A. Yes. I'm aware of Apache doing some
2 work similar to what we've done in terms of well
3 work additional perforations, facility
4 modifications on the lease to increase
5 production.

6 Q. Is Marathon the operator that in the
7 recent past is ahead of the others, if you will,
8 in terms of this workover program?

9 A. I believe so, yes.

10 Q. Have you summarized on Exhibit 11 the
11 magnitude of that program for adding additional
12 deliverability to the wells in the pool?

13 A. Yes, I have.

14 Q. Describe for us what it shows.

15 A. The Exhibit 11 is a table that
16 indicates the capital and expense costs Marathon
17 has incurred since late 1990 through the current
18 period where we have performed numerous aspects
19 of work.

20 The first one is additional
21 perforations added in the six wells. That
22 involved adding perforations, perforated
23 intervals, to the wells along with re-perforating
24 existing intervals and well stimulations by acid
25 treatments for a total of 300,245.

1 The second line is upgrading of five
2 production units with the current pressure, the
3 pressures existing in the field and in the
4 reservoir. The facilities that were designed 26
5 years ago are being redesigned to minimize
6 pressure drops that occur. And that has resulted
7 so far in costs of \$425,000.

8 In addition to that, we've seen some
9 benefits in adding wellhead compressors on five
10 additional wells. The cost of \$50,000 accounts
11 for the installation costs of the lease-rental
12 units. The costs for the leases of the five
13 units are approximately \$30,000 per month, in
14 addition to what's indicated here on Exhibit 11.

15 Q. The additional expenditures directed at
16 the plant were how much?

17 A. The plant turnaround that occurred in
18 September of this past year were performed to do
19 several updates to the facilities and to ensure
20 adequate capacity for production from all
21 operators in the field. The total cost is close
22 to \$1 million.

23 Q. What, if anything, will the increased
24 allowables under your proposed level of
25 allowables do to Marathon's ability to sell gas

1 production and pay itself back for the cost of
2 making these improvements?

3 A. Could you rephrase that?

4 Q. Sure. What's the relationship, if any,
5 between the allowables you've requested and the
6 costs you've expended for pool for production?

7 A. The relationship is that we're trying
8 to recoup the investments as soon as possible.

9 Q. And is the allowable request one that
10 in your opinion can be achieved without impairing
11 other operators' ability to supply their share of
12 market demand for pool production?

13 A. Yes, it is.

14 MR. KELLAHIN: That concludes my
15 examination of Mr. Folse. We would move the
16 introduction of Exhibits 1 through 11.

17 CHAIRMAN LeMAY: 1 through 11 will be
18 introduced without objection.

19 And questions? Mr. Carr.

20 EXAMINATION

21 BY MR. CARR:

22 Q. MR. Folse, if I understand, you are
23 recommending an allowable of 232,000 Mcf per
24 month per well with an acreage factor of 1; is
25 that correct?

1 A. That's correct.

2 Q. And during the last six months,
3 Marathon has actually reworked two wells in this
4 pool; is that right?

5 A. In the last six months?

6 Q. How many wells have you actually
7 reworked recently in the pool?

8 A. In total, six wells.

9 Q. Six wells. You've presented
10 information a few minutes ago on two wells;
11 correct?

12 A. That's correct.

13 Q. And the well in Section 34 is the best
14 well in the pool, is it not?

15 A. That's correct, yes.

16 Q. Will the well in Section 32 actually
17 produce 232,000 Mcf per month?

18 A. Based on what I have seen in the work
19 Marathon has done in recent months to a
20 year-and-a-half, it should be capable of making
21 quite a bit more than its current production
22 level.

23 Q. Now, but will that well be restricted
24 if in fact your recommendation is adopted by the
25 Commission and the allowable of 232,000 per month

1 is established?

2 A. It will not be restricted.

3 Q. So that well will not be restricted.
4 Is there any other well in the pool that could
5 make the proposed allowable?

6 A. With the additional work that Marathon
7 is contemplating at the current time, there
8 should be some more wells.

9 Q. But you won't know that until you
10 undertake that work; correct?

11 A. We're in the process of doing work on
12 those other wells too.

13 Q. At this time, though, my question is:
14 If your recommendation is adopted, no well will
15 have its production capability restricted; is
16 that right?

17 A. That's correct.

18 Q. And, in fact, much of this allowable
19 will actually just wind up as underproduction for
20 wells in the pool; isn't that a fair statement?

21 A. That's correct, yes.

22 Q. And so when we talk about an increase
23 in the pool allowable, we're talking about really
24 an increase, only a small portion of which will
25 ever actually be produced?

1 A. Could you rephrase that part?

2 Q. The increase in allowable, there's a
3 difference between asking for an increase in
4 allowable and an increase in production that will
5 come as a result of that. And there's a
6 disparity between those numbers, I believe.

7 Isn't it fair to say that much of the
8 increase in allowable or requested increase in
9 allowable will in fact never be produced?

10 A. If additional well work is not done on
11 the wells, that is the case, yes.

12 Q. If that work doesn't dramatically
13 increase the producing capability of those wells
14 so in fact they're better than the best well in
15 the pool right now; isn't that right?

16 A. That's right.

17 MR. CARR: I think that's all I have.

18 CHAIRMAN LeMAY: Thank you, Mr. Carr.

19 Additional questions of the witness?

20 Commissioner Carlson.

21 COMMISSIONER CARLSON: I have one.

22 EXAMINATION

23 BY COMMISSIONER CARLSON:

24 Q. You mentioned that you spent a million
25 dollars on the plant turnaround on the Indian

1 Basin gas plant?

2 A. That's correct, yes.

3 Q. Was that Marathon's expenditures, or
4 was that shared among all plant owners?

5 A. That was gross expenditures for the
6 plant owners.

7 Q. So Chevron and everybody else
8 contributed to that?

9 A. All the owners in the plant, yes.

10 COMMISSIONER CARLSON: Thank you.

11 CHAIRMAN LeMAY: Mr. Weiss?

12 COMMISSIONER WEISS: No.

13 CHAIRMAN LeMAY: I have none.

14 MR. KELLAHIN: Follow-up question to
15 Mr. Carr's question.

16 CHAIRMAN LeMAY: I'm sorry. Mr.
17 Kellahin.

18 FURTHER EXAMINATION

19 BY MR. KELLAHIN:

20 Q. If a spacing unit accumulates
21 underproduction, does that constitute an
22 incentive for Marathon to go out and try to
23 rework that particular well to take advantage of
24 that underproduction, and, if so, have you done
25 it in your well?

1 A. Bogle Flats.

2 Q. Isn't that one of Mr. Carr's examples?

3 A. Yes.

4 Q. You're dealing with a marginal well at
5 that point?

6 A. The Bogle Flats Unit 2?

7 Q. That's a marginal well, isn't it?

8 A. It is a non-marginal well.

9 Q. On the marginal well category, has
10 Marathon reworked marginal wells in the pool?

11 A. We have, yes.

12 Q. And why do you rework a marginal well?

13 A. To increase its production
14 capabilities.

15 Q. Exactly right.

16 A. Correct.

17 Q. And if a non-marginal well is
18 accumulating underproduction, does that not
19 constitute an incentive to examine the
20 non-marginal well to see if you can rework that
21 well as well?

22 A. Yes, it does.

23 CHAIRMAN LeMAY: Thank you, counselor.
24 I have one question.

25 EXAMINATION

1 BY CHAIRMAN LeMAY:

2 Q. Is Marathon, are they continuing on
3 their desires? I thought they proposed unitizing
4 the field and then deprecating it based on that
5 unitization plan?

6 A. Yes, we are. We're currently
7 continuing with the meetings with the other
8 operators and working interest owners.

9 Q. How is that going?

10 A. We're set up for our next meeting with
11 one of the operators next week. And we'll
12 continue later in March with all the working
13 interest owners.

14 CHAIRMAN LeMAY: Thank you.

15 Additional questions?

16 Thank you, Mr. Folse. You may be
17 excused.

18 MR. KELLAHIN: I'd like to recall Bill
19 Hastings.

20 CHAIRMAN LeMAY: California and
21 Canadian gas expert.

22 MR. KELLAHIN: I hope he's an expert on
23 the Indian Basin. That's what I brought him to
24 do.

25 MR. KELLAHIN: Mr. Chairman, may the

1 record reflect Mr. Hastings continues under oath
2 and he's been admitted as an expert gas marketing
3 witness?

4 CHAIRMAN LeMAY: Yes.

5 WILLIAM HASTINGS

6 Having been previously duly sworn upon his oath,
7 was examined and testified further as follows:

8 FURTHER EXAMINATION

9 BY KELLAHIN:

10 Q. Mr. Hastings, let me have you
11 specifically identify the marketing arrangements
12 in the Indian Basin Upper Penn Pool so that we
13 will have a framework to continue our discussion
14 in about market demand for production in that
15 pool.

16 Can you give us a quick lesson on
17 what's happening for the gas market for
18 production out of that reservoir?

19 A. Right now we have what we call a
20 settlement agreement. It comes from a thicker
21 pay settlement that we executed with Natural Gas
22 Pipeline in 1987. And the term of it extends
23 through 1997. They take all the gas that we make
24 available at the tailgate of the plant.

25 And as part of that agreement, we are

1 allowed to come in with long-term proposals that
2 we think are acceptable. And Natural or Mid-Con
3 has the right to match those agreements.

4 Q. Give us a quick review of the physical
5 arrangements in the pool to take gas from the
6 individual wells to a plant for processing and
7 subsequent distribution of that gas. What's the
8 arrangement in this pool?

9 A. Well, the plant is jointly owned, as
10 Ron mentioned, and it's a huge gas plant. May be
11 the largest in the state, although I don't think
12 so. The total through-put at the inlet is in the
13 neighborhood of 140 million cubic feet a day.

14 The gathering system behind the plant
15 is owned by the plant owners, I think with the
16 same working interest share as they have in the
17 plant, and is operated by Marathon. And then
18 there's a new inlet compressor that was put in
19 two years ago, I think. And we also have
20 tailgate re-compression to get the gas into a
21 natural gas pipeline mainline.

22 Q. Are there any wells in the Indian Basin
23 that transport their gas to market by any other
24 means?

25 A. There are wells on the south end of our

1 field that may overlap our leases that flow into
2 an adjacent Gas Company of New Mexico dual-plant
3 system; it's called the Avalon system. They have
4 separate sweet-name facilities versus
5 fractionation facilities, separate locations, and
6 we call that Avalon system.

7 We are, as a plant operator, actively
8 competing to take those wellhead customers and
9 bring them into the Marathon plant.

10 Q. And looking at the capacity of the
11 Marathon plant, does it have the capacity to take
12 the additional gas to satisfy the allowable level
13 that Marathon is requesting for this pool?

14 A. Yes.

15 Q. What, if anything, has happened to
16 pressures within the gathering system that takes
17 the production from the wells to the plant?

18 A. Well, the gathering system pressure is
19 governed by the inlet compressor at the plant
20 site. The inlet compressor is brand new and was
21 installed to lower the average gathering
22 pressure, I believe, to 500 pounds, which is more
23 than enough reduction to allow the existing wells
24 to produce into the gathering system.

25 If we start to have -- if we need to

1 manage the gathering system pressure, we can with
2 that inlet compressor. It gives us a lot of
3 flexibility to produce the wells.

4 Q. Is the plant such that a poor producing
5 marginal well can be assured of its opportunity
6 for access into this plant into the system if
7 this allowable level is approved?

8 A. There are wells that are so old and
9 fairly far down the depletion curve that their
10 average wellhead pressure is below 500 pounds.
11 And there are cases of wellhead compression in
12 the area where you have to put a wellhead
13 compressor to get into the gathering system to
14 begin with. So there are isolated cases where
15 there are wellhead compressors.

16 Q. After the plant, what is the
17 distribution of the gas from the pool?

18 A. Well, the plant right now has a single
19 connection, although we've looked on several
20 occasions at split-connecting or
21 triple-connecting the plant.

22 But right now the plant has a single
23 connection with telemetry with the entire stream
24 that is tied into the Lombard control center in
25 Chicago of Natural Gas Pipeline. They know

1 within seconds whether we're producing more than
2 our nomination or less. All the gas flows into
3 the Natural Gas Pipeline system for further sale
4 downstream.

5 Q. As a marketing expert, in your opinion
6 is there a reasonable market demand for the gas
7 to be produced at the allowable level Marathon is
8 seeking?

9 A. My answer to that is pretty much the
10 same we had as with the Blinbry earlier. Yes,
11 there is. The gas that flows through the natural
12 system winds up at the same point in Texas as the
13 gas that comes from the Blinbry to the Northern
14 Natural Gas system. And so the stream can be
15 consolidated and flowed into Houston if that's
16 what we decide to do.

17 Q. Is there any seasonal variation to the
18 market demand or the production of gas from this
19 pool to satisfy market demand?

20 A. No. The gas flows every day of the
21 year except for when we have a fire. And there
22 is no interruption of the service. We are the
23 anchor to the Natural Gas Pipeline system. It
24 starts at this plant and goes all the way the to
25 Chicago. With that large of volume, they go to

1 extraordinary lengths to let gas flow. It does
2 flow.

3 We periodically have issues where
4 Chevron or Oryx may lose their spot market.
5 Their situation, their contract situation is a
6 little different from ours. They're month to
7 month, I think. And we have to adjust to deal
8 with that when the partners lose. But our market
9 flows constant. We've not had an interruption.

10 Q. In your opinion will the allowables you
11 seek for Marathon for meeting market demand
12 impair the ability of any of the other operators
13 to market their share of the gas?

14 A. No, not at all. It might improve it.

15 Q. In summary, Mr. Hastings, what is your
16 recommendation and opinion concerning Marathon's
17 allowable request?

18 A. Again, my request is that we receive
19 approval to flow the allowable volume that we've
20 requested to countermand some of the issues I
21 brought up earlier. That is still a problem for
22 this plant. We have bigger volumes exposed, and
23 we need to operate as we have in the past with
24 some ability to let the market dictate how the
25 plant operates and how it flows.

1 Q. Are the general marketing
2 recommendations and strategies that you discussed
3 earlier today on the Blinebry, are those also
4 applicable to the Indian Basin Upper Penn?

5 A. Yes.

6 MR. KELLAHIN: That concludes my
7 examination of Mr. Hastings.

8 CHAIRMAN LeMAY: Thank you, Mr.
9 Kellahin.

10 Mr. Carr.

11 FURTHER EXAMINATION

12 BY MR. CARR:

13 Q. Mr. Hastings, there's only one plant
14 through which gas from this field is flowing
15 through at this time; isn't that correct?

16 A. Well, I mentioned the Avalon plant.
17 But for the interest owners in this plant, yes,
18 that's right.

19 Q. You talked about this plant being able
20 to take the additional gas that could be produced
21 if in fact the allowable increase is granted?

22 A. (Witness nodded.)

23 Q. Have you estimated how much production
24 that would be as opposed to allowable?

25 A. Well, the tailgate volume right now, we

1 operate on tailgate volume, which is the
2 shrinkage -- has a shrinkage off of the inlet
3 volume. The tailgate volume we have right now is
4 33 million cubic feet a day. And I would expect
5 that the total volume could go above 40 million
6 cubic feet a day at the tailgate of the plant for
7 Marathon's account.

8 Q. You would agree with me that you're
9 going to see substantially less production than
10 allowable is assigned to that pool?

11 A. I think that the allowable gives us a
12 reason to go out and do development work. In
13 other cases the allowable gives us a reason to
14 not go out there. I think there are documented
15 cases where oil companies will not develop a
16 property if it's expected that we have -- that we
17 will have an allowable problem.

18 If the case is that the allowable is
19 above what we think the well will produce, it
20 will go out and spend some money, like Ron has
21 already, for some of the wells to improve
22 production. Our objective right now is to
23 maximize production.

24 Q. Earlier today you were talking about
25 basically what you perceived as a need for really

1 an unrestricted market if we're to compete with
2 the Canadian flood of natural gas?

3 A. That's right.

4 Q. Basically what you're asking for in
5 this case, is it not, is a depuration of the
6 field?

7 A. Yes, sir.

8 Q. When you translate that into a
9 foreseeable production volume, is it your opinion
10 that the amount of actual production, we're
11 talking about the increase in production from
12 this field, would have any really significant
13 impact on the problem we have with Canadian gas
14 flooding American supplies?

15 A. Well, we're not trying to -- my answer
16 to that is we're not trying to affect the
17 market. What we're trying to do is protect
18 Marathon's interest. We thought we saw this
19 coming a couple of years ago. We've got
20 contracts in place that are fairly substantial
21 that give us a premium because the buyer, to put
22 it bluntly, really didn't see it coming.

23 So our primary interest is to focus on
24 protecting our assets, making the return on
25 assets as high as we can and generate cash flow

1 for our capital programs, which include the
2 expansion of some of the wells' production
3 ability.

4 Q. And the way you're doing that is
5 recommending an allowable higher than the best
6 well in the pool?

7 A. Well, the allowable, I think Ron's
8 graph on the good well, the one well, we are
9 exceeding the allowable now. And I think the
10 allowable would be set at the level that the well
11 is producing now. All of those wells produce
12 from the same formation.

13 If we do the same work and have the
14 same success with acid stimulation, with
15 re-perforation, then we'll see the same
16 production rate. There is no difference in the
17 formation. The only reason that you would have
18 the well-by-well difference is if you didn't
19 perforate the extra two feet, if your acid job
20 didn't work as well as you hoped it would, or if,
21 you know, you have some kind of casing problem.

22 There are other things besides market
23 demand that affect wellhead production, all of
24 which we can control ourselves with the exception
25 of the marketplace.

1 Q. You indicated just a moment ago if you
2 did the same work and had the same success, you
3 could bring the other wells in line with this
4 well in 34?

5 A. Yes.

6 Q. In fact, you've done the same work and
7 you haven't had the same success in other wells,
8 have you?

9 A. Well, that's the way it is in the oil
10 business. I think you know that as well I do.
11 Sometimes we do better than the best well and
12 we've had that happen before. Sometimes we do
13 worse. I'm not telling you that every single
14 well that we work on is going to be a maximum
15 producer; it's not. Some may exceed it; some may
16 be below it.

17 MR. CARR: Thank you.

18 CHAIRMAN LeMAY: Additional questions
19 of the witness?

20 Mr. Carlson.

21 FURTHER EXAMINATION

22 BY COMMISSIONER CARLSON:

23 Q. Did you say you're marketing all your
24 Indian Basin gas to the Natural Gas Pipeline?

25 A. No, we're not. Right now under the

1 settlement, we have the right to market 33 -- or
2 everything we produce to them. In the past we
3 had a contract with Phelps-Dodge in New Mexico,
4 in Tyron, in Silver City to supply their copper
5 smelting operations. And we turned that contract
6 net-back price in to Mid-Con to match, and they
7 chose not to match it.

8 So right now we have 11 million a day
9 flowing from Indian Basin to Phelps-Dodge, and 22
10 million a day being sold to Mid-Con. We have
11 already turned in the Liondel proposal for
12 Mid-Con to match on the rest of that volume, and
13 they haven't made a decision on that yet.

14 Q. So you're free to seek other long-term
15 contracts?

16 A. (Witness nodded.)

17 COMMISSIONER CARLSON: I see. That's
18 all I have.

19 CHAIRMAN LeMAY: Commissioner Weiss.

20 COMMISSIONER WEISS: Yes.

21 FURTHER EXAMINATION

22 BY COMMISSIONER WEISS:

23 Q. Does Marathon have any experience with
24 deproprating a gas field that you're aware of?

25 A. Well, not that I'm aware of. I think

1 Burton Flats is the only one that I've heard of.
2 We have not been in that business. We have not
3 done that. The market has been changing so fast
4 that I think you may see more producers going
5 that route. And we may yet get to that point,
6 but we haven't been there yet.

7 I understand, and I'm not an expert on
8 this, but I understand that each and every
9 royalty owner needs to be contacted, a lot of the
10 partners need to be contacted in an agreement.
11 And in this day and age, it's pretty darn tough;
12 it requires a lot of work to get that done. But
13 that doesn't mean we won't do it; we'll give it a
14 shot.

15 CHAIRMAN LeMAY: Additional questions
16 of the witness?

17 You may be excused.

18 MR. KELLAHIN: That concludes my
19 presentation, Mr. Chairman.

20 CHAIRMAN LeMAY: Thank you, Mr.
21 Kellahin.

22 Mr. Carr.

23 MR. CARR: May it please the
24 Commission, at this time I would like to present
25 a witness for Chevron, who will present testimony

1 on the Indian Basin. At this time we would call
2 Mr. Mark Corley.

3 MARK CORLEY

4 Having been duly sworn upon his oath, was
5 examined and testified as follows:

6 EXAMINATION

7 BY MR. CARR:

8 Q. Will you state your name for the
9 record, please?

10 A. My name is Mark Corley. I currently
11 reside in Midland, Texas.

12 Q. Mr. Corely, by whom are you employed
13 and in what capacity?

14 A. I work for Chevron USA, and I'm
15 currently a gas engineer.

16 Q. Have you previously testified before
17 this Commission and had your credentials accepted
18 and made a matter of record?

19 A. Yes, I have.

20 Q. Did you testify at the last gas
21 allowable hearing?

22 A. Yes, I did.

23 Q. At that time were you qualified as a
24 gas engineer?

25 A. Yes, I was.

1 Q. What does a gas engineer do?

2 A. My key job responsibilities are
3 contract administration associated with
4 casinghead gas, gas well gas for New Mexico
5 only. I do production forecasting, keep up --
6 work together with our marketing group on pricing
7 trends, market trends, monitor and get involved
8 in regulatory affairs, such as allowable
9 hearings, and monitoring how our wells are doing
10 versus allowable and also equipment design
11 associated with producing natural gas.

12 Q. How long have you worked in the
13 capacity of a gas engineer for Chevron?

14 A. Two years.

15 Q. And prior to that time what were your
16 responsibilities with the company?

17 A. I worked in the gas marketing group for
18 two years.

19 Q. Are you responsible or familiar with
20 the prorationing system in New Mexico?

21 A. Yes, I am.

22 Q. And have you reviewed the preliminary
23 nominations or the preliminary allowable
24 estimates that were provided by the OCD with the
25 docket for the hearing today?

1 A. Yes, I have.

2 Q. Have you prepared recommendations to
3 the Commission as to what should be the proper
4 producing rates for this pool?

5 A. Yes, I have.

6 MR. CARR: Are the witness'
7 qualifications acceptable?

8 CHAIRMAN LeMAY: They are acceptable.

9 MR. CARR: May it please the
10 Commission, I would like to point out at this
11 time that the exhibits that we will be presenting
12 contain figures. The figures are drawn from the
13 preliminary allowables sent out with the docket.
14 We haven't been able to revise them to reflect
15 the figures that were in the materials presented
16 today by the Commission.

17 We are, however, focusing this
18 presentation on what we think is an appropriate
19 allowable rate for the pool so the bottom line
20 ultimately does stay the same.

21 Q. Mr. Corley, what does Chevron seek in
22 this case?

23 A. First of all, I would like to express
24 Chevron's appreciation for involvement in the
25 Commission hearings, and we continue to support

1 the six-month flexibility in being able to plan
2 and develop our fields.

3 First of all, Chevron, like Marathon,
4 felt like the preliminary allowable of 121,000
5 for an acreage factor of 1 was not adequate. And
6 like Marathon, we seek an increase in the pool
7 allowable.

8 Q. What allowable --

9 A. But not to the extent of Marathon's.

10 Q. What allowable rate does Chevron
11 actually recommend?

12 A. Chevron proposes a monthly acreage
13 factor 152,500. This equates to 5,000 Mcf a day
14 per well with an acreage factor of 1. We feel
15 this more appropriately reflects the producing
16 capability of the pool on an average basis and it
17 remains sensitive to market conditions, demand
18 conditions for the summer period which we're
19 talking about. And it also gives us flexibility
20 in performing workovers during this time period
21 to further determine if future increases are
22 justified.

23 Q. Have you prepared certain exhibits for
24 presentation here today?

25 A. Yes, I have.

1 Q. Would you refer to what has been marked
2 for identification as Chevron Exhibit No. 1.
3 Identify this and review it for the Commission.

4 A. Mr. Chairman, the Exhibit 1, which we
5 prepared, is kind of an information type exhibit
6 to give you an idea of who the key players are at
7 Indian Basin. We are showing total production
8 for the period April 91 through November of 91
9 for the Indian Basin Upper Penn Gas Pool.

10 You can see that the relative position
11 of the operators is Chevron-Marathon; it equates
12 to about 40 percent apiece. The next two players
13 are Oryx and Amoco. Subsequent property exchange
14 has occurred, and the Amoco wells are now owned
15 by MW Petroleum.

16 Q. How many wells does Chevron actually
17 operate in this field?

18 A. We have ten wells.

19 Q. How many does Marathon operate?

20 A. Thirteen by my count.

21 Q. Let's move to Exhibit No. 2. Would you
22 identify this and review it, please?

23 A. Yes. Exhibit 2 further illustrates in
24 more detail Chevron's producing habits, so to
25 speak, in the Indian Basin Pool. We historically

1 went back from April of 90 through December of
2 91. The dark bars are indicating our
3 non-marginal wells, and the light bars above
4 indicate our marginal well performance.

5 What we're trying to show here is that
6 Chevron tries to attempt to maintain a consistent
7 level of production throughout the winter and
8 summer months, if possible. So the main point is
9 we don't try to shut in gas during the summer to
10 try to build up our allowable for the winter
11 periods. We are in a non-discretionary
12 environment, and we feel like the production
13 should stay on.

14 Q. You're not seeing the seasonal swings
15 that may be reflected in some general production
16 graphs?

17 A. No. And we might also point out the
18 plant disruptions of September of 91, we also saw
19 a significant drop in introduction.
20 Historically, we have seen this plant turnaround
21 as an annual event and have planned our testimony
22 accordingly.

23 Q. Now, Mr. Corley, let's move to Chevron
24 Exhibit No. 3. Would you identify this, please?

25 A. Exhibit No. 3 is designed to show a

1 tabular illustration of Chevron's proposed versus
2 the OCD preliminary exhibits sent out with the
3 docket. We feel like this exhibit is still
4 valid. We will further develop it through
5 further testimony.

6 If you'll look down the column 1,
7 you'll see the original 121 that was proposed.
8 We have it highlighted. The last, April through
9 September of 91, allowable period, we had an
10 equivalent of 134,728. Focusing upon Chevron's
11 proposal, you see the 152,500, which equates
12 upward. If you back-calculate it, it would
13 require an adjustment on line 3 of 109,932.

14 And we decided to go ahead and use the
15 September production as the plant turnaround was
16 viewed as an annual event. We also feel like
17 this 152,500 is more representative of the pool,
18 pool production.

19 Q. Let's move on now to the next exhibit,
20 Chevron Exhibit No. 4. Can you identify that?
21 And I think on this exhibit, Mr. Corley, if you
22 could review it column by column and explain how
23 it is that Chevron came up with 152,500 for a
24 recommended allowable range.

25 A. Turning to Exhibit 4, this is a further

1 breakdown of the previous exhibit that shows what
2 the original proposed preliminary allowable would
3 do to the non-marginal wells in the pool. So we
4 had a little more detail to see how our wells
5 would react to this proposal.

6 Column 1, these numbers were derived
7 from the C-115 reports. We feel like they're the
8 best source of data for comparison; it's public
9 knowledge. Easy access shows the fuel, the fuel
10 use, that type of thing. Column 1 shows total
11 production from Chevron and Marathon non-marginal
12 wells.

13 Column 2 puts that number on a monthly
14 basis. It's just a division by eight. The
15 reason we used April of 91 through November of 91
16 is because it gives you a feel of how we operate
17 the wells during the six months. It tries to
18 incorporate any activity that has happened in
19 October and November. And we couldn't carry it
20 any further because of lack of data available.
21 But it does give a true picture of how we feel
22 like you should forecast your production.

23 The next, column 3, is proposed 121
24 originally. The impact is shown in the delta
25 column, which is column 2 minus column 3. As you

1 can see, the original proposals significantly
2 restricted production on the non-marginal wells.

3 Column 4 is the Chevron proposed
4 152,500. Looking at the delta column, the
5 curtailment or capacity that was caused by the
6 proposed is significantly reduced.

7 And on Chevron's wells we have two
8 wells that would become marginal under this
9 scenario. We have the Bogle Flats Unit No. 2
10 that will remain non-marginal. And we have an
11 additional well we have a planned workover on,
12 the Helbing Federal, which I will explain later,
13 that will become non-marginal.

14 On the Marathon side we show three
15 wells that will remain non-marginal and one that
16 will become non-marginal.

17 Q. Mr. Corley, why don't we stop at this
18 point, and I'd ask you to go back to column 2.
19 And using those figures, explain to the
20 Commission how Chevron developed the 152,500
21 figure.

22 A. Going down column No. 2, you see the
23 average per well. We wanted to see what the
24 average non-marginal well did. It's basically
25 those three numbers added together divided by

1 three.

2 You take the Marathon wells. It
3 includes the anomaly. I'd like to show the
4 Indian Basin D-1, and the big well is included in
5 this. We feel like it's an anomaly, but we did
6 include it in the averaging. So Marathon's
7 average well does about 166 million, the
8 non-marginal. Our average well does 139.

9 We did look into the other operators in
10 the field, the Oryx and the Apache wells or MW
11 Petroleum. And they would become marginal. The
12 closest one was an Oryx well that was 110,000.
13 If we included that in there, that would possibly
14 skew the data.

15 Adding Marathon and Chevron together,
16 we came up with an average per well of both
17 operators of 152,900. Rounding that down to an
18 even 5 million a day is where we came up with
19 152,500.

20 Q. Do you believe this figure accurately
21 reflects the ability of the pool to produce at
22 this time?

23 A. Yes, I do, including our further
24 testimony on the Helbing well.

25 Q. Why don't we go now to Chevron Exhibit

1 No. 5. Would you identify and review that?

2 A. Exhibit No. 5 is basically a graphical
3 illustration of what we've shown on the prior
4 table with emphasis on Chevron's average
5 non-marginal well. So we took and we plotted
6 that average per well number for Chevron versus
7 time versus the allowable to show how we operate
8 our non-marginal wells and how the proration
9 system has benefited Chevron.

10 The dark bars, going back to April of
11 90 again, depict the production. The slash bar
12 indicates from January of 92 through September of
13 92, which is our forecast throughout the
14 allowable period. And the top curve with the
15 squares is the allowable. The furthest allowable
16 forecast on the right is the original preliminary
17 121,000.

18 This graph indicates that if we operate
19 according to our forecast, that original proposal
20 would cause capacity and curtailment restraints
21 to Chevron. We do have individual well plots for
22 each of these available if someone would like to
23 see those.

24 Q. If we take the Chevron recommendation
25 of 152,500 and apply it to these non-marginal

1 wells, Chevron non-marginal wells still would
2 experience some restriction; is that true?

3 A. Yes.

4 Q. Why don't we move now to Exhibit No. 6
5 and focus on the Helbing well.

6 A. This is one of the wells I was
7 mentioning previously. It's currently a marginal
8 well. We do have a well compressor on this well
9 because of the age of the well, and it does not
10 have the reservoir pressure to overcome the 600
11 pound current gathering pressure, the plant
12 compressor.

13 This graph is a similar format as the
14 previous. You can see in April of 92 the full
15 effects of our workover coming into play. We
16 estimate peak production at 168,000 per month.
17 Again, we see a restriction from the original
18 proposed 121,00 on our workover program.

19 Q. Again, this well would be somewhat
20 restricted based on these projections with the
21 Chevron recommendation?

22 A. Yes, it would.

23 Q. As a gas marketing engineer, are you
24 required to stay abreast of trends in the gas
25 market?

1 A. Yes, I am.

2 Q. Do you work with the Chevron gas
3 marketing group in that regard?

4 A. Yes.

5 Q. Are you required to monitor market
6 trends as part of your general responsibility as
7 a gas engineer?

8 A. Yes.

9 Q. Could you identify what has been marked
10 as Chevron Exhibit No. 7?

11 A. Yes. What we have here is a letter I
12 requested from the marketing group summarizing
13 what they felt like our marketing position was
14 during the allowable period. In summary, the
15 marketing group sees an instability in the market
16 for Chevron's gas. We do have a diverse market.
17 We do have some northeast contracts. We do have
18 some California contracts.

19 We see a transition in the markets
20 right now. Most importantly we see a downward
21 price pressure on the Permian gas and likely
22 weakened prices and on a capital program of a big
23 magnitude that doesn't return on our investment
24 what we think is necessary. So our workover
25 program is somewhat restricted due to this

1 pressure on the gas market for Chevron.

2 Q. How does this translate into the
3 context of prorationing considerations?

4 A. We feel like it gives a more relevant
5 position to all the people within the pool.

6 Q. Does this --

7 A. Proration does help all of the
8 operators to have a more equitable share and to
9 have adequate development of the workovers.

10 Q. In your letter you talk about the Kern
11 River Gas Transmission Project, Transwestern
12 Pipeline expansion, things of that nature. Do
13 the instabilities that come from these factors in
14 your mind bear on the necessity for maintaining
15 prorationing in this field?

16 A. Yes, they do.

17 Q. And what would they be?

18 A. The transition cause is constant, I
19 think, is what it does. We don't know -- we
20 need -- we're trying to determine what we should
21 produce the field at at this time.

22 Q. Could you basically at this point just
23 summarize Chevron's recommendation to the
24 Commission?

25 A. In summary, the 152,500 we feel like it

1 represents an equitable picture of how the field
2 should be produced considering the market
3 conditions, the expected demand. We also feel
4 like it's adequate for us to determine
5 capabilities of the Helbing well and plan for a
6 future development in the next allowable period.

7 Q. Mr. Corley, have you talked to other
8 operators in the field concerning the proposed
9 allowables for the next period?

10 A. Yes, we have.

11 Q. And what response have you received?

12 A. We have support from Oryx and MW
13 Petroleum Corporation.

14 Q. Are copies of letters evidencing that
15 support what has been marked as Chevron Exhibits
16 8 and 9?

17 A. Yes.

18 Q. In your opinion will approval of
19 Chevron's request to set an allowable rate for
20 this pool during the next period of 152,500 be in
21 the interests of conservation, the prevention of
22 waste, and the protection of correlative rights?

23 A. Yes, I do.

24 Q. Were Exhibits 1 through 9 prepared by
25 you or compiled under your direction?

1 A. Yes, they were.

2 MR. CARR: At this time we would offer
3 Chevron Exhibits 1 through 9.

4 CHAIRMAN LeMAY: Without objection,
5 Chevron Exhibits 1 through 9 will be admitted
6 into the record.

7 MR. CARR: That concludes my direct
8 examination of Mr. Corley.

9 CHAIRMAN LeMAY: Thank you.
10 Mr. Kellahin.

11 MR. KELLAHIN: Thank you, Mr.
12 Chairman.

13 EXAMINATION

14 BY MR. KELLAHIN:

15 Q. Mr. Corley, I apologize to you for not
16 mastering the names of all these non-marginal
17 wells. If you could simply take and identify for
18 me what Chevron considers to be its non-marginal
19 well of greatest deliverability and tell me what
20 the name of that well is.

21 A. Bogle Flats Unit No. 2.

22 Q. That's the same one that Mr. Folse
23 described in his presentation earlier today, is
24 it not?

25 A. That's correct.

1 Q. Separate and apart from allowable
2 restrictions on that well, what would be its
3 total deliverability on a daily or monthly basis?

4 A. Estimated deliverability of that well
5 is in the 5800 Mcf per day range.

6 Q. Your requested allowable is one hundred
7 fifty-two --

8 A. Yes.

9 Q. -- thousand Mcf?

10 A. (Witness nodded.)

11 Q. I've lost track of my table. I don't
12 have my notes. That was on a monthly basis --

13 A. Right.

14 Q. -- using the F1 factor?

15 A. (Witness nodded.)

16 Q. If you take your best well and take its
17 total deliverability and put it on a
18 corresponding monthly number, what is that
19 number?

20 A. It's in the 165,000 range.

21 Q. Between the 165,000 range and the
22 152,000 allowable level, will you have any other
23 non-marginal wells restricted but for that Bogle
24 Farm (sic) 2 well?

25 A. With the exception of the Helbing well,

1 no.

2 Q. The Helbing well is a well you also
3 operate?

4 A. Yes.

5 Q. And what would be its unrestricted
6 capacity?

7 A. We estimate the unrestricted capacity
8 at about 168,000 per month. We don't see the
9 full capacity coming on-stream till the later
10 part of this allowable period. That's why we
11 feel like the 5,000 a day is justified.

12 Q. Would there be any other non-marginal
13 wells that Chevron operates that would be
14 restricted below their full capacity under your
15 allowable level?

16 A. No.

17 Q. If we use your allowable level, how
18 many of Marathon's non-marginal wells are we
19 going to restrict?

20 A. From my calculations we have three.

21 Q. I'm sorry?

22 A. We had three.

23 Q. One of theirs and two of yours?

24 A. No.

25 Q. Did I misunderstand you?

1 A. We had three Marathon, from Exhibit 4,
2 We had one. We had two Chevron's, including the
3 Helbing, and three Marathon wells.

4 Q. In terms of analyzing reasonable market
5 demand for pool production, does not the pool
6 market demand exceed the 152,000 Mcf?

7 A. I don't have knowledge to prove that.
8 I know that we have a capacity to market our
9 share of the gas and we've shown that through our
10 marketing letter. We did not cite a lack of
11 market. I cannot say to my knowledge that
12 232,000 could be marketed.

13 Q. You don't know one way or the other
14 whether the 232 could be marketed?

15 A. I would say it most probably could be.

16 Q. Mr. Hastings testified a while ago it
17 was an absolute certainty from his opinion that
18 that level of gas production, if the wells could
19 produce it, could in fact be marketed?

20 A. Uh-huh.

21 Q. Do you have any disagreement with Mr.
22 Hastings on the market demand?

23 A. The only disagreement is the different
24 markets. Each producer has its own market. And
25 if Marathon wants to speak for Chevron's market,

1 it may not be consistent with our marketing
2 strategies.

3 Q. What is your marketing strategy?

4 A. It's similar to Marathon. We have a
5 sales portfolio that we are trying to establish.
6 We are under pressure to look for a longer term
7 contract with the markets due to the expansion
8 projects. So we're trying to expand our sales
9 portfolio to include more long-term agreements.

10 Q. It would appear from a casual
11 observation of the number of wells in the
12 positioning of you and Chevron and Marathon in
13 the pool that you're in reasonably competitive
14 positions within the reservoir, are you not?

15 A. Yes.

16 Q. Do you perceive Marathon to have any
17 kind of advantage in the reservoir that you
18 cannot attain for yourself?

19 A. Not that has been determined to date.

20 Q. If we increase the allowable levels so
21 that your greatest capacity well is restricted,
22 going up from 152 to 168, something just below
23 168, can you market that gas, the difference?

24 A. If you want to take a hit on a price.
25 Part of our lack of the development is because of

1 the demand factor that we forecast for this
2 period. We've seen two testimonies that show
3 that prices are going to be very weak during the
4 summer.

5 Q. Well, is Chevron's marketing strategy
6 the same type of strategy we heard in the Hendrix
7 statement in the Blinebry Pool earlier today?
8 You were here for that, were you not?

9 A. No. We would not be in that category
10 at all.

11 Q. That's not in your marketing strategy?

12 A. No.

13 Q. Do you plan to do what Marathon has
14 done and go out and spend additional dollars to
15 establish additional deliverability of your
16 wells?

17 A. To a certain extent, yes.

18 Q. Have you quantified that extent?

19 A. Yes. One well.

20 Q. One well when?

21 A. This summer.

22 Q. And what additional capacity will that
23 add to your deliverability for your wells; do you
24 know? Is there any forecast for that?

25 A. We're approximating 168,000, as I've

1 previously stated.

2 MR. KELLAHIN: Thank you, Mr. Chairman.

3 CHAIRMAN LeMAY: Thank you, Mr.

4 Kellahin.

5 Additional questions?

6 Mr. Stovall.

7 EXAMINATION

8 BY MR. STOVALL:

9 Q. I just want to make sure I understand
10 how you arrive at the number. I realize your
11 table was based on the original Division
12 preliminary figures. And now, if I understand
13 what you're really asking, is for it to come down
14 from what the Division is proposing rather than
15 go up from what the Division proposed?

16 A. I have seen the new revision, the
17 160,502. Is that what you're referring to?

18 Q. Right. Correct.

19 A. Yes. We would contend that we want to
20 keep our case as designed.

21 Q. And if I understand the mathematical
22 difference between that is that the Division
23 didn't count September because of the plant
24 turnaround?

25 A. (Witness nodded.)

1 Q. And you suggest that you should use the
2 same production figures divided by six months and
3 plan on the plant turnaround in September as
4 being an annual event and base everything on
5 that; is that correct?

6 A. Well, that in addition to column 5,
7 which was pointed out earlier, that a different
8 period was used for the marginal production,
9 Chevron, in --

10 Q. Oh, right.

11 A. -- the October through December.

12 Q. Okay. But it's really a mechanical
13 difference?

14 A. It's a mechanical difference, yes.

15 Q. My only other question, I'm just asking
16 you for clarification, as I read the Oryx letter,
17 it appears to me that they express support for
18 Chevron's testimony, but they really want about
19 167,000; is that correct? That's what the letter
20 says. I'm not asking you for Oryx' position. Is
21 that how you read the letter?

22 A. Yes, that's how I read the letter.

23 MR. STOVALL: Okay. I have no other
24 questions.

25 CHAIRMAN LeMAY: Additional questions

1 of the witness?

2 Mr. Weiss.

3 EXAMINATION

4 BY COMMISSIONER WEISS:

5 Q. On your Exhibit 5 --

6 A. Okay.

7 Q. -- what would that look like if the
8 pool were not prorated?

9 A. If the pool were not prorated, what
10 would our forecast be?

11 Q. Yes. What do you think the trends
12 would be here? Would they be pretty level like
13 this? What has proration done for you? You said
14 it's been very beneficial. What would this look
15 like so I can understand this?

16 A. Well, you can see the benefits in the
17 wintertime in this particular case where the
18 allowables went up to 6 million a day. From this
19 plot, it was a little bit higher than the best
20 Chevron well. But the main thing I was saying
21 about benefits is the six-month period to where
22 we can plan for it.

23 Q. What if it were not prorated at all,
24 this pool? What would this look like?

25 A. I would say it would be very similar.

1 We may have started our activity a little bit
2 sooner having a timing type effect. It's hard to
3 predict what it would look like, but it would
4 probably be similar.

5 The thing I need to qualify is there is
6 some risk in doing these workovers.

7 Q. Oh, sure.

8 A. You take a gas well and you've got
9 water on the backside, a lot of them have
10 permanent packers in them. You dump the water on
11 the formation. There is a risk in doing
12 workovers on a deep gas well. You don't have 100
13 percent completion to where it will be
14 successful.

15 And we have had a lot of skepticism in
16 our field operations and local management to
17 basically, if it ain't broke, don't fix it type,
18 and there is some risk involved.

19 COMMISSIONER WEISS: Thank you.

20 EXAMINATION

21 BY CHAIRMAN LeMAY:

22 Q. Mr. Corley, in your marketing strategy
23 for Chevron -- and feel free not to answer this
24 if you don't want to -- but in your short-term
25 markets, 30-day spot mainly, is there a price at

1 which Chevron decides to shut in production
2 rather than selling the 30-day market?

3 A. We do have that price calculated as
4 based on operating expense. And our operating
5 expense is pretty low at Indian Basin. We call
6 it a floor price, plus some margin that we would
7 like to see on our investment. And that floor
8 price is considerably lower than the market
9 today.

10 Q. So is it fair to say, as you vary the
11 field, you vary the price at which reserves are
12 chosen to be shut in because you just don't want
13 to sell at that price basically?

14 A. Right.

15 CHAIRMAN LeMAY: Additional questions?

16 You may be excused. Thank you. We're
17 doing this on a field-by-field basis. I guess
18 we're through on Indian Basin, are we, or is
19 there additional testimony on the Indian Basin
20 field?

21 MR. CARR: I believe there's no further
22 testimony on Indian Basin.

23 CHAIRMAN LeMAY: Mr. Carr, do you want
24 to proceed with another field?

25 MR. CARR: May it please the

1 Commission, at this time I'd like to move to San
2 Juan Basin, and I would like --

3 MR. KELLAHIN: I would like to finance
4 his move.

5 CHAIRMAN LeMAY: Lawyers are taking up
6 a collection fee.

7 MR. CARR: Some reports I've gotten
8 from earlier activities this week in the San Juan
9 Basin suggest maybe both Mr. Kellahin should
10 return to Santa Fe and I should go to the San
11 Juan Basin.

12 I would like to make a presentation for
13 Amoco at this time concerning Amoco's request for
14 some increases in the allowables in the prorated
15 field in San Juan Basin.

16 JAMES WILLIAM HAWKINS

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

19 EXAMINATION

20 BY MR. CARR:

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

23 A. James William Hawkins.

24 Q. By whom are you employed?

25 A. Amoco Production Company.

1 Q. In what capacity?

2 A. As a Senior Petroleum Engineering
3 Associate responsible for regulatory affairs in
4 New Mexico and Colorado.

5 Q. In that role have you become familiar
6 with the New Mexico prorationing system?

7 A. Yes, I have.

8 Q. Have you previously testified before
9 this Commission and had your credentials as an
10 expert witness in petroleum engineering accepted
11 and made a matter of record?

12 A. Yes.

13 Q. Have you reviewed the preliminary
14 allowables that came out with the docket for
15 today's hearing?

16 A. Yes, I have.

17 Q. Have you made a study of those
18 allowables to determine how they relate to Amoco
19 operated wells in the San Juan Basin?

20 A. Yes.

21 MR. CARR: Are the witness'
22 qualifications acceptable?

23 CHAIRMAN LeMAY: They're acceptable.

24 Q. Mr. Hawkins, would you briefly state
25 the purpose of Amoco's testimony here today?

1 A. Amoco is here to testify to some
2 recommended adjustments for the allowable for
3 pools in the San Juan Basin for the period of
4 April 92 to September 92.

5 Q. Have you prepared certain exhibits for
6 presentation at this time?

7 A. Yes, I have.

8 Q. Would you refer to what has been marked
9 as Amoco Exhibit No. 1, identify that, and review
10 it for the Commission?

11 A. Yes. Exhibit No. 1 shows the San Juan
12 Basin gas production relative to the pipeline
13 capacity for the time period January 89 through
14 about the middle of 1992.

15 The heavy black line near the top of
16 the graph or the middle of graph, I should say,
17 shows that pipeline capacity currently at about
18 1680 million cubic feet per day. And it shows
19 the expected increases up to about 3360 million
20 cubic feet per day by April of 92.

21 Now, we realize that this increase in
22 capacity is going to significantly lower the line
23 pressures and affect the gas well production for
24 wells in the San Juan Basin. We've shown what we
25 think to be the potential increase for prorated

1 gas to be 550 million cubic feet per day. I'll
2 run you through our basis for that.

3 The solid line that varies up and down
4 is total gas production in the basin, again, from
5 about January 89 through October of 1991. The
6 latest information we got from Dwight's Energy
7 Data. And it shows that during this period,
8 specifically near 1990 and 91, that total gas
9 production has basically reached pipeline
10 capacity in many cases.

11 Reaching that pipeline capacity has
12 caused increasing line pressures. And the effect
13 of that increasing line pressure is shown on the
14 dashed line, which is the total prorated gas in
15 the San Juan Basin. And it shows that, in about
16 January of 1990, those pools produced a maximum
17 of about 1160 Mcf per day, and that's declined to
18 610 million cubic feet per day fairly recently.

19 We think that that decline or that
20 decrease, that 550 million cubic feet per day
21 represents a reasonable potential that we might
22 expect to see when we add pipeline capacity and
23 drop the pipeline pressures back down.

24 Admittedly, that's a rough estimate.
25 Some of that decline may be some seasonality.

1 Some of that decline may be some natural decline
2 from the wells in the pool. But the bulk of it
3 is most likely due to increasing pipeline
4 pressure.

5 Q. Now, Mr. Hawkins, let's move to Amoco's
6 recommendation as set forth on Exhibit No. 2. I
7 think the first thing you should do is explain
8 the basis for this particular exhibit.

9 A. Right. This exhibit was prepared on
10 the basis of the preliminary recommended
11 adjustments or preliminary recommended allowables
12 that were submitted by the OCD. And I can lead
13 you through the arithmetic here a little bit.
14 We've also made some estimates of what the new
15 information that we received today would do to
16 our recommended adjustments, and I'll lead you
17 through that.

18 The first thing I'd like to do is say
19 that we have viewed that 550 million cubic feet
20 per day as the potential increase from prorated
21 pool gas and tried to spread that among the
22 prorated pools on the basis of marginal and
23 non-marginal production.

24 If we look at the top line in our
25 recommendation, that shows the total gas

1 production from the pool. And it shows -- the
2 second line shows what percentage each of the
3 pools contributed.

4 For example, the Dakota contributed
5 about 31 percent of the total prorated gas
6 production from the San Juan Basin during the
7 last year's period. And the Blanco Mesaverde
8 contributed about 63-1/2 percent. Even though
9 the overall numbers changed, those percentages
10 are still fairly representative of the data that
11 we got today.

12 The third line shows the marginal
13 allowable, as we were presented in the notice, at
14 14 Bcf. This is per month. I should say all of
15 these volumes are in Mcf per month. And, of
16 course, that number has changed dramatically.
17 And we have some concern over exactly what those
18 changes mean and how those changes are being
19 calculated.

20 But our original recommendation is
21 based on the fact that marginal allowable
22 represented about 75 percent of the total
23 production, and non-marginal wells contributed
24 about 25 percent of the total production.

25 If you use that basis, we would take 25

1 percent of the 550 million cubic feet per day
2 potential increase due to pipeline changes and
3 attribute that to non-marginal wells. And the
4 number you see here in line 5, it's labeled total
5 potential for prorated increase, that is 550
6 million cubic feet per day changed to Mcf per
7 month. It's 17 Bcf per month. Twenty-five
8 percent of that number would be about 4.2 Bcf per
9 month attributable to non-marginal wells.

10 And the next line down would show how
11 we would divvy that up among the four prorated
12 pools based on percentage of sales. For example,
13 the Dakota, having 30.9 percent of the sales,
14 would get 30.9 percent of that recommended
15 adjustment, or about 1.3 Bcf per month.

16 The biggest change that we saw from
17 what was recommended by the OCD came in the
18 Blanco Mesaverde Pool. And our calculations
19 showed it should have an adjustment of about 2.6
20 Bcf per month as opposed to previously
21 recommended by the OCD, 1 Bcf a month.

22 Recognizing that all this arithmetic is
23 a little bit out of date now, we still believe
24 that these are reasonably valid adjustments to
25 look at for the pools on the basis of expected

1 increased capacity of the pipelines.

2 If, and the assumption is that the new
3 calculations are as presented today are
4 reasonably right, the marginal, or excuse me,
5 non-marginal production now represents about 50
6 percent total allowable. And, therefore, our
7 adjustments would basically double if we were to
8 use the same methodology.

9 And the concern we've got there is that
10 that appears to be such a large increase in
11 adjustment for the allowables that it could cause
12 wells to not be prorated at all. I think the
13 OCD's charge here is to recognize there is some
14 expected increase in capacity and that will have
15 an upward adjustment on the gas production in the
16 basin. It's a very complex situation, difficult
17 to identify.

18 Our analysis is based on a lot of
19 simplifying assumptions. But we would recommend
20 that you take our original recommendation, 1.3
21 Bcf adjustment for the Dakota, 2.6 Bcf per month
22 adjustment for the Blanco Mesaverde, and make
23 those adjustments into the new arithmetic.

24 I'm afraid our proposed F1 and F2 would
25 no longer be valid. That will have to be

1 recalculated. If that does not appear to be
2 large enough in the course of the six-month
3 period, then the OCD has the authority to make
4 some further adjustments under their proration
5 order.

6 And I think we would probably recommend
7 that doubling this adjustment would be the
8 maximum that we would recommend going to. So I'm
9 giving you a range of what we are recommending,
10 that it needs to go upward. I'd caution you not
11 to overreact and set allowables so high that none
12 of the wells in the pools are being prorated at
13 all.

14 Q. So what you've got here is a table that
15 is based on the information that came out with
16 the allowable schedule?

17 A. That's correct.

18 Q. Today when the percent of allowable
19 assigned non-marginal wells was substantially
20 increased, that would naturally trigger a change
21 in the recommendation?

22 A. That's right. And it would basically,
23 if you look at the line entitled, "Recommended
24 Adjustment," which would be an insert into the
25 OCD's format where it says, "Adjustments" --

1 Q. Basically it would double that
2 recommendation?

3 A. It would double that recommendation.

4 Q. And then you are recommending that to
5 assure that in essence all wells in these pools
6 don't wind up underproduced, that the OCD
7 continue to monitor this and reopen the matter if
8 at this time with the new capacity available out
9 of the San Juan Basin there appears to be
10 unanticipated results from the prorationing
11 schedule?

12 A. Well, I do. I think our recommendation
13 is to go ahead and use the line as it's shown
14 here but recognize that doubling that, if you
15 follow the methodology, would represent probably
16 an upward limit of the type of adjustment you
17 would need. Somewhere in that range is what
18 Amoco would recommend. And it's a very complex
19 situation.

20 I think to be on the safe side, we
21 would recommend the lower adjustment first. And
22 then, if the OCD sees a need to increase that,
23 either through operator requests or through their
24 own monitoring capabilities, that that could be
25 adjusted upward again during the course of the

1 six months. But I caution you not to set the
2 allowables so high that no wells are being
3 prorated.

4 Q. Do you have anything further to add to
5 your testimony?

6 A. That's it.

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

8 A. Yes, they were.

9 MR. CARR: At this time we would offer
10 into evidence Exhibits 1 and 2 of Amoco
11 Production Company.

12 CHAIRMAN LeMAY: Without objection
13 Exhibits 1 and 2 would be admitted into the
14 record.

15 MR. CARR: Thank you. That concludes
16 my examination of Mr. Hawkins.

17 CHAIRMAN LeMAY: Thank you, Mr. Carr.
18 Questions of the witness?

19 Mr. Stovall.

20 EXAMINATION

21 BY MR. STOVALL:

22 Q. I just want to make sure that I
23 understand you, Mr. Hawkins.

24 A. Okay.

25 Q. And I realize that a lot of my

1 confusion is caused by the fact that you were
2 operating on a different set of numbers than I am
3 now.

4 A. Correct.

5 Q. One of the problems I've got, let me
6 make sure that I understand what you said first.

7 A. All right.

8 Q. Your line, third from the bottom on 2,
9 that's the only one I want to look at is your
10 Amoco recommendation.

11 A. That's right. The rest of the lines
12 really were based on obviously out-of-date
13 arithmetic.

14 Q. But you are suggesting that, for
15 example, that the Dakota the adjustment should
16 now be about 2.4. Am I hearing you correctly?
17 Just tell me if that's what I heard you say.

18 A. I hope I didn't say that. I am
19 recommending that you accept this adjustment.
20 1.3 Bcf, 1.295953 --

21 Q. That's right.

22 A. -- Bcf per month, which appears to be
23 more reasonable to me than if I redo all this
24 arithmetic using the latest figures that you've
25 given us and basically double that. That's what

1 the new arithmetic would be.

2 The new arithmetic from what we've seen
3 today would take roughly 50 percent of the
4 potential increase, because of pipeline capacity,
5 and apply it to non-marginal wells. And I am not
6 totally comfortable that that may be such a
7 dramatic increase that there would be no wells
8 that would be prorated as a result of that.

9 Q. Let me go back and see, then, I think
10 Mr. VanRyan testified this morning that in terms
11 of where adjustments were made in the pools, kind
12 of what the process that was, was to look at what
13 the prior period sales were, find out what kind
14 of F factors that gave, F1 and F2 in the case of
15 the northwest, and then say this isn't in line
16 with what that should be. What adjustments do we
17 have to make to get them to where they ought to
18 approximately be?

19 A. Uh-huh.

20 Q. Would it be safe -- would your
21 position, having seen the revised figures on the
22 Exhibit B that was presented this morning, would
23 you be comfortable with making adjustments that
24 kept the F1 and F2 factors for the respective
25 pools consistent now with about what Amoco is

1 recommending?

2 I mean, isn't that the bottom line, to
3 make the adjustments to get to the F1 and F2
4 factors? Or are you more concerned with getting
5 the arithmetic and then ending up with a derived
6 F1 and F2?

7 A. I think that's the way I'm more
8 comfortable. And the reason I say that, if the
9 F1 and F2 shakes out a lot with how many acreage
10 factors are there participating in this
11 arithmetic, and we know that non-marginal acreage
12 factors are apparently going up from what we
13 originally looked at, what that tells me is that
14 there are a number of marginal wells that are now
15 being reclassified as non-marginal.

16 I'm not sure on what basis that is.
17 Are they going through a shadow allowable of
18 reclassification, or what? A lot of this has
19 happened so quickly it's hard for me to piece all
20 of it together. That's why I say it's real
21 difficult to say, well, here's what F1 and F2
22 ought to be, take the adjustment that's
23 necessary.

24 I think you need to look at there is an
25 additional amount of capacity available in the

1 basin. This is going to have what we think --
2 we've tried to quantify what type of increase in
3 production that should result in. And then you
4 have to split that out between the non-marginal
5 and the marginal wells. And I'm not totally sure
6 whether it should be 25 percent or 50 percent to
7 the non-marginal wells.

8 Q. When we're talking about the
9 non-marginal allowable -- let me back up and ask
10 you the first question I've got in mind. What
11 you're suggesting, then, is that the focus of the
12 concern of the Division in this should be on the
13 pool allowable; that's the number that you need
14 to arrive at -- you're saying take previous
15 history, add an adjustment for additional
16 capacity based upon the proportions that you've
17 set here and based upon some information on
18 Exhibit 1 --

19 A. Uh-huh.

20 Q. -- and arrive at a pool allowable; is
21 that correct?

22 A. That's right.

23 Q. And then, of course, the non-marginal
24 allowable -- or excuse me. The marginal
25 allowable is simply the marginal production for

1 the prior like period, subtracted from the pool
2 allowable to get the non-marginal allowable?

3 A. It's going to be the wells that are
4 classified "marginal."

5 Q. Correct, right.

6 A. Okay.

7 Q. The allowable or the production from
8 the wells that are now classified marginal --

9 A. That's correct.

10 Q. -- subtract and then you end up with
11 your number of non-marginal acreage factors?

12 A. That's right. And it is a complex
13 problem to try to resolve. I think the only
14 thing I can say is that we recognize there's
15 going to be some increases. I'm just not totally
16 comfortable after half a day of looking at this
17 that if I run this arithmetic again and double
18 the previously recommended adjustment that that's
19 not an overshoot, that that's not overreaction.

20 Q. I guess I'm not quite sure where you
21 get the doubling, I'm sorry. I guess that's the
22 thing that is confusing me.

23 A. The simplest thing to say is that what
24 our recommendation is based on is to take the 550
25 million cubic feet a day that I identified on

1 Exhibit 1 as potential increase, convert that to
2 Mcf per month, and that is what's shown on line
3 5, 17,024,000 Mcf per month.

4 Q. Got you.

5 A. Okay. Now, we would take a certain
6 percentage of that as a recommended adjustment
7 for non-marginal wells that participate in the F1
8 and F2 arithmetic.

9 Q. Okay.

10 A. We chose 25 percent of that originally
11 because that's what portion of total production
12 last year the non-marginal wells contributed,
13 based on the information we received from the
14 OCD.

15 What we saw today basically changed
16 that by a factor of 2. And it said that now the
17 marginal production was way down, and the
18 non-marginal share would have been roughly 50
19 percent of the total production.

20 Q. Okay. I follow you. I see where you
21 get that.

22 A. If I apply 50 percent, I'm going to
23 call it allocation, for this recommended
24 adjustment, it basically would double the amount
25 we would adjust on each of these pools. And I

1 have run through an F1 and F2 calculation with
2 some help from Denver, and the numbers appear to
3 be so large that I'm afraid they may be
4 overreacting.

5 Q. At least I understand how you got there
6 now and what your philosophy is in getting there,
7 and it makes some sense to me.

8 The only other question I've really got
9 is on the Tapacito Pool. It appears that most of
10 your other recommendations are based on where you
11 were and where you came from. And the current,
12 your recommendation is you're not recommending
13 any truly dramatic -- well, the Blanco Mesaverde
14 has got a significant increase, and the Basin
15 Dakota is reasonably close?

16 A. Right. Well, the reason for that, the
17 Blanco Mesaverde increase is it currently
18 represents about 63 percent of the production,
19 prorated production, out of the San Juan Basin.
20 And when you see increases due to changing
21 pipeline pressure, I think you're going to see a
22 lion share of that pipeline capacity go to the
23 Blanco Mesaverde.

24 Q. Now, the Blanco Pictured Cliffs, you've
25 actually gone down on both factors from both the

1 previous recommendation and from the current
2 one. I'm not quite sure how you got there. I'm
3 kind of looking at the numbers. But it appears
4 to me you had to have given more to the marginal
5 than the Division did; is that correct?

6 A. That's what I think. It must be a
7 change.

8 Q. Either the number of factors or the
9 allocation?

10 A. That's right. And that's why I'm
11 saying it's very difficult to come to the hearing
12 today and make modifications that you're totally
13 comfortable with recommending. I feel very
14 comfortable that we have quantified the potential
15 increase in production from the prorated pools
16 due to pipeline capacity.

17 And I feel reasonably comfortable with
18 the methodology of sharing it among the prorated
19 pools at 30 percent to the Dakota and 60 percent
20 to the Mesaverde and 5 and 1 percent to the PC
21 and the Tapacito.

22 The part that I'm beginning to get a
23 little uncomfortable with is exactly how do you
24 distribute it between the marginal and
25 non-marginal wells? And, frankly, it's because

1 that calculation appeared to change pretty
2 dramatically just this morning.

3 And I think we need a little time to
4 understand what that means and how we got there.
5 If it's a result of wells moving non-marginal
6 because they have exceeded the shadow allowable,
7 then I think that's probably a valid way to do
8 it. If it's not that, if it's just a reset, kind
9 of an arbitrary adjustment of marginal wells
10 going back in to non-marginal, then I'm not sure
11 what effect that has on our pool arithmetic.

12 Q. And the one thing that's missing from
13 your recommendation from your Exhibit 2 is that
14 you don't have the number of acreage factors in
15 here so we can't make a comparison to see where
16 there's a difference.

17 A. Well, the acreage factors are in --

18 Q. Did you use the ones --

19 A. We used the ones from both of the --
20 from what was presented to us by the OCD.

21 I think you'd have to say on the
22 Tapacito, Amoco is not overly concerned with --
23 this is a relatively small amount of production
24 out of the basin. Admittedly, you would want to
25 try to set the allowable appropriately for it.

1 I think our primary concern is with the
2 Dakota and the Blanco Mesaverde because they
3 represent 95 percent of the production from the
4 basin.

5 Q. I want to make sure when we look at
6 your recommendations, I can see if you used the
7 Division's number of acreage factors and number
8 of AD factors. And with your adjustments they
9 seem to make some sense, although your acreage
10 allocation factor went up and your AD factor went
11 down in the Basin Dakota, and it went up in the
12 Mesaverde. I'm not exactly sure how that
13 happened.

14 A. I think what I'm recommending is you
15 recalculate the F1 and F2 based on this
16 recommended adjustment. It's going to be
17 slightly different, but I think it's going to
18 accommodate increased production, increased
19 allowable for that pool on the basis of the
20 pipeline capacity increases.

21 Q. Looking at your Exhibit 1, it appears
22 on your pipeline capacity graph line --

23 A. Yes.

24 Q. -- that you have already got an
25 increase in pipeline capacity in the basin?

1 A. Well, my understanding is that
2 Transwestern has actually increased capacity to
3 about 500,000 MM Btu's per day, and we've
4 converted that into an Mcf estimate, Mcf per day.

5 Q. I understand.

6 A. I'm not sure that we've actually seen
7 any dramatic increases -- or excuse me, decreases
8 in pipeline pressure yet as a result of that, but
9 there are increases in production.

10 But what we're trying to show is that,
11 yes, there is a dramatic increase in pipeline
12 capacity expected to occur between basically
13 February and April of 92. And part of that is
14 implemented we believe now, and the rest of it
15 will be implemented in early April. And that's
16 the best information we have.

17 Q. Looking still looking at that exhibit,
18 the difference between the total gas and the
19 prorated gas --

20 A. Yes.

21 Q. -- do you have an opinion about how
22 much of that is Fruitland coal gas and how much
23 of it is other unprorated gas?

24 A. I don't. I know the bulk of it is
25 Fruitland coal gas, but I don't have an exact

1 figure for you.

2 Q. Were you here for Mr. Merrett's
3 presentation?

4 A. Yes.

5 Q. Would you concur that those are
6 probably reasonable numbers on that?

7 A. Yes, I would.

8 Q. Now with respect, then, to any increase
9 to give us, say, an opportunity to observe the
10 impact of the increased capacity --

11 A. Uh-huh.

12 Q. -- would the overproduction limits in
13 the northwest, which are currently at 12 times
14 overproduced, although I think that's subject to
15 rehearing, does that give some latitude to
16 examine and see what can happen? Does that allow
17 you to produce at a little higher rate to see
18 what would happen? Or does that give you enough
19 latitude where you're already more comfortable
20 with an adjustment?

21 A. I think we would recommend the
22 adjustment. And the reason for that, we
23 recognize there's going to be a lot of wells
24 coming back on line that are currently probably
25 loaded up with water, can't buck line pressure,

1 and other wells that are capable of producing
2 that are going to start showing some increases in
3 production.

4 As far as the overproduction limits,
5 you know, I'm not really prepared to discuss that
6 in any great detail today. I know we're going to
7 have to do a lot of work to get ready for a
8 future hearing on that.

9 Q. I think we understand what you are
10 recommending, then, and you're saying we can't
11 rely on your F1-F2 factors on your exhibit --

12 A. Right.

13 Q. -- that we need to look at the
14 adjustment figures?

15 A. That's right. And I just would say
16 that I think this is a very complex problem that
17 you're going to see some surprises as we get into
18 this proration period. And the OCD may need to
19 watch very closely and listen to operators and
20 may very well need to make a mid-course
21 correction in allowables. And I know there's
22 authority to do that under our proration order.

23 So we recommend that you monitor and
24 possibly implement that correction if necessary.

25 MR. STOVALL: I have no further

1 questions of the witness, Mr. Chairman.

2 CHAIRMAN LeMAY: Thank you, Mr.

3 Stovall.

4 Additional questions of the witness?

5 Commissioner Carlson?

6 COMMISSIONER CARLSON: Yes.

7 EXAMINATION

8 BY COMMISSIONER CARLSON:

9 Q. I don't know if I understand what's
10 going on here. Your 550 million on your Exhibit
11 1 is the difference between the peak prorated gas
12 production, and I guess that's January of 90, and
13 the minimum in -- what is that? July of 91; is
14 that correct?

15 A. That's correct.

16 Q. And you attribute that reduction to
17 pipeline pressure?

18 A. I think it's because of a number of
19 things, and I stated it could be some influence
20 on seasonality, and it could be some influence in
21 natural decline in the reservoirs. But we
22 believe the 550, that number represents the
23 maximum potential for increase when you lower the
24 line pressures back down. You probably won't see
25 more than that. That's a reasonable estimate of

1 the potential for increase from the prorated
2 pools when you lower the line pressure.

3 Q. Why would increased line pressure
4 affect prorated gas and not non-prorated gas?

5 A. It will affect both. That's why -- oh,
6 I'm sorry. It will affect that as well. What
7 we've looked at is trying to identify the
8 prorated gas, because that's a subject of our
9 hearing, as to what is the effect of the lowered
10 line pressures on just the prorated gas.

11 Q. But is it safe to assume that there's a
12 lot of non-prorated gas, i.e. coal seam, I guess,
13 shut-in right now because of line pressure also?

14 A. There may be some changes in production
15 in coal seam gas as well. I did not attempt to
16 quantify what that might be. I think what you've
17 got and the way to put it in perspective is
18 this: You've got an additional 1.6 Bcf per day
19 capacity, and we're telling you that probably
20 about a third of that is what you're going to use
21 with the prorated gas production.

22 Q. I see.

23 A. The rest of it is going to be available
24 for other sources.

25 Q. The difference between the numbers,

1 your calculations, I guess, based on the
2 preliminary allowable estimates and then the ones
3 that you would do under Exhibit B that was handed
4 out by the Division this morning --

5 A. Yes.

6 Q. -- is basically the difference in the
7 marginal allowables; right?

8 A. That's right. And I can try to put
9 that in better perspective. I made a rough
10 attempt at redoing this exhibit with the new --
11 with the information we got today.

12 And what happens, just the big change,
13 would be that that marginal allowable would not
14 be 14,072,304 -- this is line 3 on our Exhibit
15 2 -- it would change to 9,541,431. That's just a
16 sum of the marginal pool allowables for each of
17 the four pools. And the average sales -- there
18 were some adjustments in the average sales
19 apparently too. They would have gone up to
20 19,104,969.

21 So if you look at what percent is the
22 marginal allowable of the total sales or average
23 sales, it would say, well, it represents about 50
24 percent, and therefore there would be about 50
25 percent available for the non-marginal wells.

1 Q. But you caution us against doing that?

2 A. Well, the reason is that when I
3 finished the rest of the calculations, my
4 adjustment comes out very high. My F1 factor,
5 let's just say for the Dakota, calculates to be
6 6,778, and my F2 calculates to be 8.6.

7 Well, those are significantly larger
8 than what's recommended by the OCD or what we've
9 seen, and I'm not totally comfortable that that
10 might not move most of your wells even worse into
11 the marginal category.

12 So, yes, I would caution you to maybe
13 try the 25 percent of the capacity first. And if
14 that does not appear to be sufficient as this
15 capacity opens up, if industry and the OCD
16 recognize that we need to increase the allowable
17 and make a mid-course correction somewhere and
18 increase it again, but I certainly wouldn't go
19 more than double this recommended number. That's
20 based on the 50 percent figure that I had looked
21 at today.

22 Q. Is Amoco experiencing well shifting to
23 the marginal category from the non-marginal?

24 A. We have seen the bulk of our wells go
25 from non-marginal to marginal over the last two

1 years. I couldn't really tell you. In fact, we
2 don't have any way to identify which wells are
3 changing from marginal back to non-marginal with
4 this new information that we received today. Our
5 people back in Denver who are tracking that can't
6 identify which of those wells there are. But I
7 would say that, yes, the bulk of our wells are in
8 the marginal category right now.

9 Now, they may, as pipeline capacity
10 opens up and pressures drop, we're going to see,
11 probably see, increases in production from both
12 marginal and non-marginal wells. And there is a
13 methodology in place for a marginal well to move
14 back into non-marginal. And that's through its
15 shadow allowable and comparison of that number
16 with its actual production. And that may be what
17 happens, and that's not totally bad.

18 CHAIRMAN LeMAY: Commissioner Weiss.

19 COMMISSIONER WEISS: I have no
20 questions. Thank you.

21 CHAIRMAN LeMAY: I have one.

22 EXAMINATION

23 BY CHAIRMAN LeMAY:

24 Q. It's just an assumption, I think, that
25 you're making, Mr. Hawkins, assuming that all

1 that is due to line pressure, the 550 million
2 that would be available now because of the
3 increased capacity along the lines, that you're
4 assuming that would also find a market?

5 A. Yes, I'm making that assumption that
6 that would be available for market. Now, I'm not
7 in our marketing department, and I don't try to
8 pass myself off as an expert in that area. But I
9 think the main thing is that this production
10 would be available for market, and I believe, you
11 know, would probably find its way to market.

12 Q. Some of your other comments indicate or
13 at least implied to me that the increased
14 capacity was always reflective of increased
15 market demand or at least marketing of the San
16 Juan Basin gas?

17 A. I think you have to look at the
18 increased capacity was financed by people who
19 expected to be able to market additional gas.

20 Q. I think they're hoping that. Did you
21 hear Mr. Merrett's presentation with over a Bcf
22 per day into California presently that is in
23 excess of their demand --

24 A. I heard the earlier --

25 Q. -- of their consumption. In other

1 words, we've got surplus capacity and we can't --
2 you really can't fill up all the pipes because
3 there's nothing on the other end to take it is
4 the point that I think he's trying to make.

5 A. Well, again, I'm not an expert in this
6 field. I really can't answer all the questions
7 along that line.

8 CHAIRMAN LeMAY: Additional questions
9 of the witness?

10 FURTHER EXAMINATION

11 BY COMMISSIONER CARLSON:

12 Q. Following up on that, your pipeline
13 capacity numbers, then, you're assuming that
14 those pipelines would be at full capacity flowing
15 with New Mexico gas, New Mexico produced gas out
16 of the San Juan Basin. You're not taking into
17 account, for example, Colorado gas, Utah gas, gas
18 coming in on Northwest Pipe?

19 A. I don't think I've tried to identify
20 what the sources of gas are other than there is
21 room to move an additional 1.6 Bcf a day.

22 Q. Right.

23 A. And we believe that about 550 Mmcf per
24 day is reasonable to expect to come from the
25 prorated gas pools.

1 COMMISSIONER CARLSON: Thank you.

2 CHAIRMAN LeMAY: Additional questions
3 of the witness?

4 If not, he may be excused. Thank you.

5 Mr. Carr, is there anything else Amoco
6 wishes?

7 MR. CARR: Nothing further of this
8 witness.

9 CHAIRMAN LeMAY: Do you want to
10 continue? We have the Basin Dakota left.

11 MR. CARR: I have a presentation for
12 UNOCAL on the Basin Dakota and Mesaverde and --

13 CHAIRMAN LeMAY: All three? Why don't
14 we take a 15-minute break, and then we'll come
15 back.

16 (A recess was taken.)

17 CHAIRMAN LeMAY: We shall continue.

18 Mr. Carr.

19 MR. CARR: At this time, may it please
20 the Commission, I would call Paul West with Union
21 Oil Company of California to present testimony
22 concerning the prorated fields of northwest New
23 Mexico.

24 Again, Mr. LeMay and members of the
25 Commission, certain of the figures that will be

1 set forth in the Union exhibits were based on the
2 allowables that were set forth with the docket.
3 We will note those as we go forward with the
4 presentation.

5 PAUL WEST

6 Having been duly sworn upon his oath, was
7 examined and testified as follows:

8 EXAMINATION

9 BY MR. CARR:

10 Q. Will you state your name for the
11 record, please?

12 A. Paul West.

13 Q. By whom are you employed?

14 A. Union Oil Company of California, doing
15 business as UNOCAL.

16 Q. What position do you hold with UNOCAL?

17 A. District Production Manager, Farmington
18 District.

19 Q. Have you previously testified before
20 this Commission?

21 A. Yes, I have.

22 Q. At the time of that testimony, were
23 your credentials accepted and made a matter of
24 record?

25 A. Yes, they were.

1 Q. Were you qualified as an expert witness
2 in petroleum engineering at that time?

3 A. Yes, I was.

4 Q. Do your duties as District Production
5 Manager include responsibility for monitoring the
6 allowables that are set for the prorated pools in
7 the San Juan Basin?

8 A. Yes.

9 Q. Are you familiar with the allowable
10 system?

11 A. Yes.

12 Q. Have you reviewed the preliminary
13 allowable estimates for the prorated fields in
14 that region for the next proration period?

15 A. Yes, I have.

16 MR. CARR: Are the witness'
17 qualifications acceptable?

18 CHAIRMAN LeMAY: They're acceptable.

19 Q. Mr. West, when you reviewed these
20 preliminary estimates, basically what did you
21 find?

22 A. I found that the Basin Dakota
23 preliminary estimates were providing this
24 approximately 5 percent less calculated
25 allocation than what we had for the similar

1 period of last year on a typical good Dakota
2 well.

3 I observed that the preliminary
4 estimate for the Blanco Mesaverde is about 5
5 percent more than the calculated allocation for
6 the previous year, there again, on a typical good
7 well. And also that the 91 allocations and the
8 92 estimates for each of those pools is less than
9 what we were granted back in 1990 before we got
10 into the six-month allocation periods.

11 Q. Now, based on this review, what
12 conclusions have you reached?

13 A. Well, first, that the transportation
14 pipeline expansions from the basin, which will
15 give us a lot more capacity, will require much
16 more allocation than we had previously to prevent
17 any undue restrictions on our production,
18 especially in the non-marginal wells.

19 The more important item, I think, is
20 that the preliminary estimate levels will
21 continue to discourage UNOCAL and in fact prevent
22 us from being able to develop each of these pools
23 as far as drilling wells goes and also to install
24 compression to deplete the prorated pools.

25 And this is a particular problem in the

1 Blanco Mesaverde Pool due to the fact that the
2 calculation procedure for deliverability leaves
3 us with much less deliverability than the
4 capacity of the well, which is not really a
5 subject of this hearing, but we do have a real
6 problem with that as we draw a well down.

7 Q. Mr. West, have you prepared certain
8 exhibits for presentation to the Commission
9 today?

10 A. Yes. Could I address the change of the
11 preliminary estimates?

12 Q. Before we get into the exhibits?

13 A. Yes.

14 Q. If you would review that.

15 A. I have looked at the final estimates or
16 the ones that were provided to me today, and I do
17 want to commend Mr. VanRyan and his efforts on
18 making this change, particularly on changing the
19 subtraction of the marginal production for the
20 time frame in the last four months and changing
21 that to the time frame that's consistent with the
22 sales figures that's on here. I think that that
23 gives us a lot better basis to determine where
24 allocation should be.

25 Unfortunately, the change also made all

1 the numbers on the exhibits that we're fixing to
2 enter wrong, so that's a little bit of a glitch.
3 But the magnitude of the changes are such that I
4 think all of it we'll be entering is not
5 presenting a different picture than what we
6 prepared the exhibits on.

7 Q. Let's go now to Exhibit No. 1. Would
8 you identify that, please?

9 A. This is looking at Union Oil Company's
10 allocation impacts in the Basin Dakota and in the
11 Blanco Mesaverde Pools. And what I have shown
12 here is the loss of deliverable gas for the time
13 period for the next six-month allocation period.

14 Also, in the middle of that column,
15 there shows curtailed proration units. And I
16 will try to point out on this, I know in the past
17 in discussing allocation here at the Commission
18 with others, it is normally an easy thing to do
19 to go to the basin-wide pool allocation numbers
20 and try to get a basis for what is going on.

21 And we continually are getting into
22 trouble with our better wells in the pools, and
23 it's a dilemma that is not easy to understand
24 when looking at total numbers.

25 In this particular case on the Basin

1 Dakota, we say that in this year, the next
2 six-month period, that we will lose 275,000 Mcf
3 deliverable gas in the Basin Dakota. But all of
4 that loss comes from 5 of 78 proration units.
5 That 78 proration units includes both marginal
6 and non-marginal.

7 This represents a reduction of a third
8 of our production capacity from those 5 proration
9 units but represents 14 percent of our total
10 deliverability from the field.

11 In the Mesaverde, the number is 194,000
12 Mcf in loss from 6 proration units. This
13 represents 21 percent of the production from
14 those units and 12 percent of the total pool.

15 Q. Now, on the bottom of this exhibit,
16 what does that show?

17 A. This is carrying forward the allocation
18 percentages or F1's-F2's that were given this
19 year, and assuming that those were carried
20 forward, so that we get in the winter this year
21 the same allocations that we got last winter and
22 the same thing next summer that the preliminary
23 estimates showed for this summer.

24 And the reason for showing this next
25 time period is to illustrate what is happening to

1 us with the estimates that are being provided to
2 this point.

3 As you can see, in the Basin Dakota our
4 loss of allowable gas for that year climbs to
5 700,000 Mcf, which represents 51 percent of the
6 affected proration units' deliverability and 37
7 percent of the total gas from the pool that we
8 operate.

9 Blanco Mesaverde, 934,000 Mcf and 55
10 percent of both the affected pools and the total
11 removable gas. The reason for the second year
12 impact is probably due to a couple of items. The
13 basic one is that we just came out of a period of
14 approximately a year where we've been severely
15 pipeline restricted. We have incurred some
16 constraints in production.

17 In our prorated pools it's hit us about
18 17 percent. We've had to shut in 17 percent of
19 last year's production because of pipeline
20 constraints. And the other thing that probably
21 enters into that partially is that in 1990 we did
22 have higher allocations. So our status of
23 overproduction was not quite as bad coming in to
24 1991.

25 Q. Let's move now to UNOCAL Exhibit No.

1 2. Would you first identify what this table
2 shows?

3 A. This next series of tables is looking
4 at some well-by-well cases. I do apologize for
5 the level of detail that we have here. But the
6 only way to really understand what happens to us
7 on these better wells and we try to manage the
8 allocation that we've given.

9 The first column of that table is the
10 capability of production is not the
11 deliverability of the "D." It's what the well
12 will actually produce, which as I mentioned there
13 a while ago when talking about the Mesaverde
14 compression issue, that's not always the same.

15 The second column is the allocation,
16 and this is using the same factors that we had
17 last winter, the last six-month period, and what
18 is proposed for the next six months. Then the
19 third column will be the monthly over- or
20 under-capability.

21 And then next, the overproduction
22 limit, the over-under -- an overage is described
23 by negative and under is a positive, just to be
24 consistent with the way the proration schedules
25 read.

1 The next column there is planned
2 production that we would have given the
3 allocations that are suggested and then the
4 cumulative over or under as a result of that plan
5 level. And then finally, the loss of
6 deliverability at the end of each proration year
7 due to the allocation system.

8 The months of 1991 up-to-date, up
9 through February, are actual numbers so that the
10 capability and the production is all just
11 depicting the actuals.

12 Q. And beyond that you have used just
13 estimates; is that correct?

14 A. That's correct.

15 Q. Now, what does this exhibit actually
16 show you about the Rincon Unit Wells 192 and
17 192-E?

18 A. 192-E is a well we just drilled. This
19 is the second Dakota and a proration unit. The
20 192 marginal well. The reason why you see the
21 small numbers to date, this particular well
22 illustrates what happens to the best well, which
23 is basically a 600-Mcf-a-day well.

24 We have talked to the Commission about
25 this well before in looking at some minimal

1 allowable situations, but basically it was felt
2 in that effort that we'd be able to utilize our
3 12 times over-allowance to help us out early on
4 in the well's stage.

5 The end of the first proration year
6 there, you see that we have built up to 46,000
7 Mcf overproduced. And because we, at the end of
8 the proration year, we have to in the ensuing
9 year balance that overproduction by having the
10 number of months that sum up to equal that amount
11 of overproduction, we do have to shut that well
12 in or at least get down below our allowable
13 allocation. We will choose to do that when the
14 prices are probably low, which will be starting
15 in April and going through the summer.

16 To balance it we have to shut it in for
17 six months. And then put it back on when the
18 prices start getting better. And we wind up at
19 the end of this year with 43,000 overproduced
20 again. That sequence happens to us again where
21 we shut-in for five months in 93 and wind up the
22 end of that year 53,000 overproduced, and the
23 dilemma continues.

24 Like I say, this is a new well. The
25 total loss from that well for this time period,

1 which would be a little over two years, the
2 well's life, we have been curtailed by 236,000
3 Mcf, which dramatically impacts our ability to do
4 the work.

5 Q. That's actual deliverability that is
6 lost because of the prorationing system that
7 applies to this unit?

8 A. That's correct.

9 Q. Let's go to the next page. This is
10 basically the same sort of approach for another
11 well in the Rincon Unit; correct?

12 A. That's correct. This is a typical good
13 well just picked as an example. It's a well
14 that, as you can see at the end of the first
15 year, is 16,000 overproduced. It's not terribly
16 overproduced. We still have to shut it in for a
17 short period of time. And we realize that 35,000
18 Mcf loss at the tail end of this proration year.

19 But, more importantly what happens to
20 us in this next year, again, we'll wind up at the
21 end of this proration year at 46,000
22 overproduced, have to shut the well in for seven
23 months in order to balance. And so our loss for
24 this next year will be 93,000 Mcf.

25 Q. On the next page?

1 A. Next page is another example. In this
2 case this is a well that lost its overproduction
3 cum because of our pipeline constraints and was
4 not able to make its allowable from the period
5 October there on through a number of months.

6 But the end result is that this well
7 starts out with absolutely no overproduction
8 going into this year and no overproduction -- or
9 no loss of deliverability in the next year, so
10 everything looks real good there. But by winding
11 up at 45,000 overproduced at the end of this
12 year, we again have to shut in seven months the
13 next year in order to balance.

14 Q. Now, we go to the next page, which is
15 the Rincon Unit No. 80.

16 A. This is a Mesaverde well. And here,
17 again, is one of our better wells in the pool,
18 starting out kind of like one of the Basin Dakota
19 examples there, where we are relatively close to
20 being in balance in the tail end of this
21 proration year.

22 We'll have a slight loss of
23 deliverability of 6,000 Mcf for the next year,
24 but we'll wind up 43,000 overproduced and have to
25 shut in six months to balance in 1993. And that

1 year we'd lose 74,000 Mcf.

2 Q. Now, the last page on this exhibit.

3 A. Another Mesaverde proration unit, one
4 of the better ones. And pretty much the same
5 example as the previous one where we are slightly
6 overproduced, and we see 15,000 Mcf of
7 deliverability this year and another 29,000 next
8 year.

9 Q. Basically is it fair to say that
10 because of the allowable system on these better
11 units, you're consistently losing deliverability?

12 A. That's correct.

13 Q. Are you ready to go to Exhibit No. 3?

14 A. Yes.

15 Q. Would you identify that, please?

16 A. This is a suggested revision that we're
17 putting forth to the space preliminary
18 estimates. And these, of course, are much
19 altered because of the final estimates being
20 changed by the state.

21 The first column appears on the State's
22 publication of the preliminary estimates where on
23 the Basin Dakota, they have suggested 1.2 Bcf
24 administrative adjustment, which would give us
25 the F1's and F2's that are indicated. Our

1 suggestion on that exhibit was to increase the
2 administrative adjustment to 3.2 Bcf, giving us
3 the F1's and F2's that are indicated.

4 Since we got the new numbers here, we
5 have looked at that, and the F1's and F2's are
6 obviously what determines allocation we will
7 receive. We've looked at the new estimate, which
8 indicates no adjustment to achieve the same F1-F2
9 range and principally the same allocation that
10 will provide. We would recommend 2 Bcf of an
11 adjustment on the Basin Dakota Pool.

12 Q. Now, what about the Blanco Mesaverde?

13 A. Blanco Mesaverde, we had recommended
14 4.2 Bcf of an adjustment as compared to 1 Bcf
15 indicating the F1's and F2's shown. With the
16 revised estimates, rather than no adjustment, we
17 would recommend a 3.5 Bcf adjustment to give us
18 the same F1 and F2 type allocations that's
19 indicated on our exhibit.

20 Q. Let's go now to Exhibit No. 4, and I'd
21 ask you to -- this is basically the same format
22 utilizing Exhibit 1, is it not?

23 A. Yes, it is.

24 Q. And then you have integrated into this
25 the UNOCAL recommendation?

1 A. That's correct.

2 Q. Would you review this for the
3 Commission, please?

4 A. The bold-faced numbers appear on the
5 first exhibit showing, starting with the Basin
6 Dakota, the loss of deliverability, the number of
7 proration units impacted, and the percentage of
8 loss of production that we see in our operated
9 part of the pool.

10 With the administrative adjustment that
11 we suggested, which as I mentioned, would be
12 very, very close to the one that the alternate of
13 2 Bcf that we just suggested on the revised
14 numbers, our loss of deliverability would fall
15 from 275 to 112.

16 There was a question a while ago on the
17 previous testimony about what happens to
18 marginal, non-marginal proration units with
19 regard to increases. This is what happens to
20 ours. We lose one proration unit out of five
21 that are impacted by the allocation at that
22 point.

23 This would be -- when I say it's not,
24 it's not impacted. It may go marginal or it may
25 not, depending on whether it will not make its

1 allowable for a consistent number of months to
2 fall marginal or whether this is just a
3 non-marginal well that will be run on the
4 borderline and not be impacted. The reduction in
5 the curtailed production will fall to 6 percent
6 of the pool, 16 percent of those that are
7 impacted.

8 The better well -- the best well, like
9 the new well we're looking at, would be more like
10 20 percent curtailed. And this is kind of the
11 way we had derived the figure. We felt like a
12 new well shouldn't be impacted any more than 20
13 percent to be reasonable or what we're looking at
14 in the proration system.

15 On the Blanco Mesaverde, going through
16 the same exercise with the administrative
17 adjustment being 3.5 Bcf, what's shown here, we
18 cut the loss of deliverable gas in about half.
19 The proration units fall from 6 that are impacted
20 to 2. And, there again, we're losing about 6
21 percent of the pools that we operate production
22 due to the allocation system.

23 And, once again, the next year's
24 numbers are more dramatic even with these
25 administrative adjustments that we have

1 suggested. We would lose 8 percent of the pool's
2 production next year, and we'd probably be better
3 than 25 percent of our best well that would be
4 restricted. And then the Mesaverde, the number
5 is 22 percent of the pool and about a third of
6 the production from the best wells.

7 Q. Even with your recommendation,
8 production from both Basin Dakota and Blanco
9 Mesaverde will continue to be restricted?

10 A. That's correct.

11 Q. Have you reviewed estimates for the
12 Blanco Pictured Cliffs Field?

13 A. Yes, but not in the level of detail
14 that we have here.

15 Q. What sort of conclusions could you
16 reach from that review?

17 A. The conclusion would be that with the
18 suggested -- here, I'll just go straight to the
19 revised estimate that the State provided today.
20 A good PC well, which I say would be about a 100
21 Mcf a day well, this allocation would give us
22 about a third restriction. And we feel like that
23 is excessive for a 100-Mcf-a-day PC well.

24 We would suggest an adjustment of
25 100,000 on the administrative adjustments, which

1 would equate to a restriction to more like 15 or
2 20 percent on a 100-Mcf-a-day well.

3 Q. If your recommendations are adopted, do
4 you believe it would result in a more effective
5 way of producing the reserves from the prorated
6 fields in northwest New Mexico?

7 A. Yes, I do.

8 Q. Were Exhibits 1 through 4 prepared by
9 you?

10 A. They were prepared under my direction.

11 Q. Do you have anything further to add to
12 your testimony?

13 A. No, I do not.

14 MR. CARR: At this time we would move
15 the admission of UNOCAL Exhibits 1 through 4.

16 CHAIRMAN LeMAY: Without objection, 1
17 through 4 will be admitted into the record.

18 MR. CARR: That concludes my direct
19 examination of this witness.

20 CHAIRMAN LeMAY: Thank you, Mr. Carr.
21 Questions of the witness?

22 EXAMINATION

23 BY CHAIRMAN LeMAY:

24 Q. Your testimony has been generally
25 confined to the impact on UNOCAL's wells. Do you

1 happen to know how other operators in the field
2 feel about your requested increases in allowables
3 in this field or all these fields?

4 A. Well, the Amoco -- Amoco and Phillips I
5 don't have any idea on as far as what they think
6 about a large increase.

7 Q. But none of the other operators in the
8 field have either received your recommendations
9 or have indicated to you whether they support or
10 object to or are noncommittal about your
11 recommendations?

12 A. No.

13 CHAIRMAN LeMAY: Thank you.

14 Additional questions of the witness?

15 Okay. Thank you. You may be seated.

16 Any additional?

17 MR. CARR: Nothing further from me.

18 CHAIRMAN LeMAY: Thank you, Mr. Carr.

19 Mr. Pearce.

20 MR. PEARCE: Thank you, Mr. Chairman.

21 CURT CZIRR

22 Having been duly sworn upon his oath, was
23 examined and testified as follows:

24 EXAMINATION

25 BY MR. PEARCE:

1 Q. For the record, sir, would you, please,
2 state your name and your place of residence.

3 A. My name is Curt Czirr. I currently
4 reside in Farmington, New Mexico.

5 Q. Mr. Czirr, for the record, would you,
6 please, spell your last name?

7 A. C-z-i-r-r.

8 Q. Mr. Czirr, by whom are you employed?

9 A. Phillips Petroleum Company.

10 Q. And in what capacity?

11 A. I'm the Field Development Supervisor of
12 the San Juan Basin.

13 Q. Mr. Czirr, have you previously appeared
14 before the New Mexico Oil Conservation Commission
15 or Division and had your credentials accepted and
16 made a matter of record?

17 A. No, sir, I have not.

18 Q. In view of that, would you previously
19 describe your educational background as it
20 relates to petroleum engineering?

21 A. Okay. I have an electrical engineering
22 degree from Colorado State in 1980. I've worked
23 for over eleven years with Phillips Petroleum
24 Company in the capacity as a reservoir engineer.
25 And currently I'm the reservoir engineering

1 supervisor.

2 Q. How long have you had some
3 responsibility for gas pools in northwest New
4 Mexico?

5 A. I've been looking at this for around
6 two years.

7 Q. As part of your responsibilities and as
8 part of the reason for your being here today,
9 have you made a study relating to allowables and
10 production figures in the Basin Dakota Gas Pool?

11 A. Yes, sir, I have.

12 Q. And are you prepared at this time to
13 make some recommendations to the Commission with
14 regard to the allowables for that pool?

15 A. Yes, I am.

16 MR. PEARCE: Mr. Chairman, at this time
17 I would request that Mr. Czirr be recognized as
18 an expert in the field of petroleum engineering.

19 CHAIRMAN LeMAY: His qualifications are
20 acceptable.

21 MR. PEARCE: Thank you.

22 Q. Mr. Czirr, as a preface, briefly
23 describe what Phillips seeks this afternoon,
24 please.

25 A. First of all, we're keenly interested

1 in the Basin Dakota Pool allowables. We're
2 seeking pool allowables which prorate the Basin
3 Dakota Pool equitably when compared to other
4 pools in the San Juan Basin.

5 And we're seeking allowables that do
6 not penalize producers who choose to produce
7 year-round and supply a steady supply of gas.
8 And we hope to obtain allowables that are
9 sufficient to encourage additional development in
10 the Basin Dakota Pool, whether it be by delta
11 drilling, re-stimulations, et cetera, aimed at
12 maximizing production.

13 Q. In regard to that, Mr. Czirr, does
14 Phillips have a suggestion for the increase in
15 the Basin Dakota Pool allowable?

16 A. Yes, sir, we do.

17 Q. I ask you to tell me what that is and
18 specify whether you're addressing that increase
19 to the preliminary or the exhibit used this
20 morning.

21 A. Based on the exhibit used this morning,
22 Phillips would recommend a 3-Bcf-a-month increase
23 for adjustment.

24 Q. All right, sir, do you have -- I don't
25 think you do -- a copy of Exhibit B that the

1 Division used this morning?

2 A. No, I don't.

3 Q. Let me hand you that. And as I
4 understand it, we're suggesting that a 3 Bcf
5 adjustment be put in line 3 under the Basin
6 Dakota Pool; is that correct?

7 A. Yes, sir.

8 Q. Let's turn our attention, please, to
9 what we have marked as Exhibit No. 1 to this
10 proceeding. And, Mr. Czirr, I'd ask you to
11 highlight the pertinent information on that
12 exhibit for the members of the Commission and
13 those in attendance.

14 A. Okay. First of all, as you're aware,
15 historically there's been a significant
16 difference in pool allowables during the six
17 months' summer period versus the winter period.
18 We wanted to take a look at that and investigate
19 why that was. Of course, we found out that one
20 thing was that the production was much less in
21 the summertime.

22 We looked at all the Basin Dakota
23 production using Dwight's database and determined
24 that there were approximately 3800 active Basin
25 Dakota wells right now. Out of that 3800,

1 approximately 38-1/2 percent or 1462 wells had a
2 winter production at least twice as great as the
3 summer production.

4 And I might further clarify that by
5 saying we do not have access to the current
6 winter production that we're in right now. We
7 didn't have access to that data. So we were
8 comparing November, December, and January --
9 November and December 1990, January of 91, and
10 calling that representative of winter production,
11 comparing that to May, June, and July of 1991,
12 comparing that as summer production.

13 And, as I said, there were 1462 wells
14 that had a winter-to-summer production ratio of
15 at least 2 to 1. What this means is that, you
16 know, certainly the winter production is much
17 more representative of the actual pool's
18 deliverability.

19 With the large number of wells that are
20 producing swing during the winter versus summer,
21 the bulk of this has to be attributed to elective
22 curtailment amongst the producers according to
23 their own gas marketing strategy. And we don't
24 feel that looking at summer production gives you
25 a fair indicator of the pool's deliverability.

1 Q. Let me interrupt you for a moment.
2 Were you in the hearing this morning when Mr.
3 VanRyan expressed the opinion that part of the
4 lower summer production might be attributable to
5 higher gathering system pressures?

6 A. Yes, I was here.

7 Q. And have you seen that effect in your
8 study of particularly Phillips wells?

9 A. I have not observed that, no.

10 Q. And based on your review and your
11 understanding, as I understand what you said, you
12 formed the opinion that the decrease in summer
13 production may be largely a function of strategic
14 behavior rather than market; is that correct?

15 A. Yes, sir.

16 Q. All right. Continue, please.

17 A. That has a negative impact on companies
18 such as Phillips that elect to try to produce
19 year-round in that theoretically, if you were to
20 take every person in this room and make them an
21 operator of wells in the Basin Dakota Pool and if
22 everybody in this room elected not to produce
23 during the summertime and yet Phillips elected to
24 produce during the summertime, the overall pool
25 allowable during the summertime would be near

1 zero and Phillips would be penalized because of
2 that.

3 And you're penalized even on an annual
4 basis because companies electing to shut-in
5 during the summertime, there's no way they can
6 make that much gas up during the winter
7 production period. And the result is lower
8 overall annual pool production. And companies
9 such as Phillips that choose to produce
10 year-round, we get penalized because of somebody
11 else's marketing strategy.

12 Q. With regard to marketing strategy, is
13 it your position, understanding, and opinion that
14 there is in fact a year-round market for more gas
15 than current Basin Dakota allowables will allow
16 Phillips to produce?

17 A. Yes, sir. Again, not being a gas
18 marketing person, I do know that we have not
19 encountered difficulty marketing any of our gas
20 at all.

21 Q. And do you currently have proration
22 units which are shut-in because of
23 overproduction?

24 A. Yes, sir, we do.

25 Q. Do you also have some proration units

1 which are approaching the 12 times overproduced
2 limit?

3 A. Yes, sir, we do.

4 Q. Let's look, if you would, please, at
5 what we've marked as Exhibit No. 2 to this
6 proceeding.

7 A. Okay.

8 Q. A lot of numbers on that page. Could
9 you walk us through an example and explain to the
10 Commission what this exhibit shows?

11 A. Yes. First of all, what we're trying
12 to do with this Exhibit No. 2 is provide a
13 comparison for the non-marginal pool allowable
14 assuming that -- first of all, this was prepared
15 using the old numbers that we had received in the
16 mail in terms of non-marginal acre factors and AD
17 factors.

18 But assuming that those non-marginal
19 acreage and AD factors had remained unchanged,
20 and this exhibit shows the effect of higher F1
21 and F2 factors on the allowable that various
22 deliverability Gpu's could obtain.

23 If we start off on the far-left column
24 of numbers, the top part of that represents the
25 non-marginal pool allowable, non-marginal acreage

1 factors, F1 and F2 that had been previously
2 proposed by the OCD in their mailings for the
3 Basin Dakota Pool.

4 If we use those numbers and continue
5 down in that column, for a Gpu deliverability of
6 200 Mcf a day, then the ratio, the allowable then
7 would be approximately 88 percent of the
8 deliverability.

9 If we continue on down for a
10 500-Mcf-a-day deliverability Gpu, then the
11 proposed factors in the OCD mailing would give us
12 only a 45 percent -- an allowable that's 45
13 percent of deliverability.

14 And this situation continues to get
15 worse and worse as you go down into higher
16 productivity Gpu's. For 750 Mcf a day, you'd be
17 at 35 percent. And for 1.5 million a day, you'd
18 be at 26 percent.

19 And the columns to the right represent
20 the exact same comparison if you were to change
21 the F1 and F2 factors. If you were to increase
22 the F1 and F2 factors, then it has calculations
23 showing what percent your allowable would be for
24 a given deliverability for those changes.

25 Phillips has recently drilled several

1 infill wells, a second well on 320-acre gas
2 proration unit, in the 31-6 Unit. And one of
3 those Gpu's has a combined deliverability of the
4 two wells. And that Gpu is approximately a
5 million a day, and the other Gpu has a combined
6 deliverability of approximately one-and-a-half
7 million a day.

8 And those sound very good, and
9 technically we were very excited about our
10 ability to make such nice wells. When we start
11 looking at what kind of allowables we'll receive,
12 we find out that we're going to receive between
13 25 and 30 percent of that as an allowable. That
14 means our production is going to be insufficient
15 to justify those wells.

16 Those wells were technically very
17 successful, but they're economic failures under
18 the current prorationing system.

19 Q. Is it fair to say that problem may
20 impact future management decisions on whether or
21 not to do further infill development in the Basin
22 Dakota?

23 A. Yes, sir. We have a number of wells
24 within that 31-6 Unit and within one or two other
25 units that we would certainly desire to be able

1 to drill. And under the current proposals or
2 anything close to them, the economics won't be
3 there because no matter how good a job we do on
4 our end, technically the allowable won't be
5 there.

6 As an additional statement, in that
7 same 31-6 Unit, there's a total of 23 wells --
8 prior to these 3 infill wells, there were 23
9 wells, so now there's 26. We currently have 6 of
10 them shut-in due to being 12 times overproduced,
11 and we have 3 more on the way.

12 Q. Ready to turn to Exhibit 3?

13 A. Yes. I guess the only other thing I
14 would say is, again, looking at Dwight's
15 production data, we found that over the last
16 three years, 1989, 1990, and 1991, there's been
17 an average of only 15 Basin Dakota wells drilled
18 per year.

19 That's an extremely small number when
20 you're talking about over 3600 wells in the
21 basin. And we think that the proration has a
22 significant impact on that.

23 Q. All right, sir, let's direct your
24 attention, please, to Exhibit No. 3.

25 A. Exhibit No. 3 basically shows

1 graphically the numbers that we just went through
2 in Exhibit No. 2. Again, what we're comparing on
3 the vertical axis here would be the non-marginal
4 pool allowable in million cubic feet per month.
5 And on the horizontal axis, we're comparing the
6 Gpu allowable as a percent of its
7 deliverability.

8 And we've got a family of four curves
9 here representing Gpu's with 200 Mcf a day
10 deliverability, 500 Mcf a day, 750 Mcf a day, and
11 1500 Mcf a day. The 200 Mcf a day Gpu
12 deliverability is represented by the line to the
13 far right. And what that shows you is that again
14 for 200 Mcf a day Gpu, you're going to be allowed
15 to produce around 90-plus percent of what your
16 deliverability is.

17 As you move left on the chart, all the
18 way over to the 1500 Mcf a day Gpu, which is the
19 far left line, the bottom point on that line,
20 which represents a non-marginal pool allowable of
21 approximately 1.9 Bcf a month, that represented
22 the non-marginal pool allowable as proposed in
23 the mailing, the Basin Dakota.

24 And assuming that the acreage factor
25 and AD factors remained unchanged, then this is a

1 graph showing that even if you allowed a
2 significantly higher non-marginal pool allowable,
3 3.1 Bcf a month, you'd still be at just over 40
4 percent, an allowable of only 40 percent of your
5 deliverability. And that would still be
6 borderline between an economical well to drill.

7 Q. Mr. Czirr, you mentioned earlier in
8 your testimony that Phillips was seeking some
9 adjustment for equity reasons between various
10 pools in the basin. I'd ask you to direct your
11 attention, please, to Exhibit No. 4. And could
12 you describe the information and calculations
13 shown there for us?

14 A. Yes. Certainly the Basin Dakota Pool
15 and Blanco Mesaverde, as well as other pools,
16 they have different formulas for determining an
17 allowable. For example, in the Dakota, it's been
18 decided that you would base 60 percent of your
19 allowable for a non-marginal well on acreage and
20 40 percent on acreage times deliverability.

21 Whereas, for Mesaverde, you'd base 75
22 percent of your allowable on deliverability and
23 only 25 percent on acres. So we recognize that
24 there's differences in the formation in the
25 various pool proration formulas.

1 However, we feel that overall if you
2 look at the Basin Dakota Pool as a conglomerate
3 pool and you compare that to other pools,
4 primarily say Blanco Mesaverde since it's the
5 largest, if there's curtailment between any of
6 the pools, the curtailment should be spread
7 equitably.

8 And this exhibit attempts to show that,
9 again, based on the F1 and F2 factors submitted
10 in the mailing by the OCD, that equity wasn't
11 there between the Basin Dakota and the Blanco
12 Mesaverde.

13 To go through it, if you look at F1
14 factor comparison, if you take the proposed F1
15 factor for the Dakota of 4357 Mcf per month and
16 divide that by .6, then you come up with a
17 non-marginal pool allowable divided by the sum of
18 the acreage factors of 7262.

19 If you do the same thing for the Blanco
20 Mesaverde and you take the F1 factor that was
21 proposed of 2815 and you divide it by .25, then
22 you come up with a non-marginal pool allowable
23 divided by the sum of non-marginal acreage
24 factors of 11,260.

25 And the F1 factor for Basin Dakota

1 would have to be, instead of 4357, it would have
2 to be 6756 in order for those two factors, those
3 two products to be the same.

4 And if you look at the F2 factor
5 comparison, the proposed F2 factor for Basin
6 Dakota of 4.94 divided by .4 gives you a
7 non-marginal pool allowable divided by the sum of
8 the non-marginal AD factors of 12.34.

9 For the Blanco Mesaverde, the proposed
10 F2 factor of 12.81 divided by .75 gives you a
11 product of 17.8. And, again, the Basin Dakota F2
12 factor would have to be 6.83 in order to yield
13 the same product.

14 And what you conclude by this, and we
15 will show in Exhibit 5, is that inequities
16 between the F1 and F2 factors result in the Basin
17 Dakota Pool being curtailed via proration to a
18 greater extent than the Blanco Mesaverde.

19 Again, if we use the AD factors that
20 were submitted by the OCD in the mailing, those
21 showed an average Basin Dakota Gpu having a
22 deliverability of 588 Mcf a day for a
23 non-marginal Gpu and a Mesaverde average
24 deliverability of 659. Those are-- in the
25 mailing those were very close, not much

1 difference between the two.

2 I'd like to go ahead and go to Exhibit
3 5.

4 Q. Go to 5, please.

5 A. Exhibit 5 shows graphically what we
6 just talked about in Exhibit 4. On the vertical
7 axis, I've got your Gpu allowable as a percent of
8 deliverability. So anything over 100 would
9 represent an allowable that's greater than its
10 deliverability, and so therefore it would drop
11 over into a marginal status anyway.

12 On the horizontal axis, I have the
13 actual Gpu deliverability ranging from zero to
14 1600 Mcf a day. The thin solid line connected by
15 dark dots represents the allowable that you would
16 get as a percent of deliverability based on the
17 F1 and F2 factors in the OCD mailing.

18 The dashed line connected by asterisks
19 represents for the basin -- or for the Mesaverde
20 represents the allowable as a percent of
21 deliverability. And you'll see that those two
22 cross over at somewhere around a Gpu
23 deliverability of about 200 Mcf a day.

24 And that's not far from -- and at that
25 point you're about almost 90 percent allowable,

1 being about 90 percent of deliverability. So
2 you're almost dropped over into the marginal well
3 status where those cross over.

4 Since in the mailing it showed that the
5 average Dakota well Gpu and the average Mesaverde
6 well Gpu deliverabilities were almost identical
7 at roughly 600 Mcf a day than if you were
8 prorating the Basin Dakota equitably with the
9 Blanco Mesaverde, those two lines should cross
10 over at about 600 Mcf a day.

11 And if referred to the thick solid line
12 that I show here, this gives you a Dakota
13 allowable as a percent of deliverability using
14 the F1 and F2 factors that I've said on Exhibit 4
15 that you would need to use to be equitable, and
16 you'll see that it indeed crosses the Mesaverde
17 line in the vicinity of 600 Mcf a day.

18 And what that's telling you is if you
19 achieve that, then your proration formulas are
20 doing what you've designed them to do. You've
21 designed your proration formulas to allow low
22 deliverability Dakota wells to receive a higher
23 allowable than a similar deliverability Mesaverde
24 well.

25 You've also designed your formulas to

1 allow a high deliverability Dakota well to
2 receive a slightly less allowable than a high
3 deliverability Mesaverde well.

4 So what Phillips is saying is, first of
5 all, we believe that the Blanco Mesaverde Pool
6 allowable should be increased over and above
7 what's currently being proposed by the OCD for
8 using the similar logic that we shouldn't be
9 penalized for producing year-round when other
10 operators are shutting in in the summer.

11 But all we're saying is we think the
12 Basin Dakota should be increased even more as a
13 percentage. The F1-F2 factors should be
14 increased dramatically in order to get proration
15 for Basin Dakota on an equitable basis with the
16 other major pool in the San Juan Basin, which is
17 the Mesaverde.

18 Q. After conducting your study, let's
19 summarize the conclusions you've come to, please,
20 sir.

21 A. Okay. First of all, we feel that the
22 proposed -- that the OCD proposed F1 and F2
23 factors for the Basin Dakota Pool are inadequate
24 in that they penalize too much the non-marginal
25 well and don't allow for development, development

1 drilling, recompletions, re-stimulations.

2 We feel that, as a whole, the Basin
3 Dakota Pool should be prorated equitably with
4 other pools. That doesn't -- knowing full well
5 that for any given Gpu deliverability, the
6 formulas are set up for them to have different
7 allowables, but on a pool-wide basis, it should
8 have equity in it.

9 We feel that the true Basin Dakota
10 deliverability is something more approximating 10
11 Bcf a month. Historically if you look back at
12 Basin Dakota Pool production, you'll find that in
13 the winter months it's consistently been able to
14 produce at least 10 Bcf a month during the main
15 winter months.

16 A very small amount of that could be
17 due to flush production from having been shut-in
18 in the summer, but we feel that is a very minor
19 component of it.

20 Currently less than 10 percent of the
21 Gpu's in the Basin Dakota Pool are designated as
22 non-marginal. The vast majority of Basin Dakota
23 Pool is producing at whatever amount it wants to
24 and using whatever production strategy it wants
25 to.

1 And the proration that's currently in
2 place is only hurting those few Basin Dakota
3 Gpu's that have moderate deliverability. We've
4 been hearing about some of the southeast New
5 Mexico pools with deliverabilities of 5, 6
6 million a day, and we can only dream of that.
7 We're talking about 4- and 500 Mcf a day wells
8 here and 700 Mcf a day wells. And we think the
9 proration should be relaxed.

10 We feel that correlative rights, at
11 least in terms of off-lease drainage from higher
12 allowables, is not an issue. You've got over
13 one-third of the Basin Dakota wells currently
14 being operated on a swing basis, shut-in during
15 the summer or produce at very low volumes and
16 then produce at full capacity in the winter.

17 There's no way on an annual basis that
18 they can produce as much gas that way as they
19 could if they were producing year-round. And if
20 operators were concerned about off-lease
21 drainage, we don't think that they would have
22 adopted that type of swing production
23 philosophy.

24 In conclusion, again being consistent
25 with what we think the true deliverability of the

1 Basin Dakota is and realizing that we need to
2 have equity in proration, we are recommending a 3
3 Bcf a month adjustment.

4 Q. And that 3 Bcf a month adjustment will
5 raise the monthly pool allowable to approximately
6 10 Bcf; is that correct?

7 A. Yes, sir.

8 Q. Were you in the room this morning when
9 Mr. Hastings was on the witness stand for
10 Marathon discussing the marketing situation?

11 A. Yes, sir.

12 Q. Are you in general agreement that there
13 is a necessity for operators to be able to
14 produce quantities of gas year-round without
15 suffering the summer reduction in order to
16 capture market?

17 A. Yes, sir. In fact, I agreed with every
18 point that he made. And Phillips may be a little
19 bit behind Marathon, but we are trying to also
20 adopt similar marketing strategies looking for
21 long-term contracts at attractive prices that are
22 certainly at a premium to the current prices
23 today.

24 Those long-term contracts require a
25 steady volume of gas, whether it's 20 million a

1 day for that contract or 50 million a day for
2 that contract. It's flat for that 10 or 15
3 years. And that's another reason why Phillips
4 again has the need to produce year-round.

5 Q. Mr. Czirr, when we began, you indicated
6 to the Commission that you were primarily a
7 reservoir engineer. And I want to address your
8 attention to the reservoir for a few moments.

9 You've indicated that increased
10 allowables are necessary in order to enable
11 producers to further develop the Basin Dakota
12 Pool. In the absence of those increased
13 allowables and the increased development, do you
14 believe the loss of ultimate recovery from the
15 Basin Dakota Pool will result?

16 A. Without a doubt. The three infill
17 wells that I mentioned earlier that we drilled in
18 the 31-6 Unit, we drilled them last December. We
19 took bottom-hole pressures in two out of those
20 three wells, and they showed near original
21 bottom-hole pressure.

22 We're clearly drilling in areas that
23 are currently not drainable by existing offset
24 producers. And if we don't get the allowables to
25 make it economical to drill, those reserves will

1 sit in the ground.

2 Q. Mr. Czirr, based on that discussion, do
3 you believe that the request of Phillips for an
4 increased allowable in the Basin Dakota Pool to
5 10 Bcf per month is in the best interests of the
6 prevention of waste of New Mexico's natural
7 resources?

8 A. Absolutely.

9 Q. And do you believe that granting that
10 increase in pool allowable will not adversely
11 affect correlative rights of operators in the
12 Basin Dakota Pool?

13 A. Absolutely.

14 Q. Mr. Czirr, did you prepare or did you
15 have prepared under your direction and
16 supervision Phillips Exhibits 1 through 5 to this
17 proceeding?

18 A. Yes, sir.

19 Q. Do you have anything else you'd like to
20 address to the Commission?

21 A. No.

22 MR. PEARCE: Mr. Chairman, I move the
23 admission of Phillips Exhibits 1 through 5. And
24 I tender the witness for questioning.

25 CHAIRMAN LeMAY: Thank you, Mr.

1 Pearce. Without objection, Exhibits 1 through 5
2 will be admitted into the record.

3 Questions of the witness?

4 MR. STOVALL: Just a couple quick
5 ones. Mr. Carr, do you have any?

6 MR. CARR: No questions.

7 EXAMINATION

8 BY MR. STOVALL:

9 Q. I just want to make sure I understand
10 your recommendation, Mr. Czirr. At one point you
11 made a statement you recommend an adjustment of 3
12 billion?

13 A. Yes, sir.

14 Q. On which schedule are you basing that
15 recommendation, the one sent out with the docket
16 or the one that was presented today?

17 A. Today.

18 Q. I wanted to clarify that. You've
19 talked about getting to a pool level of 10, and
20 that really only gets you to a pool level of
21 about 9. Where do you want to be on that? Let's
22 make sure we're getting a number you're happy
23 with as far as your testimony is concerned. Do
24 you follow what I'm saying?

25 A. Are you saying --

1 Q. If you look at the Exhibit B, Basin
2 Dakota is 5.8. If you add 3 to it, you get about
3 8.8?

4 A. Yes.

5 Q. Is that number okay with you?

6 A. Yes. The 3 Bcf, we're looking at a
7 total adjustment, initially looking at the old
8 OCD mailings, and that did correlate to 10 Bcf a
9 month. The current OCD mailings, if you add the
10 3 Bcf adjustment, that gets you, as you said,
11 only to about a little less than 9 Bcf total for
12 the pool.

13 But the OCD has taken that into
14 consideration by down-scaling the marginal pool
15 allowable using previous summer rates instead of
16 winter. So I think we're talking about the same
17 thing --

18 Q. Okay.

19 A. -- at least in terms of how it affects
20 the non-marginal wells.

21 Q. I just wanted to clarify that. And
22 just, if you know, is your reason for suggesting
23 equality between the two pools based on your
24 sense that it should be equal, or is there a
25 regulatory basis for that that you know of?

1 A. No. It's based on my sense that --

2 Q. Okay.

3 A. -- you shouldn't prorate one pool
4 without prorating -- if you have proration, if
5 you already have proration set up for a pool,
6 then that proration is set up to protect
7 correlative rights.

8 And if owners in one formation are
9 denied access to market more so than owners in
10 another formation because of the proration
11 system, then I don't think you have correlative
12 rights protection.

13 MR. STOVALL: I have no further
14 questions.

15 CHAIRMAN LeMAY: Additional questions
16 of the witness?

17 COMMISSIONER CARLSON: Not for a
18 minute, no.

19 COMMISSIONER WEISS: Yes.

20 EXAMINATION

21 BY COMMISSIONER WEISS:

22 Q. I was surprised in your comment on the
23 near-virgin pressures when you cut an infill well
24 on a dry gas reservoir. How does that happen?

25 A. Well, first of all, the 31-6 Unit that

1 I was quoting probably has some of the best
2 Dakota production in the pool. Having said that,
3 though, it is extremely tight formation,
4 particularly when you compare it to other pools.

5 When we drill a good well, we're
6 talking about in general maybe a 700 Mcf a day
7 well is an excellent well for us. We have just
8 not seen -- we've just not seen that the existing
9 320-acre spaced wells are capable of draining
10 that 320 acres.

11 And so when we drill an infill well on
12 160-acre spacing, certainly we see some moderate
13 depletion, but it's not much at all. Original
14 bottom-hole pressure in the 31-6 Unit was around
15 3300 pounds.

16 When we did bottom-hole pressure tests
17 in two out of those three infill wells, we tested
18 the most permeable formation where all the offset
19 wells had already been completed, and that's
20 where they had produced most of their reserves,
21 and we found between 2900 and 3,000 PSI reservoir
22 pressure with downhole gauges.

23 And I think that just falls in line
24 with OCD orders allowing for 160-acre spacing in
25 that they've recognized that wells can't drain

1 320 acres.

2 Q. You ought to talk to Fichivich about
3 that sometime. I don't think he'd agree with you
4 at all.

5 A. Maybe if you talk about Hugoton he
6 might not.

7 COMMISSIONER WEISS: That's all.

8 CHAIRMAN LeMAY: I have one question.

9 EXAMINATION

10 BY CHAIRMAN LeMAY:

11 Q. Is it you personally or do you think
12 Phillips wants the OCD to create equity between
13 prorated pools? That's a different concept than
14 we've ever operated under. Texas operates under
15 that, but you compared to one pool.

16 I think, by expanding that concept
17 you'd have to say other pools, and maybe even
18 bringing southeast New Mexico, who produces in
19 the same California market as northwest pools,
20 then you'd be trying to equate Indian Basin
21 equity with Basin Dakota.

22 Are you sure that kind of position is
23 something advocated by your company?

24 A. I can say that that's a position
25 advocated by our Farmington office. And whether

1 that reflects the position of our corporate
2 office, I couldn't say.

3 Certainly the Basin Dakota and the
4 Blanco Mesaverde, they're in the same basin and
5 very much tied to each other.

6 Q. You'd like to see us create equity
7 between just certain fields and not all fields?

8 MR. PEARCE: I'll jump in, Mr.
9 Chairman.

10 CHAIRMAN LeMAY: Mr. Pearce.

11 MR. PEARCE: The witness has made what
12 I think is a valid fairness argument with regard
13 to the restrictions suffered by Basin Dakota
14 versus Mesaverde competing for the same market,
15 two prorated pools in northwest New Mexico with
16 gas trying to get in to the same market.

17 I think the other states who have
18 approached the argument that you are suggesting
19 have viewed the world as a much more finite place
20 than Phillips does or that any company witness
21 who's been on the stand today has.

22 Phillips is not in this proceeding and,
23 as far as I know, has not ever suggested that you
24 take an allowable that you believe can be
25 produced out of the Blanco Mesaverde and move

1 that allowable to the Basin Dakota. That hadn't
2 been suggested here today, isn't being suggested
3 now, and I suspect won't be suggested in the
4 future.

5 What we are suggesting is that we
6 believe the market is much larger than the
7 Division's numbers make us think that they
8 believe it is. We think we should not therefore
9 suffer an undue restriction on our ability to
10 produce because Phillips believes they can go out
11 and find markets and move gas and sell gas.

12 They're not trying to choke back any
13 other pool in the State of New Mexico, and they
14 are not, I don't think, suggesting any statewide
15 prorationing system which chokes back one pool
16 because another one gets more. Phillips wants to
17 produce more gas. They don't think it's
18 necessary to have somebody else produce less.

19 CHAIRMAN LeMAY: Thank you, Mr.
20 Pearce. Just one more question.

21 Q. (BY CHAIRMAN LeMAY) Have you contacted
22 other operators in the field, and do they feel
23 the same way you do about the allowable situation
24 with the additional 3 Bcf recommendation?

25 A. I guess the best way to express it is

1 we've contacted every operator in the Basin
2 Dakota Pool about deprorating the Basin Dakota.
3 And we've had several companies, in fact, that
4 have testified in front of you today, UNOCAL and
5 Marathon, who not only said they agreed, but said
6 they would support us in a hearing.

7 The bulk of the operators have said
8 that they do not object to removing proration. I
9 think out of a total of approximately say 3800
10 wells -- 3600, 3800 wells, operators representing
11 approximately 100 wells have shown concern. So
12 that's their attitude towards totally removing
13 proration.

14 What we're asking really is a step
15 towards that direction where you have less
16 proration.

17 Q. In terms of your specific
18 recommendation to the Commission today, have you
19 circulated that among operators in the field, and
20 have you got any reaction to that recommendation?

21 A. Only to the extent that we've had
22 discussions with UNOCAL.

23 Q. The other operators didn't know of your
24 adjustment or have not commented on it, either
25 pro or con?

1 A. That's correct.

2 CHAIRMAN LeMAY: Thank you.

3 Additional questions of the witness?

4 If not, you'll be excused. Thank you.

5 Anything additional, Mr. Pearce?

6 MR. PEARCE: Nothing.

7 CHAIRMAN LeMAY: Anyone else have
8 anything?

9 Yes, sir.

10 MR. JONES: Mr. Chairman, Lewis Jones,
11 Meridian Oil Company. I'm the production manager
12 out of Farmington, New Mexico. You've asked how
13 some of the other companies feel. I'd like to
14 make a few suggestions, if I could. I haven't
15 done my homework, like a few of the others
16 earlier, but I have stayed all day, so give me a
17 little bit of credit for that.

18 The different systems that were talked
19 about in the San Juan Basin as far as
20 conventional -- well, excuse me, line pressures
21 were discussed as far as conventional and coal
22 seam. For the most part the bulk of the coal
23 seam production is segregated from the
24 conventional system.

25 And, to my knowledge, there's no other

1 gathering system in the United States that has
2 higher gathering system pressures now than they
3 did 20 years ago. And that's on the conventional
4 gathering system. So when Amoco says that they
5 feel like we have over a Bcf of capacity, I think
6 they're being extremely conservative. I think
7 it's much more than that.

8 As far as the recommendations that have
9 been made today and Meridian's recommendation,
10 the Dakota adjustments and that's off the most
11 recent, today's OCD Exhibit B, Amoco had
12 recommended 1.3 Bcf; UNOCAL, 2.0 Bcf; and
13 Phillips, 3.0 Bcf. In the Mesaverde, Amoco had
14 recommended adjustments of 2.6 Bcf; UNOCAL, 3.5
15 Bcf; and I think Phillips just suggested an
16 increase.

17 One other comment about Curt's -- your
18 presentation, an excellent job; however, do not
19 sell the Blanco Mesaverde short because the
20 Blanco Mesaverde is much more sensitive to lower
21 line pressures. And that's going to occur with
22 the greater capacity coming out of the basin.
23 These pipelines want to fill their pipeline
24 capacity, and they're going to lower gathering
25 pressures.

1 As far as our recommendation, we would
2 probably lean toward the UNOCAL recommendation of
3 2.0 Bcf adjustment in the Dakota and the 3.5 Bcf
4 adjustment in the Mesaverde.

5 Thank you for the opportunity, Mr.
6 Chairman.

7 CHAIRMAN LeMAY: Thank you.

8 Any other statements or comments
9 concerning the case? We will leave the record
10 open ten days for additional comments based, of
11 course, on the fact that we did hit you with a
12 new Exhibit A and B today that a lot of you
13 prepared exhibits on what was mailed, and that's
14 understandable. So if you want to add to the
15 record, we will certainly leave it open ten
16 days.

17 Additional comments or statements?

18 We'll take the case under advisement.
19 Thank you very much, ladies and gentlemen.

20 (The proceedings were adjourned.)

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1 CERTIFICATE OF REPORTER

2

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

5

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

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

19 WITNESS MY HAND AND SEAL March 11,
20 1992.

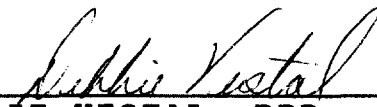
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