

CASE NO. 5378: SOUTHERN UNION
PRODUCTION CO. FOR COMPULSORY
POOLING AND DUAL COMPLETION
SAN JUAN COUNTY

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CASE No.

5378

Application,
Transcripts,
Small Exhibits

ETC.

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
January 9, 1975

EXAMINER HEARING

IN THE MATTER OF:

Application of Southern Union Production
Company for compulsory pooling and a dual
completion, San Juan County, New Mexico

Case No.
5378

BEFORE: Richard L. Stamets, Examiner.

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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MR. STAMETS: Call the next Case, Case 5378.

MR. CARR: Case 5378. Application of Southern Union Production Company for compulsory pooling and a dual completion, San Juan County, New Mexico.'

MR. CAMPBELL: Mr. Examiner, I'm Jack M. Campbell, Campbell & Bingaman, 121 Palace Avenue, Santa Fe, New Mexico, appearing on behalf of the Applicant. I would like to introduce Mr. William S. Jameson, Secretary and General Counsel of Southern Union Production Company, who will be examining the witnesses and presenting the case appearing on behalf of Southern Union Production Company, the Applicant.

MR. STAMETS: Are there any other appearances in this case?

MR. KELLAHIN: If the Examiner please, I'm Jason Kellahin, Kellahin & Fox, Santa Fe, appearing on behalf of W. P. Carr. We will have one witness.

MR. STAMETS: You may proceed.

MR. JAMESON: At the outset, Mr. Examiner, we would like to make a part of the record a certificate available to the Application to make the working-interest owners in the --

MR. CAMPBELL: (Interrupting) We have not shown that as an exhibit.

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THE WITNESS: We have not shown that as an Exhibit.

MR. CAMPBELL: The first Witness will be Mr. Curtis.

MR. STAMETS: Will all the Witnesses stand and be sworn at this time, please?

(Witnesses sworn.)

BILL CURTIS

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. JAMESON:

Q State your name, please.

A My name is Bill Curtis, I'm Manager of Lands, Southern Union Production Company, Dallas, Texas.

Q Mr. Curtis, I hand you a map or plat identified for the record as Exhibit 1, and ask that you explain that Exhibit.

A This is a plat prepared by my Department showing the varied lease interests in the North half of Section 3, Township 30 North, Range 11 West, New Mexico, P.M. There are two changes which were made on the plat from the original plat, being transpositional areas on the acreage

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content made by the Drafting Department. These I personally corrected myself. The acreage checks out as 320 acres.

Q Now, does this plat show the identity of all oil and gas lease owners in the North half of Section 3?

A Yes, sir.

Q Briefly, who are those owners?

A The owners that we have in here are working interest owners are Southern Union Production Company which we have approximately 278.44 acres, Mr. Carr who has approximately 6.38 acres and Aztec of Dallas who has 35.18 acres.

Q Now, does Southern Union Production Company seek a forced pooling of lands in this -- covered by this plat?

A Yes, sir, we do. We have two formations which we are attempting to pool, one being the Pictured Cliff Formation, which would be an 160 acre unit in the Northeast quarter of Section 3, and a 320 acre Mesaverde Unit to be the entire North half of Section 3.

Q Has a well been previously commenced on these proposed units?

A Yes, sir, we have the Lester Well which is identified in the Southeast of the Northeast quarter of

Section 3, which is in a state of being completed at this time.

Q Now, is the Northeast quarter as to the Pictured Cliff Formation and the North half of the Section as to the Mesaverde Formation pooled at the present time?

A No, sir, they are not. We have some leases which were executed in 1949 and under a declaration of pooling and June 25th, 1954, the Northeast quarter of Section 3 was a pooled unit created for Pictured Cliff production from the Calloway No. 1 Well which is located in the Northeast Northeast quarter. These units were created pursuant to our rights on our oil and gas leases, however, the oil and gas leases provide that units are to be created prior to drilling and once drilling has commenced the units cannot be reformed, repooled, or unit designations changed without prior consent from the lessor.

Q How many lessor royalty owners would be involved in attempting to obtain consents and ratifications to this proposed pooling?

A On the Mesaverde Unit, which we are requesting, we have 33 royalty or overriding royalty owners who are located from Aztec, New Mexico, Colorado, California, North Carolina, and Arizona; approximately 6 on the

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Pictured Cliff Unit being located in the same areas.

Q Now, are those merely the royalty owners of Southern Union Production Company?

A These do not reflect the royalty owners of Mr. Carr and Aztec. It might be pointed out at this time that by the declaration of pooling in June of 1954, that pooled unit terminates upon the termination of production. The Calloway Well ceased to produce some time ago. The operating agreement created by the pooled unit provided that the operating agreement would be in effect until such time as the pooled unit ceased to exist. Therefore, we find ourselves without a pooled unit and without an operating agreement covering operations in the Lester Well.

Q Has Southern Union Production Company obtained the consent and approval of both Aztec and Mr. Carr to the proposed pooling that you have outlined?

A No, sir. We have received approval from Aztec, but not from Mr. Carr.

Q So there is no unanimous consent to the pooling by all the working interest owners in effect at the present time?

A No sir, other than the fact that under the Pictured Cliff working interest break-down you would have

approved about 96 percent and under the Mesaverde approximately 90 percent.

Q Now, will there be a difference in the interest in production from a proposed Pictured Cliff Unit from the division of interest in the proposed Mesaverde Unit?

A Yes, sir, there will. The Pictured Cliff will be a 160-acre unit upon which the participation will be based upon the surface acres held by the working interest owners. In this case Mr. Carr would have 6.38 acres over 160. Aztec would have 35.18 acres over 160. In the Mesaverde we would increase this to 320 acres to cover the North half, so you would have varying interest.

Q Now, would that require in any pooling of the two proposed units for a dual completed well some method of allocation of cost between the two formations?

A Almost definitely.

Q That's because of the difference in ownership, in percentage of ownership, in the two formations?

A Yes. Now, the allocation of costs I will refer to Mr. Vanderslice who will be testifying here at a later time.

Q Now, what, in your opinion, would be a reasonable overhead supervision charge for Southern Union Production

Company as operator if the Commission grants this forced pooling application?

A I believe we are entering into evidence a proposed order by the Commission whereon it states we are requesting a 200 percent non-consent penalty and \$150 per well per unit overhead charge. Common industry practice at this time is that we find the 200 percent to be more than reasonable where we find operating costs skyrocketing, and the cost in risk dollars involved skyrocketing. 200 percent is well within accepted general industry practice; the \$150 combined well-rate charge which we are requesting is considerably less than what we are experiencing in other areas. We find operating costs with the inflationary trend to be a minimum of \$190, \$200 per well and up to as much as \$435 per well in the Gulf Coast.

Q In your opinion, would the proposed risk charge and proposed supervision charge that you just mentioned be reasonable and fair to all parties concerned?

A Oh, by all means.

Q All right. Mr. Curtis, was this Exhibit No. 1 prepared under your supervision?

A Yes, sir, it was.

MR. JAMESON: I believe that's all of this

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Witness.

MR. STAMETS: Are there questions of this

Witness? Mr. Kellahin?

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Curtis, you said the well is now being completed. Is that the Lester No. 1 Well?

A Yes, sir.

Q Just what is the state of that well at the present time?

A I would prefer to defer that to our Operations Manager, Mr. Vanderslice, who has direct knowledge of the exact condition of the well.

Q Do you have exact knowledge of the condition of the well?

A Yes, sir, I do.

Q Did you take into consideration the fact that the well is either completed or practically completed in arriving at your 200 percent penalty factor, or risk factor, I believe that's the proper terminology for it?

A I would appreciate it if you would restate that.

Q You are asking for a 200 percent risk factor?

A Right.

Q Did you take into consideration in arriving at that 200-percent figure that Southern Union Production has already assumed the risk and the well is practically completed?

A In view of the fact that beginning in August we have made every attempt to consummate a voluntary situation, I think it is more than reasonable, really.

Q That doesn't answer my question. Did you consider the fact that you already know what you've got in arriving at a 200-percent risk factor?

A Yes, in keeping with general practice in the oil business, yes.

Q You did?

A Yes.

Q Now, you say that the Pictured Cliff is not pooled at the present time and then you made reference to a pooling agreement dated I believe in June of 1954?

A Correct.

Q Do you have a copy of that with you?

A I sure do; it's right here.

Q Would you turn to Page 3 and Paragraph 5 of that agreement; Section 5 I should say, on Page 3? Do you find that?

A On the pooling agreement?

Q Yes, sir.

A Dealing with acreage content, is that correct?

Q No. I'm talking about the operating agreement, I'm sorry.

A All right. The operating agreement. Yes, sir.

Q Now, Section 5 provides that in the event the well should be abandoned the parties can authorize the drilling of additional wells, does it not?

A Yes, sir, but if you'll refer to Section 4 of the same agreement on Page 3, continuing onto Page 4, I think you will find that that's superfluous.

Q You say Section 4 says that's superfluous?

A Section 4, Term of Agreement, on Page 3 and continued to Page 4, which reads, in effect (Reading) This agreement shall remain in force and effect unless sooner terminated by mutual agreement of the parties hereto as long as the communitization (or pooling) agreement hereinabove described shall remain in force and effect. (End of reading.)

Q Now, you say that the pooling agreement terminates on the cessation of production, is that correct?

A Yes.

Q But in your operating agreement it doesn't. Is this the usual procedure with Southern Union Production?

A The operating agreement was made subject to the specific terms and conditions of the designation of pooling and the designation of pooling indicates that the pooling agreement terminates upon cessation of production. Therefore, referring to Paragraph 4 of the operating agreement, which specifically states that the agreement shall terminate upon termination of the pooling agreement, I see very little reason for questioning.

Q Now, there was a well on this unit, was there not, a Pictured Cliffs well?

A Yes.

Q That was plugged and abandoned?

A It's in the process of being plugged and abandoned.

Q It has not been plugged and abandoned. When did production of this unit cease?

A I would have to defer that question to Mr. Vanderslice.

Q The well that was on there, did you make any attempt to recomplete it, work it over?

A I defer that to Mr. Vanderslice; that's in his field.

Q Okay, sir. As I understand it you say that your lease provides that no new units can be formed without consent?

A Yes, sir.

Q Who is this lease from?

A From all of the parties we have under lease, under the Southern Union Leases.

Q Who is the owner of that, N.W. Lester?

A Well, we have 33 different royalty owners out there.

Q And all your leases have this same provision?

A Same lease, same provision, and our on Southern Union Production Company lease form.

Q That is in your lease form?

A Yes, sir. You won't find it in there now, but it was then.

Q One other thing; under your operating agreement of June, 1954, what was your combined fixed rate for supervision?

A Ridiculous --also, the accounting procedure on here is obsolete as accepted by the general industry practice.-- \$45 per well per month.

Q Now, you say that \$150 compares to what you have

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experienced in other areas. Do you experience \$150 per well per month in the San Juan Basin?

A Under oil agreements, yes. But I might also add weekly we receive requests from operators requesting non-operators to increase these combined well costs to a more reasonable level.

Q What are your usual charges in the San Juan Basin for supervision?

A I would have to defer that to Mr. Jameson who is more familiar with the San Juan as to operating costs. I'm using general industry accepted charges.

Q Do you know what that is?

A In the San Juan?

Q Mr. Jameson is not a witness so I have to ask you.

A Actual cost I would say would be no different from any other area because it would be varied between operators and the charges being accepted in the area.

Q Is \$150 the highest charge that you receive?

A In the San Juan?

Q Yes, sir.

A I would have no idea.

Q Do you know what the lowest charge you receive is?

A I would have no idea.

Q Do you know what other operators are getting in the San Juan Basin?

A No, sir.

MR. KELLAHIN: Thank you. That's all I have.

MR. STAMETS: Any more questions?

MR. JAMESON: Just this one question, Mr. Curtis.

REDIRECT EXAMINATION

BY MR. JAMESON:

Q Has it been some time since Southern Union Production has entered into a new operating agreement in the San Juan Basin due to the fact that all the acreage is leased up up there?

A Yes, sir.

Q Any operating charges established several years back would be a steal in the light of modern economics?

A Well, also in view of the fact that we have received many requests for changing to a more realistic operating cost by other operators in San Juan.

MR. JAMESON: I believe that's all.

RECROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Curtis, what's the location of the Calloway

Well?

A The Calloway Well is located -- I don't have the exact description -- it would be in the lower Southwest quarter. Southwest quadrant of the Northeast Northeast of Section 3. I believe Mr. Vanderslice has an exact location. If you defer that to him, you can get an exact location.

Q Fine. Now, this supervision charge you said \$150 per month per unit. Now, you're talking about \$300 per month for this dual completion?

A Yes, sir, because in essence you really have two separate wells, but we have utilized our risk dollars in one hole to acquire two wells.

Q I believe you said the well is almost completed. How much of the risk has Southern Union taken?

A It has taken 100 percent of it to this point.

Q No, let me rephrase this. There is a certain risk involved when you drill a well; when you go out there and you start from the surface of the ground on down the risk seems to be more when you start than it does when you complete the well; you know what you've got at the end. How much of that risk have you actually assumed to this point? How much of that risk have you

used up?

A I'm really not sure that I follow the question. Any time you drill a well if you are able to use hindsight your risk really wasn't very great, but in the process of drilling that well you have total risk. We drilled this well heads up and I would say that to this point all risk has been realized, with the exception of what could happen during completion at stake, and as you well know, certain risks are involved in completing wells. I don't know whether this answers your question or not.

Q That's what I'm getting at. Have you used up 75 percent of the potential risk on this well? Are you 75 percent sure that you have a producer?

A I would think that that question would be more appropriate for Mr. Vanderslice who has been directly involved in the operations.

Q Why was the well started before the units were pooled?

A Well, we couldn't get approval from Mr. Carr to commence operations. Aztec had already approved the plan, approved the proposal and signed the AFE. We wanted to commence this well during the 1974 drilling year. Some lapse of time had occurred between the cessation of

production on the Calloway, just normal planning, we had about a 6-month period in there in which we had made every attempt possible to get Mr. Carr's approval to no avail, and we felt like any further delays would really accomplish nothing.

Q You initiated action on this voluntary proposal when, July of '74?

A Actually we started about in August.

Q In August?

A Yes.

MR. STAMETS: Are there any other questions of this Witness? Mr. Kellahin?

RE CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Curtis, did I understand that you are talking about \$150 overhead charge for the Pictured Cliffs and \$150 for the Mesaverde?

A Right.

Q In other words, \$300 for the well?

A Yes.

Q Could you tell us how long after production ceased in the Calloway Well before you started the Lester No. 1?

A I would think that Mr. Vanderslice could better answer that than I can because he has the exact dates. I do not have the exact dates with me; that's an operations question.

MR. KELLAHIN: Okay. Thank you.

MR. STAMETS: If there is nothing further the Witness may be excused.

MR. JAMESON: Mr. Bill Vanderslice is our next Witness.

(Witness previously sworn.)

BILL VANDERSLICE

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. JAMESON:

Q State your name, please.

A My name is Bill Vanderslice. I'm the Area Superintendent for Southern Union Production Company in Farmington.

Q Mr. Vanderslice, are you familiar with Southern Union Production Company Pictured Cliff Well known as the Calloway Well?

A I am.

Q What is the present status of that Well?

A The Pictured Cliff is being plugged and abandoned, that portion of the well.

Q Where was that well located?

A That exact footage -- I said that I had it, but I believe you have it. The Calloway No. 1 Well is located 1050 feet from the South line and 900 feet from the East line of Section 3, Township 30 North, Range 11 West, San Juan County, New Mexico.

Q How long has it been since the Calloway Well has produced any gas?

A Approximately 2 years.

Q Did the Commission Engineer at Farmington get interested in the plugging of this well?

A Oh, up until about -- I'd say 6 weeks ago -- we left the well in a status quo position due to the fact that we were trying to get permission from Mr. Carr and from Aztec to redrill or to drill a supplementary well. It was our intention to drill a second well due to the fact that in 1954, when the Calloway Well was drilled, it was common procedure then to set pipe on top of the Pictured Cliff and open-hole complete within the Pictured Cliff. When you have casing failures now, water gets to your formation.

It is not a good engineering practice to go back in and attempt a completion within that particular zone. The zone had been contaminated and you're much better off to redrill your well.

MR. STAMETS: Mr. Jameson, I might suggest that you qualify this Witness as an expert at this time because it sounds like he is beginning to get into opinion and not just fact.

MR. VANDERSLICE: I have been qualified previously.

BY MR. JAMESON:

Q For the record, give us a brief statement of your educational training and experience.

A Three years, Southern Methodist University in Dallas, and 37 years with Southern Union Production Company.

Q In what capacity?

A Geologist and as an Area Superintendent.

Q During that time as Area Superintendent have you had occasion to supervise and make operating decisions relative to methods and manner of completion and drilling completion of wells?

A I have.

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Q Do you supervise those operations on behalf of the Company?

A I do.

MR. STAMETS: The Witness is considered qualified.

BY MR. JAMESON:

Q Now, was the Calloway Well plugged pursuant to Commission direction?

A Yes.

Q In other words the Commission told you to get it plugged?

A They did and I did.

Q Now, Mr. Vanderslice, the Lester No. 1 Well has been mentioned by Mr. Curtis in his testimony. When was that well commenced?

A Approximately the 14th of 15th of December.

Q All right. Now, what is the present status of operations on it?

A Waiting on a completion unit.

Q All right. In other words, has it been drilled with string of casing set on it but no work past that?

A That is correct.

Q What is the location of the Lester No. 1 Well?

A Lester No. 1 is located 1670 from the North line

and 1010 from the East line of Section 3, Township 30 North, Range 11 West.

Q Now, did you file an application for authorization by the Commission to commence and drill the Lester No. 1 Well?

A I have, or I did.

Q And you have received authorization from the Commission?

A Yes.

Q That authorization was conditioned, was it not?

A In deed it was conditioned.

Q How was it conditioned?

A It was conditioned that we could drill the well but no production would be -- or we would not produce the well until this forced pooling was worked out.

Q Now, I hand you a drawing identified for the record as Exhibit No. 2 and ask if you would explain that drawing?

A This is a schematic drawing of the Lester 1. It shows where surface casing is set, our long string, where we propose to perforate, where we propose to run our tubing, etc.

Q Could you describe that in a little bit more

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detail on the Exhibit?

A 8 5/8th -inch surface casing was set at 300 feet, cemented with 185 sacks of cement; a 7 7/8th-inch hole was drilled to a total depth of 4760; 5 1/2-inch casing was set at 4760 feet; it was cemented at the first stage with 250 sacks of cement; second stage 250 sacks of cement; stage collar at 2504 feet. It is at about that state now.

Q Yes. Now, does this show that you propose to dually complete the Lester No. 1 well for production from the Pictured Cliffs Formation and the Mesaverde Formation through running a dual string of tubing?

A That is correct, yes.

Q And that is shown on this Exhibit?

A Yes.

Q Now, Mr. Vanderslice, I hand you a plat identified for the record as Exhibit No. 3 and ask if you would explain that plat?

A This plat is an offset-operated plat; it shows the location of the No. 1 Lester and the offset wells and operators.

Q Is that plat in the form customarily required for the Commission in connection with seeking approval for

dual completion?

A That is correct.

Q Now, Mr. Vanderslice, I hand you a statement identified for the record as Exhibit No. 4 and ask if you would explain that statement?

A These figures propose to show the actual cost or the actual amount of money that we have spent on the Lester No. 1 to the point that the well is now. In other words it has been to the total depth an casing. The total cost figures are shown on the left; the allocated cost from surface to the bottom perforation in the Pictured Cliff which is 0 to 2326 feet. That shows the amount that we asked that we can allocate to the Pictured Cliff. The figures on the right, cost of the Mesaverde from 2326 to 4760 is the cost that we are proposing to allocate to the Mesaverde portion of the well.

Q What procedure generally did you follow in making an allocation of cost between the Pictured Cliffs and the Mesaverde Formation?

A We proposed, or we had a proposed operating agreement, that cost attributable to drilling the deepest perforation in the Pictured Cliffs Formation will be allocated 50 percent to the Pictured Cliffs Formation and

50 percent to the Mesaverde Formation, and cost of drilling below such depth will be allocated 100 percent to the Mesaverde Formation. Cost attributed to casing is to casing set above the deepest perforation in the Pictured Cliffs Formation shall be allocated 50 percent to the Pictured Cliffs Formation, 50 percent to the Mesaverde Formation and casing set below such depth 100 percent to the Mesaverde Formation.

Q Now, you have those allocations mentioned set out on this Exhibit under Title Operating Agreement. Actually there is no operating agreement in effect, is there?

A No.

Q And this is merely a method of allocation that Southern Union Production Company has proposed to the other operators and is proposing to the Commission at the present time as fair?

A That is correct.

Q Now, what is the percentage of the total well depth that was drilled to the Pictured Cliffs Formation? In other words, what is the percentage of the depth?

A Well, the percentage of the depth from surface to the bottom perforation in the Pictured Cliffs in regard

to the total depth is 48.8 percent of the hole drilled.

Q Now, Mr. Vanderslice, I hand you another statement Identified for the record as Exhibit No. 5 and ask that you explain that statement?

A Exhibit No. 5 is the estimated cost to complete the Pictured Cliffs Formation within the well, and also an estimated cost to complete the Mesaverde.

Q Now, has any of the work for which this cost is estimated on this statement been done at the present time?

A None.

Q In other words, everything covered by this estimate remains to be done in order to effect the completion and equipping of the well?

A That is correct.

Q Now, I notice on this that you have an allocation between Pictured Cliffs Formation and Mesaverde Formation. What method of allocation would you employ on that?

A We went to the various service companies and asked for cost regarding the completion of the Pictured Cliffs portion. Those are shown in the Pictured Cliff cost and by the same manner we got the completion cost of the Mesaverde.

Q Now, once again there is a title down at the bottom of this Exhibit entitled "Operating Agreement." Southern Union Production Company does not have any operating agreement now in effect with the two proposed units?

A That is correct.

Q Actually what this allocation stated under the title "Operating Agreement" is is a proposed method of allocation that the Production Company proposes to follow and recommend to the Commission to adopt in this proceeding?

A That is correct.

Q Mr. Vanderslice, I hand you a table identified for the record as Exhibit No. 6 and ask that you explain it.

A Exhibit No. 6 is an estimated cost of drilling and completion cost in the Lester No. 1.

Q Does this statement merely incorporate your drilling costs from Exhibit No. 4 as actually incurred prior to this time, and your completion cost as contained in Exhibit No. 5 and estimated for future necessary work to complete the well?

A That is right.

Q Merely a total of the two in other words?

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A That is correct.

Q Now, once again, were your comments relative to the title operating agreement on the other two Exhibits also applicable to this Exhibit?

A Yes.

Q Now, were all of the Exhibits that you have described prepared under your supervision and direction?

A They were.

MR. STAMETS: Does that include Exhibit No. 1?

MR. CAMPBELL: No. Curtis testified that it was under his supervision. They haven't been offered as yet.

MR. JAMESON: That concludes our direct case, and we would like to tender Exhibits 1 through 6 into evidence.

MR. STAMETS: Without objection Exhibits 1 through 6 will be admitted.

(Whereupon, Southern Union
Production Company's Exhibits 1
through 6 were admitted into
evidence.)

MR. STAMETS: Are there questions of this
Witness? Mr. Kellahin.

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Vanderslice, on your Exhibit No. 2, the diagrammatic sketch, what size casing do you set through the Pictured Cliffs?

A I beg your pardon, do --

Q (Interrupting) Through the Pictured Cliffs.

A What is on this well?

Q Yes, sir.

A We ran 5-1/2 inch from top to bottom.

Q Is that normally used in, say, Pictured Cliffs single completion?

A That is a matter of opinion.

Q Let's just take as an example your offsetting well, the No. 1 Hanney; what do you have in there?

A Well, I don't know. I haven't looked at that well in many years.

Q Do you know what is in any of these other offsetting wells?

A Not specifically, no.

Q Actually it is not the common practice to use 5-1/2-inch casing when you're only completing in the Pictured Cliffs, is it?

A Well, when casing was available we'd drill the 4-1/2-inch right. Now you run about anything you can get.

Q It is common practice to use 4-1/2 and not 5-1/2, isn't it?

A Normally yes.

Q You need the bigger casing because of the Mesa-verde completion, don't you?

A That is correct.

Q Would there be a difference in the cost involved there?

A Yes.

Q Did you attribute that difference in cost to the Mesaverde in making your computation on the costs?

A No.

Q Now, on the AFE I believe you estimated the cost to be 66,000 for the Pictured Cliffs, but the actual cost -- these are actual costs, are they not, 54,691? At least it is the actual cost for drilling and the estimated cost for completion?

A That is correct. The drilling figure, which is 25,144, that's an actual cost. The \$29,000 figure is an estimated completion cost.

Q Now, the 25,144.35 was half of the cost of

drilling to the Pictured Cliffs, is that correct?

A That's right, as stated in Subtitle A.

Q Now, you say the Calloway Well was abandoned approximately 2 years ago.

A That is correct.

Q Why was it abandoned?

A A casing failure occurred.

Q Did you make any attempts to repair it?

A No.

Q And then it was two years later before you started drilling on the Lester?

A May I back up and answer your previous question; you asked if any attempt had been made to complete the well. We made an attempt to get the approval of our partners at that time to complete the well, to plug the well at that time.

Q To plug the well?

A Yes.

Q That was two years ago?

A Yes.

Q But it has not been plugged yet?

A The Pictured Cliff portion of it has been plugged.

Q It has been, Is that a dual completion?

A No, it was just a single Pictured Cliff well.

Q It has been plugged then?

A The Pictured Cliff portion of it has.

Q Is there any other portion to it?

A Well, part of the hole; there again we still haven't received permission from our partners to plug the well.

Q There is no production above from Pictured Cliffs, there never was?

A Not at this time, no.

Q Now, as I understand the status of your Lester Well, it is that it has been drilled and bottomed and you are waiting on completion?

A That is correct.

Q Did you test the well, the formation?

A The Lester -- no.

Q You made no tests at all?

A No tests whatsoever.

Q But you are going to complete it?

A That is correct.

Q You are certain enough of your well to do that, is that correct?

A Yes, sir.

Q Then the casing has not been perforated as yet?

A No, it has not.

Q At what stage would you say; is this well 90 percent completed or 80 percent completed?

A Oh, I would say about 60 or 70 percent completed.

Q 60 or 70 percent completed.

A Since it is proposed as a dual well there's more to it than a single completion.

Q So you have assumed 60 or 70 percent of the risk in drilling of this well up to the present time?

A Approximately 60 percent.

MR. KELLAHIN: That's all. Thank you Mr. Vanderslice.

REDIRECT EXAMINATION

BY MR. JAMESON:

Q One other question, Mr. Vanderslice. You have testified that cost figures on dual completion for both the Mesaverde and Pictured Cliffs production of the well. Is this a more economical and cheaper method to proceed for developing production from the two formations than drilling two separate wells, one to each formation?

A It is.

Q And the working interest owners will come out better by this method than by drilling and paying for two separate wells?

A Yes.

Q That's the reason that Southern Union Production Company made the decision to go ahead with it?

A That is right.

MR. JAMESON: All right. I believe that's all.

RECROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Vanderslice, Mr. Curtis proposed \$150 per month as a supervision charge for each of the two zones. Do you have knowledge of Southern Union operations in the area to say that this is an accurate figure of what your costs are today?

A I can quote an example if I may. We, several years ago, got quotes or bids on the care of wells or a group of our wells in the San Juan Basin. The figures that I received were \$150 for the Dakota and \$150 for the Pictured Cliffs. That was at least, I'd say 8 years ago. With inflation you can use your own figures.

Q Were those figures for dual completions of for single?

A They were for dual completions.

Q And that would be a charge for each side?

A That is correct.

Q Do you know off hand what an average cost on a single Pictured Cliffs well might be?

A Our depths vary within the Basin from 2000 to 4000 foot. We'll say a 2500-foot Pictured Cliff well today will cost you in the neighborhood of \$60,000 to \$70,000.

Q So this figure does represent a savings?

A Yes, it does.

Q How about the same cost say for a Mesaverde well?

A A Mesaverde well today -- there again it will vary with depth -- the average Mesaverde well will cost you \$150,000 to \$165,000.

MR. STAMETS: Are there any other questions of this Witness? He may be excused. Does Southern Union have anything further at this time?

MR. JAMESON: No, that concludes our case.

MR. STAMETS: Mr. Kellahin?

(Witness previously sworn.)

WILLIAM FLACK CARR

called as a witness, having been first duly sworn, was examined and testified as follows:

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DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A William Plack Carr.

Q Where do you live, Mr. Carr?

A Dallas, Texas.

Q What business are you engaged in?

A I'm an independent producer of oil and gas.

Q Have you ever testified before the Oil Conservation Commission?

A No, I have not.

Q For the benefit of the Examiner, would you briefly outline your education and experience in the petroleum field?

A I'm a Petroleum Engineering graduate of the University of Texas.

Q When was this?

A 1942, in January.

Q And subsequent to that, what have you done?

A I worked in my father-in-law's business for 15 years -- 20 years maybe. He saw the handwriting and quit; I wasn't that bright so I stayed on.

Q Are you still in the oil business?

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Q Are you still in the oil business?

A Yes, sir.

Q As an independent?

A Yes, sir.

Q Mr. Carr, do you operate any wells in the San Juan Basin?

A Yes, sir, I do.

Q How many?

A I think 24 currently.

Q Have you been active in the San Juan Basin for some period of time?

A I have not. I haven't done anything but one work-over up here in the last ten years that I operated.

Q I mean, have you operated in the San Juan Basin for a number of years?

A Well, I drilled all these wells, yes, sir.

Q And over what period of time was this, roughly?

A Well, starting about '53 or '54.

Q And you have operated those wells ever since?

A That's right.

Q And you are actually operating them yourself, or supervising through your own agents?

A That's correct.

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Q Mr. Carr, you were approached by Southern Union Production to enter into a voluntary agreement for the drilling of this dual completion, were you not?

A Yes, sir, and not in August of 1974, but I would guess prior to August of 1972.

Q You were approached then to drill a well?

A Yes, sir.

Q And what was your reaction to their proposal?

A At this time I assumed that he had an Ojo Alamo casing leak, and for some reason the well would not produce.

Q Now, you are talking about the Calloway Well?

A The Old Calloway Well, yes, sir. And, I asked them when they proposed this dual if they wouldn't give me figures on what they could do about repairing the old well. I never got any figures from them at all. Within three months after they talked to me we had an Ojo Alamo leak. We had the same thing occur in one of our wells that is just a few miles from this in the Pictured Cliffs Formation. At that time we re-entered this well and contrary to your saying that most people set 4-1/2, I set 5-1/2 wherever I could because it was to the top of the Pictured Cliffs I anticipated there could be problems

of this nature. We recompleted this well in the same hole it had been drilled in in October of 1972 for I think a better well than it had ever been at a cost of \$18,298. I still think it was a better deal than drilling a new well, but I don't have the experience in the Basin that Southern Union has, and I concede that maybe we were lucky. I'm not here -- if I can digress a little bit-- to nit-pick with Southern Union about anything except money. When they sent me this operating agreement I had not drilled a well in this Basin for a long time, but I knew that the ratio of expenses of \$66,000 for a Pictured Cliff well versus \$78,000 for a Mesaverde well, was ridiculous. It was more than any Pictured Cliffs single completion could conceivably be dreamed up to cost and it was far cheaper than a Mesaverde completion could possibly cost. This raised my feathers, because although my interest is very small, it is twice as big in the Pictured Cliffs as it is in the Mesaverde. I requested at that time that Southern Union have somebody who was familiar with current costs in this area, which I am not, go over this thing with me and let's see if we couldn't get it down on what looked like a reasonable cost basis. Nobody ever called me to give me those figures, and the next thing I knew they

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wanted to plug the old hole. I gave Mr. Jameson my verbal okay to plug the Pictured Cliff well in spite of the fact I figured -- I figured by this time it was probably better off to plug it -- but had I known that when he plugged it that his operating agreement was going to fly out the window I don't know whether I would have given him that permission or not. But, in any event, I had made inquiry of people who are active and who are, in my opinion, knowledgeable as to well costs in the San Juan Basin at this present date, and it is the concensus of their opinion that a single completion Mesaverde well can be expected to cost \$140,000, and that a single completion Pictured Cliffs well should cost approximately \$40,000, and I don't know what engineering method was used to arrive at the allocation of these expenses, but I would like to submit to the Commission that the only reasonable way to allocate expenses on a thing like this that you've got to lump together is that if there is any penalty or savings involved from the forced marriage that these penalties or savings be prorata, and I would like to suggest to the Commission that they not accept my cost figures, but get their own engineers to determine what is a reasonable cost for a Pictured Cliffs well and a reasonable cost for a

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Mesaverde well as single completions and to use the ratio of cost so determined to allocate the cost to the two zones in the No. 1 Lester Well. Other than that I would have no argument with Southern Union except on their operating agreement. Now we don't have operating agreements weekly or even monthly, but I have had a number within recent years in the San Juan Basin, and the highest current charge that we are being charged by any operator as a non-operator is \$120 a month per well for overhead, and I feel like in view of the fact that the Pictured Cliffs overhead of \$45 a month went out the window by a fluke, and maybe it is a ridiculous price, but I don't think that any operating charge over \$115 a month for a single well is reasonable, and I personally would operate the well for an operating charge of \$45 a month, which is the old charge for the Pictured Cliffs and \$115 a month for the Mesaverde. I also think that the drilling supervision charge proposed in Southern Union's operating agreement is excess, it is \$1200, and I assume that each unit is a separate well, which is \$2400, and this is exactly double the highest drilling supervision of any operating agreement that I have from any operator in the San Juan Basin.

Q Now, in connection with the proposed risk factor

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of 200 percent, do you have any thoughts on that?

A If I understand the risk factor, this is a penalty that is to be applied to a fellow who won't spend his money and take his risk?

Q That's correct.

A I have never refused to spend my money and to take my risk unless I thought somebody was trying to shove something down my throat, and that's the way I felt about this thing. Incidentally, I'm also curious about the rush to drill this well because I'm informed by what I think is a very reliable drilling contractor that footage drilling rates in the San Juan Basin for Mesaverde wells are \$7 to \$8 a foot and if I'm not wrong, Mr. Jameson told me that the contract for this well to get the work done during December was \$9.75 a foot, am I correct in that?

MR. VANDERSLICE: \$9.65.

A (Continuing) \$9.65, okay, and I'm sure that Southern Union got some tax benefits from doing the work in December, but I didn't. I would like to have, but I didn't have.

Q Is that all you have, Mr. Carr?

A That's all I have.

MR. KELLAHIN: That's all we have, Mr. Examiner.

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MR. STAMETS: Are there questions of Mr. Carr?

MR. JAMESON: I don't believe so.

MR. CAMPBELL: Mr. Chairman, just an observation. There was a more than usual amount of consolidated hearsay testimony.

MR. CARR: No doubt about that.

MR. CAMPBELL: It ought to be weighed accordingly.

MR. KELLAHIN: If the Examiner please, I think there is a line between hearsay and an expert in the area who has made inquiry to determine what costs are. That's a different matter.

MR. CARR: I have had quite a few years practice with shifting hearsay I might add.

MR. CAMPBELL: You do very well, sir.

MR. STAMETS: Mr. Carr, I have a question or two.

CROSS EXAMINATION

BY MR. STAMETS:

Q Have you sat down face to face with Southern Union at any time and tried to resolve the problem?

A No, sir. The only contacts I have had with Southern Union have been with some guy in the Land Department who sent me this operating agreement and then this

communitization agreement and who said he couldn't answer my questions about these costs; that he would have some engineer call me. To date I've not had one call from any engineer.

Q The figures you gave me for a single Mesaverde well and a single Pictured Cliff well seemed to indicate that the Pictured Cliff well is about 30 percent of the cost of the Mesaverde well?

A Approximately, yes.

Q And the figures furnished to us by Southern Union seem to indicate that they've allocated -- or that the Pictured Cliffs zone is about 50 percent, or 48 percent of the cost of the Mesaverde zone, and it is this difference that you're at odds with?

A Yes, sir. I think one of them is too cheap and one of them is too high, and I am in doubt on the one I think is too high. If it were the other way around, I wouldn't even be here.

Q And if this situation were resolved you would be willing to sign the agreement?

A You bet.

Q Even with \$150 operating cost on each side?

A I don't think that operating cost is fair, and

I'll show them other operating agreements.

Q Well, now, the question I asked was, "Would you sign it if the other matter was resolved"?

A For both zones?

Q Right.

A I don't know; I guess I'd have to, but I sure would hate to.

MR. CAMPBELL: That's exactly why we are here.

MR. CARR: Do you think \$150 is fair when nobody charges more than \$120? The highest operating agreement I have got for a Dakota well is from Amoco, and they've got some guy who can tell me if they've got higher ones, and it provides \$120 a month.

MR. STAMETS: Since I'm not sitting in that chair I don't believe I'll answer that question.

A (Continuing) I'll add this: I'd sign the agreement before I'd take the penalty because I'm not a penalty taker.

MR. STAMETS: Anything further of this Witness? He may be excused.

I might suggest that if any face to face negotiations occur subsequent to the hearing today and if there might be some modification of the percentages shown on the

Exhibits relative to the division of costs, that those be filed within a week.

MR. JAMESON: Mr. Examiner, the inability of Southern Union Production Company to agree with Mr. Carr, although it's agreed to exactly what we have proposed in this proceeding with Aztec, although without agreement of all three it hasn't been expressed on paper yet, I mean we've got the agreement of Aztec that they'll go along, and that's what we're proposing in this proceeding, but bear in mind the inability of working-interest owners to agree is only part of the problem. We've got the royalty-interest owners' problem --

MR. STAMETS: (Interrupting) I realize that.

MR. JAMESON: (Continuing) That, of course, if that was all that was involved, we would not involve the Commission specification as to how to allocate costs.

MR. STAMETS: Right.

MR. JAMESON: That's only necessary because of the inability of all the working-interest owners --

MR. STAMETS: (Interrupting) I realize that a forced pooling order would have to be issued regardless of what agreement you all might reach, but I do suggest that --

MR. JAMESON: (Interrupting) Mr. Examiner, I

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have prepared, anticipating the customary request to submit a proposed form order, and I have one that I will go ahead and submit to you, and that's our proposal for this proceeding.

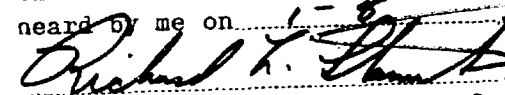
MR. STAMETS: Is there anything further in this case? We'll take the case under advisement.

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STATE OF NEW MEXICO)
)
COUNTY OF SANTA FE) SS.

I, RICHARD L. NYE, Court Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.


RICHARD L. NYE, Court Reporter

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5-378 heard by me on 1-8 1975.

Richard L. Nye, Examiner
New Mexico Oil Conservation Commission

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OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

I. R. TRUJILLO
CHAIRMAN
LAND COMMISSIONER
ALEX J. ARMIJO
MEMBER
STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

January 22, 1975

Honorable Jack M. Campbell
Campbell & Bingaman
Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico

Re: CASE NO. 5378
ORDER NO. R-4950

Applicant:
Southern Union Prod. Co.

Dear Sir:

Enclosed herewith are two copies of the above-referenced Commission order recently entered in the subject case.

Very truly yours,

A. L. PORTER, Jr.
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC X
Artesia OCC
Aztec OCC X

Other Aztec Oil & Gas Co., 2200 1st Natl. Bank Bldg., Dallas, Texas
Mr. M. P. Carr, 6700 4th Lane, Dallas, Texas 75202
Mr. Jason Kellahin, Kellahin & Fox - Santa Fe
Mr. William S. Jameson, Southern Union, Dallas, Texas

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5378
Order No. R-4950

APPLICATION OF SOUTHERN UNION
PRODUCTION COMPANY FOR COMPULSORY
POOLING, SAN JUAN COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on January 8, 1975, at Santa Fe, New Mexico, before Examiner, Richard L. Stamets.

NOW, on this 22nd day of January, 1975, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Southern Union Production Company, seeks an order pooling all mineral interests in

(a) The Pictured Cliffs formation underlying the NE/4 of Section 3, Township 30 North, Range 11 West, NMPM, Aztec-Pictured Cliffs Pool, San Juan County, New Mexico, and

(b) The Mesaverde formation underlying the N/2 of Section 3, Township 30 North, Range 11 West, NMPM, Blanco Mesaverde Pool, San Juan County, New Mexico.

(3) That applicant has commenced and is in the process of completing its Lester Well No. 1 as a dual completion in both the Pictured Cliffs formation and the Mesaverde formation at a location approximately 1670 feet from the North line and approximately 1010 feet from the East line of said Section 3.

(4) That there are royalty interest owners in the proposed proration unit for the Pictured Cliffs formation comprised of the NE/4 of said Section 3 and interest owners in the proposed proration unit for the Mesaverde formation comprised of the N/2 of said Section 3 who have not agreed to pool their respective interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in the proposed proration unit for the Pictured Cliffs formation and in the proposed proration unit for the Mesaverde formation the opportunity to recover or receive without unnecessary expense his just and fair share of the gas produced from each of such formations, the subject application should be approved by pooling all mineral interests, whatever they may be, within said Pictured Cliffs unit and by pooling mineral interests, whatever they may be, within said Mesaverde unit.

(6) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(7) That the applicant further seeks authority to complete said Lester Well No. 1, located in Unit H of Section 3, Township 30 North, Range 11 West, NMPM, San Juan County, New Mexico, as a dual completion (conventional) to produce gas from the Aztec-Pictured Cliffs Pool and the Blanco Mesaverde Pool through parallel strings of tubing with separation of the two zones by means of a packer.

(8) That the mechanics of the proposed dual completion are feasible and in accord with good conservation practices.

(9) That approval of the subject application will prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Pictured Cliffs formation underlying the NE/4 of Section 3, Township 30 North, Range 11 West, NMPM, Aztec Pictured Cliffs Pool, San Juan County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit to be dedicated to applicant's Lester No. 1 well heretofore drilled and in the process of completion at a location 1670 feet from the North line and 1010 feet from the East line of said Section 3; and all mineral interests, whatever they may be, in the Mesaverde formation underlying the N/2 of Section 3, Township 30 North, Range 11 West, NMPM, Blanco Mesaverde Pool, San Juan County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to said Lester No. 1 well.

-3-

Case No. 5378
Order No. R-4950

(2) Southern Union Production Company is hereby designated the operator of the subject well and the Pictured Cliffs formation and Mesaverde formation units.

(3) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

IT IS FURTHER ORDERED:

(1) That the applicant, Southern Union Production Company, is hereby authorized to complete its Lester Well No. 1, located in Unit H of Section 3, Township 30 North, Range 11 West, NMPM, San Juan County, New Mexico, as a dual completion (conventional) to produce gas from the Aztec Pictured Cliffs Gas Pool and gas from the Blanco-Mesaverde Gas Pool through parallel strings of 1-1/4 inch and 1-1/2 inch tubing, respectively, with separation of the two zones to be achieved by means of a packer set at approximately 4500 feet.

PROVIDED HOWEVER, that the applicant shall complete, operate, and produce said well in accordance with the provisions of Rule 112-A of the Commission Rules and Regulations insofar as said rule is not inconsistent with this order;

PROVIDED FURTHER, that the applicant shall take packer-leakage tests upon completion and annually thereafter during the Deliverability Test Period for San Juan Basin gas pools.

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

I. R. TRUJILLO, Chairman

Phil R. Lucero
PHIL R. LUCERO, Member

A. L. Porter, Jr.
A. L. PORTER, Jr., Member & Secretary

dr/

Dockets Nos. 2-75 and 3-75 are tentatively set for hearing on January 15 and January 22, 1975. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - JANUARY 8, 1975

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING - SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

CASE 5110: (Continued from July 10, 1974)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider the institution of gas prorationing in the Washington Ranch-Morrow Gas Pool, Eddy County, New Mexico, to provide for fixing the total allowable natural gas production from said pool to an amount equal to reasonable market demand and to the capacity of the gas transportation facilities. Also to be considered will be the adoption of special rules and regulations for said pool including a provision for allocating the allowable production among the wells in the pool. NOTE: This case will be dismissed.

CASE 5378: Application of Southern Union Production Company for compulsory pooling and a dual completion, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Aztec-Pictured Cliffs Pool underlying the NE/4 and in the Blanco-Mesaverde Pool underlying the N/2 of Section 3, Township 30 North, Range 11 West, San Juan County, New Mexico, to be dedicated to applicant's Lester Well No. 1, to be drilled at a standard location in the NE/4 of said Section 3 and dually completed in the Pictured Cliffs and Mesaverde formations. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of the applicant as the operator of the well and a charge for the risk involved in drilling said well. Applicant further seeks approval for the dual completion (conventional) of said Lester Well No. 1 in such a manner as to produce gas from the Mesaverde and Pictured Cliffs formations.

CASE 5380: Application of Amoco Production Company for a non-standard gas proration unit, an unorthodox gas well location, and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a non-standard gas proration unit comprising the S/2 NE/4, SE/4 NW/4, E/2 SW/4, and SE/4 of Section 33, Township 20 South, Range 36 East, Eumont Gas Pool, Lea County, New Mexico, to be simultaneously dedicated to its Gillully "B" Well No. 3, located in Unit N, and its Gillully "B" Well No. 15 to be drilled at an unorthodox location 1980 feet from the North line and 660 feet from the East line of said Section 33.

WILLIAM PLACK CARR

6700 FOREST LANE
DALLAS, TEXAS 75230

January 9, 1975

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Dear Mr. Stamets:

In testifying in Case No. 5373 on January 8, 1975, I goofed. I testified that a reasonable cost figure for an average Pictured Cliffs Single Well completion was \$40,000.00; and that the reasonable cost of an average Mesa Verde Single Well completion was \$140,000.00; and urged the Commission to allocate costs between these zones in this ratio of 40:140.

But the dual well ends up being the sum of the two single wells, so that to be correct, I should have urged allocation of costs between zones so that 40/180 of the costs be allocated to the Pictured Cliffs Unit, and 140/180 of the total costs be allocated to the Mesa Verde Formation.

I believe that since the latest cost estimate submitted by Southern Union Production Company is expectantly slightly less than \$180,000.00, that this further evidences the reasonableness of these single well cost figures.

I have previously stated that I had no plan to be a non-consenting owner, and I know in advance that the Commission's findings as to cost allocation will be fair and reasonable.

Thank you for your patience.

Yours very truly,

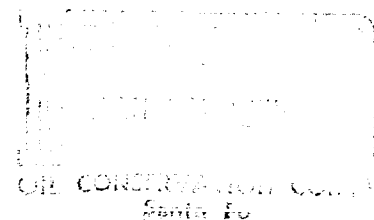


W. P. Carr

WPC/b

cc: Southern Union Production Company
8350 North Central Expressway
Suite 1700, Campbell Centre
Dallas, Texas 75206

Attention: Mr. W. S. Jameson



WORK SHEET

WELL NAME & NO: LESTER #1

LOCATION: NW Sec. 3, T-30N, R-11W

REMARKS: MV (Mesaverde), PC (Pictured Cliffs) Dual

	Total Well	MV	PC
<u>MATERIAL:</u>			
Surface casing:	2550	1275	1275
Intermediate:			
Long String:	27000	16650	10350
Tubing	6000	3700	2300
Casinghead, Tubinghead, Xmas Tree & Fittings....	6000	3000	3000
Misc. Down Hole Completion Equipment	3000	3000	
<u>COMPANY LABOR:</u>			
Supervisory: 1500			
Field Labor: 750			
Vehicle & Equip. 750			
Total Labor.....	3000	1500	1500
TOTAL	47550	29125	12425

CONTRACT SERVICES:

<u>Drilling Contractor:</u>			
Footage - 6.50 MV 6.00 P.C.	30880	17080	13800
Day Work - 1 @ 2200.....	2200	1100	1100
Moving			
Bits			

COMPLETION RIG:

Day Work - 6 @ 1600	9600	4800	4800
Moving	3000	1500	1500
Fuel Gas	2500	1250	1250
Bits			

<u>SURVEY LOCATION:</u>	150	75	75
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DIRT WORK:

Roads & Location	2500	1250	1250
Pits			
Clean Up	1000	500	500

<u>ROUSTABOUT LABOR</u>	1500	500	1000
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<u>RENTAL TOOLS</u>	2000	500	1500
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<u>MUD & CHEMICALS:</u>	4000	2000	2000
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<u>DRILLING & FRAC WATER</u>	3000	1500	1500
----------------------------------------	------	------	------

<u>LOGGING</u>	3000	1500	1500
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CEMENTING SERVICES:

Surface	1350	675	675
Intermediate			
Long String.....	4000	2000	2000
Liner			
Cement Survey - Guide Shoe & Centralizers.....	1500	900	600

<u>PERFORATING - P.D.C. - C.R.L.</u>	3000	1500	1500
--------------------------------------------	------	------	------

FRACING:

Oil or Water Haul	3000	1500	1500
Sand & Service	18000	9000	9000

MISC. SERVICES:

Trucking	1000	500	500
Welding	100	50	50
	97280	49680	47680

TOTAL 144,830 78,805 66,025

TOTAL COST OF PROJECT \$144,830

This is why I came to the hearing

COMPANY: SOUTHERN UNION PRODUCTION CO	COMPANY: W. P. Carr
APPROVED: <i>[Signature]</i>	APPROVED: _____
L. S. HUENINK	
TITLE: EXECUTIVE VICE PRESIDENT	TITLE: _____
DATE: OCTOBER 11, 1974	DATE: _____
Pictured Cliffs - 72.15000% = 47,636.00	Pictured Cliff - 3.9875% = 2,632.75
Mesaverde - 86.07500% = 67,832.00	Mesaverde - 1.99375% = 1,571.17

SOUTHERN UNION PRODUCTION COMPANY

WILLIAM S. JAMESON
SECRETARY AND
GENERAL ATTORNEY

SUITE 1700, CAMPBELL CENTRE
8350 NORTH CENTRAL EXPRESSWAY
DALLAS, TEXAS 75206

CABLE ADDRESS
SUPCO
DALLAS, TEXAS

January 13, 1975

RECEIVED
JAN 16 1975
CAMPBELL & BINGAMAN, P.A.

Mr. Jack Campbell
Campbell and Bingaman, P.A.
Post Office Box 2208
Santa Fe, New Mexico 87501

Re: Lester No. 1 Well

Dear Jack:

Mr. W. P. Carr has executed our form of operating agreement and Aztec Oil and Gas Company has advised us that they are in the process of also executing the operating agreement. For this reason all costs and shares of production will be governed by the operating agreement and need not be covered by any force pooling order of the Commission.

However, since it is necessary to effect a pooling of interests in the units I still consider it necessary that the Commission enter an abbreviated order pooling all interests in the two units for the well. For this reason I am forwarding herewith a form of order for the Commission and suggest that you contact Mr. Richard L. Stamets and furnish him a copy of the proposed order that will, in light of execution by the parties of the operating agreement, be sufficient.

Very truly yours,

William S. Jameson

William S. Jameson

WSJ:sjh
enclosures

cc: Mr. W. P. Carr
Aztec Oil and Gas Company

RECEIVED
JAN 16 1975
OIL CONSERVATION COMM
Santa Fe

100-5378
R. 4951

SOUTHERN UNION PRODUCTION COMPANY

POST OFFICE BOX 808
FARMINGTON, NEW MEXICO 87401

February 12, 1975

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter

Dear Sir:

Enclosed is copy of "Packer-Setting Affidavit" for Southern Union Production Company's Lester No. 1 well located 1670 feet from the North line and 1010 feet from the East line of Section 3, Township 30 North, Range 11 West, N.M.P.M., San Juan County, New Mexico.

Yours very truly,

SOUTHERN UNION PRODUCTION CO.

Dan R. Collier
Dan R. Collier
Office Manager

DRC:ml
Enclosure

NEW MEXICO OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

PACKER-SETTING AFFIDAVIT
(Dual Completion)

STATE OF New Mexico)
COUNTY OF San Juan)

Gene Longacre, being first dully sworn according to law,
upon his oath deposes and says:

That he is of lawful age and has full knowledge of the facts herein below
set out.

That he is employed by Baker Oil Tools in the capacity
of Oil Field Service Engineer and as such is its authorized agent.

That on January 20, 19 75, he personally supervised the setting
of a Model "D" 5-1/2" in Southern Union Production Company's
(Make and Type of Packer) (Operator)
Lester Well No. 1, located in Unit Letter
H, Section 3, Township 30 North, Range 11 West, N.M.P.M.,
San Juan County, New Mexico.

That said packer was set at a subsurface depth of 4507 feet,
said depth measurement having been furnished by Blv. Jet.

That the purpose of setting this packer was to effect a seal in the
annular space between the two strings of pipe where the packer was set so as to
prevent the comingling, within the well-bore, of fluids produced from a stratum
below the packer with fluids produced from a stratum above the packer. That this
packer was properly set and that it did, when set, effectively and absolutely
seal off the annular space between the two strings of pipe where it was set in
such manner as that it prevented any movement of fluids across the packer.

Baker Oil Tools
(Company)

Gene Longacre
(its Agent)

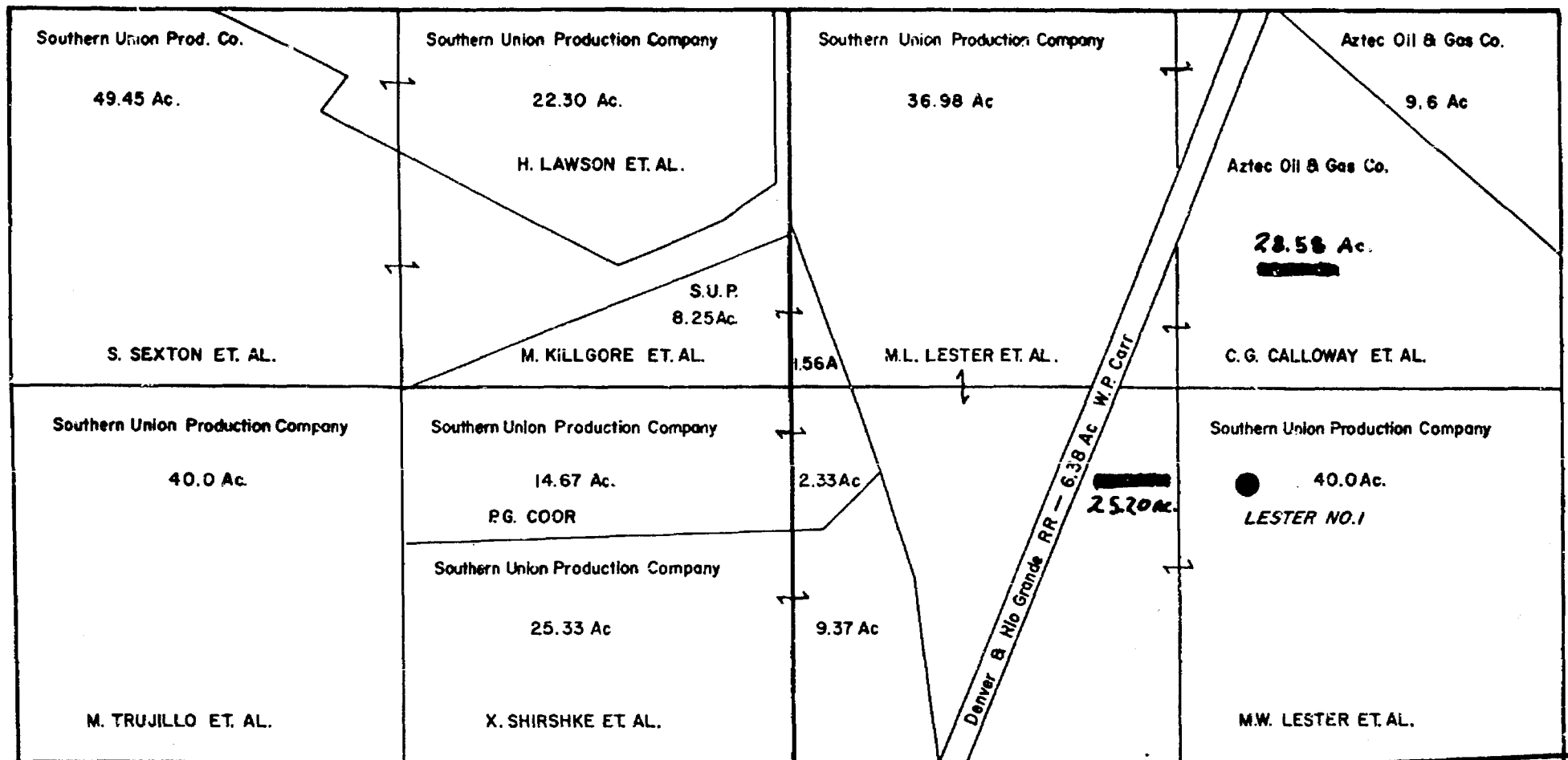
Subscribed and sworn to before me this the 17th day of February, AD,
19 75.

Betty Jo Stuart
Notary Public in and for the County
of San Juan

My Commission Expires August 25, 1976

SOUTHERN UNION PRODUCTION COMPANY

EXHIBIT NO. _____



SECTION 3: NORTH HALF (N1/2)
TOWNSHIP 30 NORTH RANGE 11 WEST N.M. P.M.

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION

EXHIBIT NO. 1

CASE NO. 5328

Submitted by Southern Union Prod Co

Hearing Date January 8, 1975

SOUTHERN UNION PRODUCTION COMPANY

LESTER NO. 1

1670' N line & 1010' E line

Section 3, T-30N, R-11W

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION

EXHIBIT NO. 2

CASE NO. 5378

Submitted by

Hearing Date

8-5/8", 24#, J-55
Set @ 300 ft. R.K.B.

Surface casing cemented to
surface w/185 sks neat cnt.

12-1/4" surface hole size

Second Stage Cement

250 sks. Howco Lite

115 sks. 50/50 Pozmix

Estimated top 350 Ft.

1-1/4", 2.33#, I.J. Tbg.
Set @ 2200 Ft.

70 ft. of Blast Joints
from 2269 - 2339 Ft.

Pictured Cliffs perforated
from 2282 to 2326' w/44 shots

8 centralizers on 42 Ft. spacing
from 2252' to 2546'.

Stage Collar @ 2504 ft.

First Stage Cement

215 sks. 50/50 Pozmix

Estimated Top - 3500 Ft.

1-1/2", 2.90#, E.U.E., Tbg.
set at 4500 ft.

Guiberson Uni-6 Packer
Set @ 4500 Ft.

Point Lookout perforated
from 4573 - 4660' w/87 shots
MESA VERDE

20 centralizers on 42 ft. spacing
from 3942 to 4740 ft.

7-7/8" Production Hole size

PBTD - 4713'

5-1/2", 15.50#, K-55
Set @ 4760 ft. R.K.B.

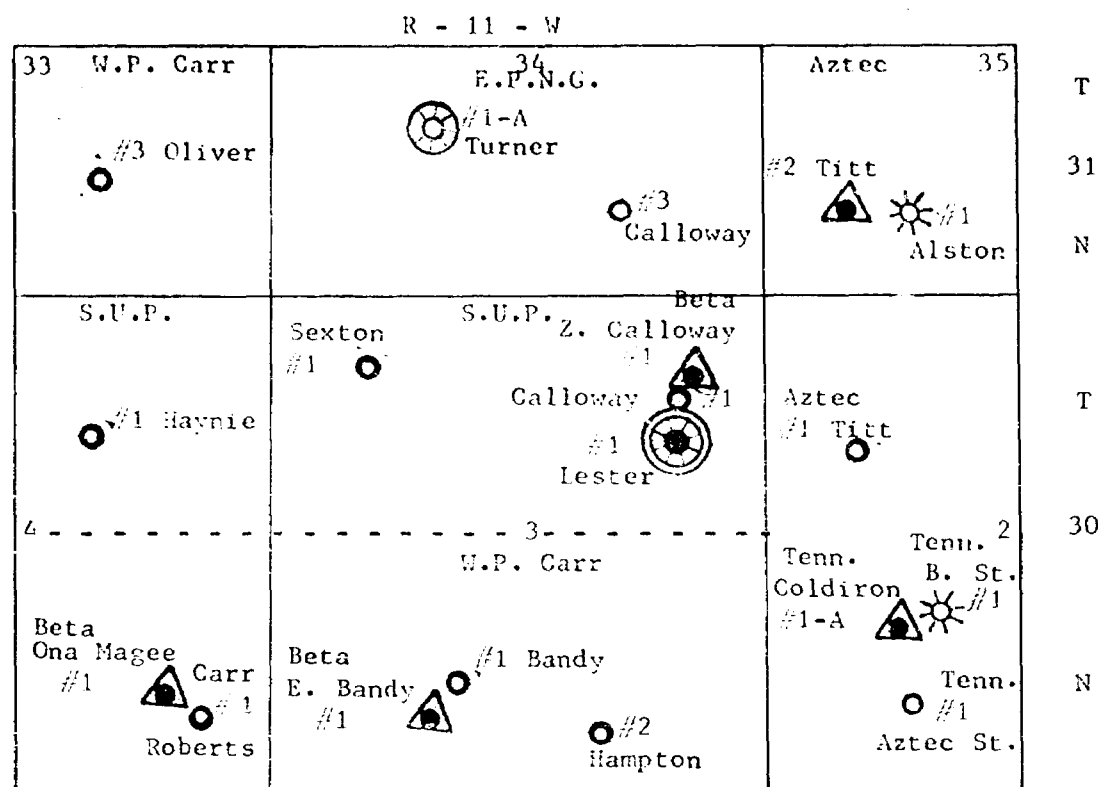
T.D. - 4760'

DIAGRAMATIC SKETCH OF MULTIPLE COMPLETION

OFFSET OPERATOR'S PLAT
To
SOUTHERN UNION PRODUCTION COMPANY

WELL: LESTER NO. 1

LOCATION: 1670 Feet from the North line and 1010 feet from
the East line, Sec. 3, T-30-N, Rge. 11-W, San Juan
County, New Mexico.



Proposed Aztec Pictured Cliffs - Blanco Mesaverde Dual



Pictured Cliffs



Dakota



Mesaverde



Pictured Cliffs - Mesaverde Dual

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
EXHIBIT NO. 3
CASE NO. 5378
Submitted by Southern Union Production Co.
Hearing Date Jan 8, 1975

SOUTHERN UNION PRODUCTION COMPANY
LESTER NO. 1
DRILLING COST

<u>COST ITEM</u>	<u>TOTAL COST</u>	<u>COST TO * PICTURED CLIFFS 0 to 2326 Ft.</u>	<u>COST TO MESAVERDE 2326 - 4760</u>	<u>OPERATING AGREEMENT</u>
ROADS & LOCATION	\$	\$	\$	
A. Survey Location	114.40	57.20	57.20	Sec. 4 (a)
B. Build Road & Loc.	2,006.16	1,003.08	1,003.08	Sec. 4 (a)
DRILLING:				
A) Day Work	5,882.81	2,941.40	2,941.41	Sec. 4 (a)
B) Bits	499.20	249.60	249.60	Sec. 4 (a)
C) Footage	42,846.00	9,775.45	33,070.55	Sec. 4 (a & b)
DRILLING MUD:	4,745.83	1,160.36	3,585.47	Sec. 4 (a)
FUEL GAS:	1,207.49	294.63	912.86	Sec. 4 (a)
LOGGING:	3,030.01	739.32	2,290.69	Sec. 4 (a)
SURFACE CASING:	2,195.72	1,097.86	1,097.86	Sec. 4 (a)
CEMENTING SURFACE CSG.	886.17	443.00	443.08	Sec. 4 (a)
PRODUCTION CASING	24,220.07	5,909.70	18,310.37	Sec. 4 (b)
CEMENTING PROD. CSG.	6,035.49	1,472.66	4,562.83	Sec. 4 (b)
	<u>93,669.35</u>	<u>25,144.35</u>	<u>68,525.00</u>	

* Depth to deepest proposed perforation of Pictured Cliffs is 2326 ft. which equals 48.6% of Total Depth.

OPERATING AGREEMENT

Section 4. Allocation of costs between the Pictured Cliffs formation and the Mesaverde formation for purposes of this agreement shall be as follows:

- (a) Costs attributable to drilling to the deepest perforations in the Pictured Cliffs formation will be allocated 50% to the Pictured Cliffs formation and 50% to the Mesaverde formation and costs of drilling below such depth will be allocated 100% to the Mesaverde formation.
- (b) Costs attributable to casing as to casing set above the deepest perforations in the Pictured Cliffs formation shall be allocated 50% to the Pictured Cliffs formation and 50% to the Mesaverde formation and as to casing set below such depth 100% to the Mesaverde formation.

Actual Well Costs

BEFORE EXAMINER STAMETS	
OIL COMPANY	EXHIBIT 4
CASE NO.	5378
Submitted by:	Southern Union Production Co.
Hearing Date	January 8, 1975

SOUTHERN UNION PRODUCTION COMPANY
LESTER NO. 1
ESTIMATED COMPLETION COST

<u>COST ITEM</u>	<u>TOTAL COST</u>	<u>PICTURED CLIFFS COST</u>	<u>MESAVERDE COST</u>	<u>OPERATING AGREEMENT REFERENCE</u>
COMPLETION RIG	\$ 9,900.00	\$ 4,950.00	4,950.00	Sec. 4 (c)
LOGGING & PERFORATING	2,980.00	1,320.00	1,660.00	Sec. 4 (c & e)
STIMULATION	15,707.00	6,991.50	8,715.50	Sec. 4 (c & e)
COMPLETION EQUIPMENT (Rental & Purchase)	2,000.00	1,000.00	1,000.00	Sec. 4 (e)
TRUCKING (Rig Move)	2,500.00	1,250.00	1,250.00	Sec. 4 (e)
ROUSTABOUT	1,500.00	750.00	750.00	Sec. 4 (e)
CATHODIC PROTECTION	3,000.00	1,500.00	1,500.00	Sec. 4 (e)
WATER (Completion and Stimulation)	3,000.00	1,000.00	2,000.00	Sec. 4 (c & e)
TUBING	8,931.00	3,036.00	5,895.00	Sec. 4 (e)
WELLHEAD & FITTINGS	7,000.00	3,500.00	3,500.00	Sec. 4 (e)
PACKER & BLAST JOINTS	3,000.00	1,500.00	1,500.00	Sec. 4 (e)
SURFACE PRODUCTION EQUIP.	10,000.00	-	10,000.00	Sec. 4 (c)
INSTALLATION COST OF WELL EQUIPMENT	2,500.00	-	2,500.00	Sec. 4 (c)
LOCATION CLEAN UP	1,500.00	750.00	750.00	Sec. 4 (e)
COMPLETION GAS	4,000.00	2,000.00	2,000.00	
TOTAL	<u>77,518.00</u>	<u>29,547.50</u>	<u>47,970.50</u>	

OPERATING AGREEMENT

Section 4. Allocation of costs between the Pictured Cliffs formation and the Mesaverde formation for purposes of this agreement shall be as follows:

- (c) Costs incurred in connection with testing and completion of the well in the Pictured Cliffs formation shall be allocated to the Pictured Cliffs formation and costs incurred in testing and completion of the well in the Mesaverde formation shall be allocated to the Mesaverde formation.
- (e) All other costs of drilling, testing, completing and equipping of the well shall be allocated to the formation to which such costs are attributable and when attributable to both formations shall be allocated equally to the two formations.

*estimated costs to complete
the well ———
all of this remains to be
done*

BEFORE EXAMINER STAMETS OIL CONSERVATION COMMISSION	
EXHIBIT NO. <u>5</u>	
CASE NO. <u>5378</u>	
Submitted by <u>Southern Union Products Co</u>	
Hearing Date <u>June 8, 1975</u>	

SOUTHERN UNION PRODUCTION COMPANY
LESTER NO. 1
DRILLING AND COMPLETION COSTS

The following is a summary of drilling and completion costs incurred or to be incurred on the Lester No. 1 well. The drilling costs are actual and the completion costs are estimated (See attached sheets for detailed costs and breakdowns.)

	<u>TOTAL COST</u>	<u>COST TO PICTURED CLIFFS</u>	<u>COST TO MESAVERDE</u>
DRILLING:	\$93,669.35	\$25,144.35	\$68,525.00
COMPLETION:	<u>77,518.00</u>	<u>29,547.50</u>	<u>47,970.50</u>
TOTAL COST	<u>\$171,187.35</u>	<u>\$54,691.85</u>	<u>\$116,495.50</u>

The above costs were allocated between the Pictured Cliffs formation and the Mesaverde formation by the method outlined in Section 4 of the Operating Agreement. The various paragraphs of Section 4 that are pertinent are reproduced below.

OPERATING AGREEMENT

Section 4. Allocation of costs between the Pictured Cliffs formation and the Mesaverde formation for purposes of this agreement shall be as follows:

- (a) Costs attributable to drilling to the deepest perforations in the Pictured Cliffs formation will be allocated 50% to the Pictured Cliffs formation and 50% to the Mesaverde formation and costs of drilling below such depth will be allocated 100% to the Mesaverde formation.
- (b) Costs attributable to casing as to casing set above the deepest perforations in the Pictured Cliffs formation shall be allocated 50% to the Pictured Cliffs formation and 50% to the Mesaverde formation and as to casing set below such depth 100% to the Mesaverde formation.
- (c) Costs incurred in connection with testing and completion of the well in the Pictured Cliffs formation shall be allocated to the Pictured Cliffs formation and costs incurred in testing and completion of the well in the Mesaverde formation shall be allocated to the Mesaverde formation.
- (d)
- (e) All other costs of drilling, testing, completing and equipping of the well shall be allocated to the formation to which such costs are attributable and when attributable to both formations shall be allocated equally to the two formations.

total estimated costs

BEFORE EXAMINER STAMETS OIL CONSERVATION COMMISSION	
EXHIBIT NO. <u>6</u>	
CASE NO. <u>5378</u>	
Submitted by <u>Southern Union Production Co</u>	
Hearing Date <u>January 8, 1973</u>	

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5373

Order No. _____

APPLICATION OF SOUTHERN UNION
PRODUCTION COMPANY FOR COMPULSORY
POOLING, SAN JUAN COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 A.M. on January 8, 1975, at Santa Fe, New Mexico, before Examiner _____.

NOW, on this _____ day of January, 1975, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Southern Union Production Company, seeks an order pooling all mineral interests in -

(a) The Pictured Cliffs formation underlying the NE1/4 of Section 3, Township 30 North, Range 11 West, N.M.P.M., Aztec Pictured Cliffs Pool, San Juan County, New Mexico, and

(b) The Mesaverde formation underlying the N1/2 of Section 3, Township 30 North, Range 11 West, N.M.P.M., Blanco Mesaverde Pool, San Juan County, New Mexico.

(3) That applicant has commenced and is in the process of completing for dual production from both the Pictured Cliffs formation and the Mesaverde formation a well at a location approximately 1670 feet south of the north line and approximately 1010 feet west of the east line of said Section 3.

(4) That there are interest owners in the proposed proration unit for the Pictured Cliffs formation comprised of the NE1/4 of said Section 3 and interest owners in the proposed proration unit for the Mesaverde formation comprised of the N1/2 of said Section 3 who have not agreed to pool their respective interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in the proposed proration unit for the Pictured Cliffs formation and in the proposed proration unit for the Mesaverde formation the opportunity to recover or receive without unnecessary expense his just and fair share of the gas produced from each of such formations, the subject application should be approved by pooling all mineral interests, whatever they may be, within said Pictured Cliffs unit and by pooling mineral interests, whatever they may be, within said Mesaverde unit.

(6) That applicant should be designated the operator of the subject well and the respective Pictured Cliffs and Mesaverde units.

(7) That any nonconsenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any nonconsenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well; and this withholding shall be applied separately as to production from the Pictured Cliffs formation and the Mesaverde formation in the recovery of well costs allocable to each of such formations, respectively.

(9) That any nonconsenting working interest owner shall be afforded the opportunity to object to the actual well costs but the actual well costs should be adopted as the reasonable well costs in absence of such objection.

(10) That following determination of reasonable well costs, any nonconsenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That \$150.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) for each formation from which the well shall be producing; and that the operator should be authorized to withhold from production from each separate formation the proportionate share of such supervision charge attributable to each formation and to each nonconsenting working interest in each formation; and in addition thereto the operator should be authorized to withhold from production from each formation the proportionate share of actual expenditures allocable to that formation required for operating the subject well not in excess of what are reasonable, allocable to that formation, and attributable to each nonconsenting working interest owner.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Pictured Cliffs formation underlying the NE1/4 of Section 3, Township 30 North, Range 11 West, N.M.P.M., Aztec Pictured Cliffs Pool, San Juan County, New Mexico, are hereby pooled to form a standard 160 acre gas spacing and proration unit to be dedicated to the Lester No. 1 well heretofore drilled and in the process of completion at a location 1670 feet from the north line and 1010 feet from the east line of said Section 3; and all mineral interests, whatever they may be, in the Mesaverde formation underlying the N1/2 of Section 3, Township 30 North, Range 11 West, N.M.P.M., Blanco Mesaverde Pool, San Juan County, New Mexico, are hereby pooled to form a standard 320 acre gas spacing and proration unit to be dedicated to said Lester No. 1 well.

(2) Dual completion of the said well for production from both the Pictured Cliffs formation and the Mesaverde formation is hereby authorized.

(3) Subject to the other provisions hereof respecting withholding of the share of production of a nonconsenting working interest owner, production from the Pictured Cliffs formation shall be allocated to each separate leased or unleased tract in the Pictured Cliffs formation unit in the proportion that the acreage of each in such unit bears to the total acreage in the unit and that allocated to such leased or unleased tract shall be considered to have been produced from such leased or unleased tract; and production from the Mesaverde formation shall be allocated to each separate leased or unleased tract in the Mesaverde formation unit in the proportion that the acreage of each in such unit bears to the total acreage in the unit and that allocated to such leased or unleased tract shall be considered to have been produced from such leased or unleased tract.

(4) Subject to the other provisions hereof respecting nonconsenting working interest owners, all costs of drilling, equipping, completing and operating the said well chargeable to the Pictured Cliffs formation will be borne by the working interest owners in each separate leased or unleased tract in the Pictured Cliffs unit in the proportion that the number of acres in such tracts in which such working interest owners hold a working interest bears to the total number of acres in such Pictured Cliffs unit; and subject to the other provisions hereof respecting nonconsenting working interest owners, all costs of drilling, equipping, completing and operating the said well chargeable to the Mesaverde formation will be borne by the working interest owners in each separate leased or unleased tract in the Mesaverde unit in the proportion that the number of acres in such tracts in which such working interest owners hold a working interest bears to the total number of acres in such Mesaverde unit.

(5) Southern Union Production Company is hereby designated the operator of the subject well and the Pictured Cliffs formation and Mesaverde formation units.

(6) Within 30 days after the date of this order, Operator shall furnish the Commission and each nonconsenting working interest owner in each of the subject units an itemized schedule of estimated well costs showing the portions of such estimated costs that are chargeable to the Pictured Cliffs and the Mesaverde formations, respectively.

(7) Within 30 days after the date the schedule of estimated well costs is furnished to him, any nonconsenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production and any such owner who pays his share of estimated well costs within such period shall remain liable for operating costs but shall not be liable for risk charges.

(8) Within 90 days following completion of the well, the operator shall furnish the Commission and each nonconsenting working interest owner an itemized schedule of actual well costs and the portion thereof that is chargeable to the Pictured Cliffs formation and the Mesaverde formation, respectively; and if no objection to the actual well costs is received by the Commission and the Commission has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs provided, however, that if there is an objection to actual well costs within said 45 day period, the Commission will determine reasonable well costs after public notice and hearing.

(9) Within 60 days following determination of reasonable well costs, any nonconsenting interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his proportionate part of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(10) Allocation of well costs between the Pictured Cliffs formation and the Mesaverde formation for purposes of this order shall be in accordance with the following:

- (a) Costs attributable to drilling to the deepest perforations in the Pictured Cliffs formation will be allocated 50% to the Pictured Cliffs formation and 50% to the Mesaverde formation and costs of drilling below such depth will be allocated 100% to the Mesaverde formation.
- (b) Costs attributable to casing as to casing set above the deepest perforations in the Pictured Cliffs formation shall be allocated 50% to the Pictured Cliffs formation and 50% to the Mesaverde formation and as to casing set below such depth 100% to the Mesaverde formation.

- (c) Costs incurred in connection with testing and completion of the well in the Pictured Cliffs formation shall be allocated to the Pictured Cliffs formation and costs incurred in testing and completion of the well in the Mesaverde formation shall be allocated to the Mesaverde formation.
 - (d) All other costs of drilling, testing, completing, and equipping of the well shall be allocated to the formation to which such costs are attributable and when attributable to both formations shall be allocated equally to the two formations.
 - (e) After dual completion of the well the cost of producing operations shall be allocated to the Pictured Cliffs and Mesaverde formations as follows:
 - (1) Each completion shall be treated as a separate well for supervision charges and such charges shall be allocated to each of the respective formations as a separate cost of producing such respective formations.
 - (2) All costs of normal producing operations, including without limitation, costs of labor, repairs, maintenance, and equipment attributable to the respective formations shall be allocated to the formation to which attributable and costs of operations performed for the joint benefit of both formations shall be allocated 50% to the Pictured Cliffs and 50% to the Mesaverde formation.
 - (f) All material and equipment placed in or on the well shall be owned by the party or parties paying the cost thereof pursuant to this order.
- (11) The operator is hereby authorized to withhold from production from each separate formation the following costs and charges from production from the formations to which the same were allocated:
- (a) The pro rata share of reasonable well costs attributable to each nonconsenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
 - (b) As a charge for the risk involved in the drilling of the well, 200% of the pro rata share of reasonable well costs attributable to each nonconsenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (12) Operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.
- (13) \$150.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) for each separate producing formation; and the operator is hereby authorized to withhold from production separately from each formation the proportionate share of such supervision charge allocable to such formation and attributable to each nonconsenting working interest in such formation; and in addition thereto the operator is hereby authorized to withhold from production separately from each formation the proportionate share of actual expenditure chargeable to that formation for operating such well not in excess as to each separate formation of that which is reasonable and attributable to each nonconsenting working interest.
- (14) Any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty

interest for the purpose of allocating costs and charges under the terms of this order.

(15) Any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(16) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(17) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JERRY APODACA, Chairman

PHIL LUCERO, Member

A. L. PORTER, Jr., Member & Secretary

CASE 5378

SUPCO. — will submit a proposed
order —

200% risk factor

* \$150 costs — per completion —

at \$300 per mo. for dual completions

Jason well is approximately complete —

SO — has assumed this

in seeking 200% RF.

1954 pooling agreement of pictured cliffs

— P. 3 — 11 5 of agreement (operating agreement)

well is just to point of completion.

well started before unit approved — started in Aug.

M 140,000
PC 40,000

> own engineers
to get figures — then
allocate costs
based thereon.

\$ 45 P.C.
\$ 115 M.V. } cost proposal

drilling supervision costs — double the
highest he has

CAMPBELL AND BINGAMAN, P.A.

ATTORNEYS AT LAW

JACK M. CAMPBELL
JEFF BINGAMAN

5374
SENA PLAZA
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE (505) 988-4486

December 6, 1974

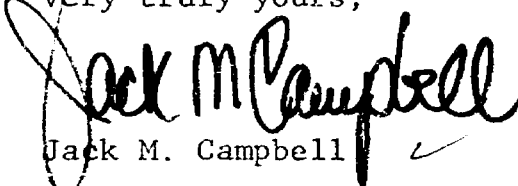
The Oil Conservation Commission
State of New Mexico
Santa Fe, New Mexico 87501

Gentlemen:

We are enclosing herewith, in triplicate, Application of Southern Union Production Company for the pooling of certain lands and interests and the authorization of a dually completed well in the North 1/2 of Sec. 3, Twp. 30 N., R. 11 W., N.M.P.M., San Juan County, New Mexico.

We would appreciate it if you would set a date for hearing and publish notice as required by law.

Very truly yours,


Jack M. Campbell ✓

JMC:tc

Dockets to: Aztec Oil & Gas Company
2200 First National Bank Building
Dallas, Texas 75202 ✓

Mr. M. P. Carr
6700 4th Lane
Dallas, Texas 75202 ✓

DOCKET MAILED

Date 12-26-74

BEFORE THE NEW MEXICO
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF SOUTHERN UNION PRODUCTION COM-
PANY FOR AN ORDER (1) POOLING
CERTAIN LANDS AND INTEREST IN THE
N.E. 1/4 OF SEC. 3 IN THE AZTEC-
PICTURED CLIFFS POOL AND THE N.
1/2 OF SEC. 3 IN THE BLANCO-
MESAVERDE POOL; AND (2) AUTHORIZING
THE DUAL COMPLETION OF A WELL IN
THE PICTURED CLIFFS FORMATION AND
THE MESAVERDE FORMATION IN SAID
POOLS, IN THE N.E. 1/4 OF SEC.
3, ALL IN TWP. 30 NORTH, RANGE
11 WEST, N.M.P.M., SAN JUAN COUNTY,
NEW MEXICO

CASE NO.

APPLICATION

COMES NOW Southern Union Production Company, by its
attorneys Campbell and Bingaman, P.A., 121 East Palace Avenue,
Santa Fe, New Mexico, and for its Application states:

1. Applicant is a corporation authorized to conduct
business in New Mexico.
2. Applicant is the owner of 72.1500% of the working
interest in the Pictured Cliffs formation, in and under the
N.E. 1/4 Sec. 3, Twp. 30 N., R. 11 W., N.M.P.M. (Aztec-Pictured
Cliffs Pool) and of 86.07500% of the working interest in the
Mesaverde formation in and under the N. 1/2 of Sec. 3, Twp. 30
N., R. 11 W., N.M.P.M. (Blanco-Mesaverde Pool) all in San Juan
County, New Mexico, and applicant has the right to drill thereon.
3. Certain other owners of interests in said land have
agreed to pool their interests to develop said lands as separate
spacing or proration units, and certain other owners of interests
in said land have refused to pool their interests for said
purposes.
4. Applicant proposes to drill its Lester No. 1 well in

the N.E. 1/4 of said Sec. 3 and dually complete it in the Pictured Cliffs and Mesaverde formations and to produce gas from each of said units as a separate common source of supply.

5. Said pooling of interests and dual completion will avoid the drilling of unnecessary wells, will protect correlative rights and prevent waste as provided in Section 66-3-14 (c) N.M.S.A. 1953, and will give Applicant his right to drill.

WHEREFORE, Applicant requests the Commission to set this matter down for hearing, to publish notice as provided by law and, after hearing, to issue its order:

1. Pooling all interests in the Pictured Cliffs formation underlying the N.E. 1/4 of Sec. 3, Twp. 30 N., R. 11 W., N.M.P.M., San Juan County, New Mexico;

2. Pooling all interests in the Mesaverde formation underlying the N. 1/2 of Sec. 3, Twp. 30 N., R. 11 W., N.M.P.M., San Juan County, New Mexico;

3. Allocating production from each of said units to the appropriate owner or owners;

4. Providing for reasonable pro-rata reimbursement to Applicant from any nonconsenting working interest owners of the costs of developing and operating said well, out of that owner's share of production, including 200% of the nonconsenting owner or owners pro-rata share of the cost of drilling and completing the well;

5. Authorizing the multiple drilling and completion of its Lester No. 1 well in the N.E. 1/4 of Sec. 3 in accordance with 112-A of the Commission's Rules and Regulations, and to produce said well from the Pictured Cliffs and Mesaverde formations;

6. Establishing the N.E. 1/4 of said Sec. 3 as a proration unit in the Pictured Cliffs formation and the N. 1/2 of said

Sec. 3 as a proration unit in the Mesaverde formation;
and,

7. Containing such other provisions as to the Commission
seem proper.

Respectfully submitted,

CAMPBELL AND BINGAMAN, P.A.

By Jack M. Campbell

Jack M. Campbell
Attorneys for Applicants
Post Office Box 2208
Santa Fe, New Mexico 87501

Dated: December 6, 1974

1 BEFORE THE NEW MEXICO
2 OIL CONSERVATION COMMISSION

3 IN THE MATTER OF THE APPLICATION OF
4 SOUTHERN UNION PRODUCTION COMPANY FOR
5 AN ORDER (1) POOLING CERTAIN LANDS
6 AND INTEREST IN THE N.E. 1/4 OF SEC.
7 3 IN THE AZTEC-PICTURED CLIFFS POOL
8 AND THE N. 1/2 OF SEC. 3 IN THE BLANCO-
9 MESAVARDE POOL; AND (2) AUTHORIZING
10 THE DUAL COMPLETION OF A WELL IN THE
11 PICTURED CLIFFS FORMATION AND THE
12 MESAVARDE FORMATION IN SAID POOLS,
13 IN THE N.E. 1/4 OF SEC. 3, ALL IN
14 TWP. 30 NORTH, RANGE 11 WEST, N.M.P.M.,
15 SAN JUAN COUNTY, NEW MEXICO.

CASE NO. 5378

11 CERTIFICATE OF MAILING

13 I hereby certify that a notification of the hearing scheduled
14 for January 8, 1975, at 9:00 o'clock A.M. and a copy of the Appli-
15 cation in the captioned case was mailed by certified mail on Decem-
16 ber 6, 1974, to the following interested parties:

17 Denver & Rio Grande Western Railroad Company
18 Aztec Oil & Gas Company
19 Mr. W. P. Carr
20

21 Terry Anne Carlson
22 Terry Anne Carlson

23
24 State of New Mexico
25 County of Santa Fe

26 The foregoing was subscribed and sworn to before me by
27 Terry Anne Carlson this 7th day of January, 1975.

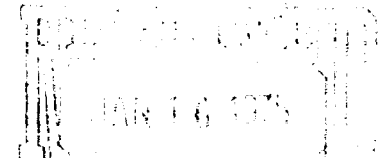
28 [Signature]
29 Notary Public

30 My Commission Expires:

31 1/7/77
32

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:



OIL CONSERVATION COMMISSION
CASE NO. 5378
Order No. R-4950

APPLICATION OF SOUTHERN UNION
PRODUCTION COMPANY FOR COMPULSORY
POOLING, SAN JUAN COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 A.M. on January 8, 1975, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this _____ day of January, 1975, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Southern Union Production Company, seeks an order pooling all mineral interests in -

(a) The Pictured Cliffs formation underlying the ~~NE 1/4~~ ^{NE 1/4} of Section 3, Township 30 North, Range 11 West, N.M.P.M., Aztec-Pictured Cliffs Pool, San Juan County, New Mexico, and

(b) The Mesaverde formation underlying the ~~NE 1/4~~ ^{N 1/2} of Section 3, Township 30 North, Range 11 West, N.M.P.M., Blanco Mesaverde Pool, San Juan County, New Mexico.

(3) That applicant has commenced and is in the process of completing ^{completion} ~~its~~ ^{its} ~~well~~ ^{its} ~~for dual production~~ ^{from} both the Pictured Cliffs formation and the Mesaverde formation ~~at~~ ^{from} a location approximately 1670 feet ~~south~~ ^{from} from the ~~of the~~ ^{from} North line and approximately 1010 feet ~~west~~ ^{from} of the East line of said Section 3.

(4) That there are ^{royalty} interest owners in the proposed ^{NE 1/4} proration unit for the Pictured Cliffs formation comprised of the ~~NE 1/4~~ ^{NE 1/4} of said Section 3 and interest owners in the proposed proration unit for the Mesaverde formation comprised of the ~~NE 1/4~~ ^{N 1/2} of said Section 3 who have not agreed to pool their respective interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in the proposed proration unit for the Pictured Cliffs formation and in the proposed proration unit for the Mesaverde formation the opportunity to recover or receive without unnecessary expense his just and fair share of the gas produced from each of such formations, the subject application should be approved by pooling all mineral interests, whatever they may be, within said Pictured Cliffs unit and by pooling mineral interests, whatever they may be, within said Mesaverde unit.

(6) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(7) That the applicant for the
seeks authority to complete ~~the~~ said Lester
Well No. 1, located in Unit 71 of ~~the~~ Section 3, Township
30 ~~South~~, Range 11 ~~East~~, NMPM, San Juan County, New
North West Mexico, as a dual completion (conventional) ~~oil~~
(combination) to produce gas
(tubingless)
from the Aztec-Pictured Cliffs ~~Pool~~ and the
Blanco Mesaverde ~~Pool~~ through
parallel strings of tubing with
separation of the two zones
be achieved by means of a packer.

(8) That the mechanics of the proposed dual completion
are feasible and in accord with good conservation practices.

(9) That approval of the subject application will prevent
waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, ^{NE 1/4} whatever they may be, in the Pictured Cliffs formation underlying the ~~NE 1/4~~ of Section 3, Township 30 North, Range 11 West, N.M.P.M., Aztec Pictured Cliffs Pool, San Juan County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit to be dedicated to ^{the} Lester No. 1 well heretofore drilled and in the process of completion at a location 1670 feet from the North line and 1010 feet from the East line of said Section 3; and all mineral interests, whatever they may be, in the Mesaverde formation underlying the ~~NE 1/4~~ of Section 3, Township 30 North, Range 11 West, N.M.P.M., Blanco Mesaverde Pool, San Juan County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to said Lester No. 1 well.

(2) ~~Dual completion of the said well for production from both the Pictured Cliffs formation and the Mesaverde formation is hereby authorized.~~

(3) Southern Union Production Company is hereby designated the operator of the subject well and the Pictured Cliffs formation and Mesaverde formation units.

(4) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

Further
IT IS ~~HEREBY~~ ORDERED:

(1) That the applicant, _____,
is hereby authorized to complete its Lester
Well No. 1, located in Unit H of Section 3, Township
30 ~~South~~ North, Range 11 ~~East~~ West, NMPM, San Juan County, New

Mexico, as a dual completion (conventional) ~~oil~~
(~~combination~~) to produce gas
(~~tubingless~~)

from the Bata Pictured Cliffs Gas Pool and gas from the Blanco-Mansueto
Gas Pool through parallel strings of 1 1/4 inch and 1 1/2 inch
tubing, respectively, with separation of the two zones
to be achieved by means of a packer set at
approximately 4500 feet

PROVIDED HOWEVER, that the applicant shall complete, operate,
and produce said well in accordance with the provisions of Rule
112-A of the Commission Rules and Regulations insofar as said rule
is not inconsistent with this order;

PROVIDED FURTHER, that the applicant shall take packer-leakage
~~zone segregation~~
tests upon completion and annually thereafter during the Deliverability
~~Annual~~
~~Gas-Oil Ratio~~ Test Period for San Juan Basin gas pools.
~~Deliverability~~

(2) That jurisdiction of this cause is retained for the
entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove
designated.