

Casa No.

878

Application, Transcript,
Small Exhibits, Etc.



Case 878
SHELL OIL COMPANY

*Will follow
let for capital
operating*

Box 1957
Hobbs, New Mexico

February 25, 1955

Subject: Centralization of Tankage
Shell State Leases NM-1269 (E-1044)
and NM-1361 (E-1667), Caudill Field
Section 16, T-15-S, R-36-E, NMPL
Lea County, New Mexico

New Mexico Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Gentlemen:

The Shell Oil Company has initiated development of a State oil lease in the Caudill (Devonian) Field, with the number one well currently drilling below 13,000 feet in the SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 16, T-15-S, R-36-E, NMPL, Lea County, New Mexico. This lease is Shell's State NM-1269 (New Mexico State E-1044), which consists of an 80-acre tract and a 240-acre tract in Section 16. Further development is planned for NM-1269 as well as State Lease NM-1361 (New Mexico State E-1667), an 80-acre lease consisting of two 40-acre tracts in the N $\frac{1}{2}$ of Section 16. These lease holdings and the drilling well are shown on an attached plat.

In view of the attractive saving in initial capital investment costs and operational expense over lease life of centralized battery facilities as compared with a tank battery on each tract, we propose to utilize centralized storage facilities for Shell wells drilled in Section 16 (NM-1269 and NM-1361), with the facilities to be located at a favorable location in the N $\frac{1}{2}$ of Section 16. As advised by Mr. S. J. Stanley, Engineer District 1, New Mexico Oil Conservation Commission, Hobbs, New Mexico, and Mr. W. B. Macey, Secretary and Director, New Mexico Oil Conservation Commission, Santa Fe, New Mexico, the State Land Office was consulted regarding the subject centralization of tankage by letter dated February 17, 1955, in which permission was requested to commingle future production from all Shell wells to be located on State leases NM-1269 and NM-1361 and completed in the same pay formation. A copy of the affirmative reply by the State Land Office dated February 21, 1955 and signed by Mr. E. S. Walker, Commissioner of Public Lands, is attached. In this letter, permission was granted to commingle future production from the Shell State leases in Section 16, subject to approval by the New Mexico Oil Conservation Commission.

All Oil Conservation Commission rules and regulations will be complied with in the centralized handling of oil, including Rule 309 regarding

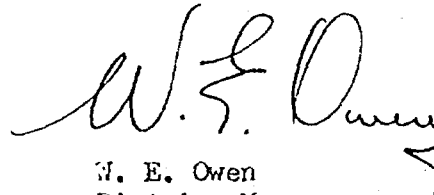
New Mexico Oil Conservation Commission
Page 2
February 25, 1955

central tank batteries. No more than eight units will be handled in the same tank battery without prior approval from your office. Adequate tankage and testing facilities will be installed so that the production from each well can be accurately determined at reasonable intervals.

In the event that six wells are completed as producers on the subject leases, it is estimated that the initial capital investment for surface equipment utilizing common, centralized storage will be approximately \$32,000 less than the total cost which would be required with a tank battery on each producing tract. An advantage of a central tank battery in addition to the monetary saving in investment and normal operating expense is the fact that centralized storage is more readily adapted to automatic or semi-automatic control.

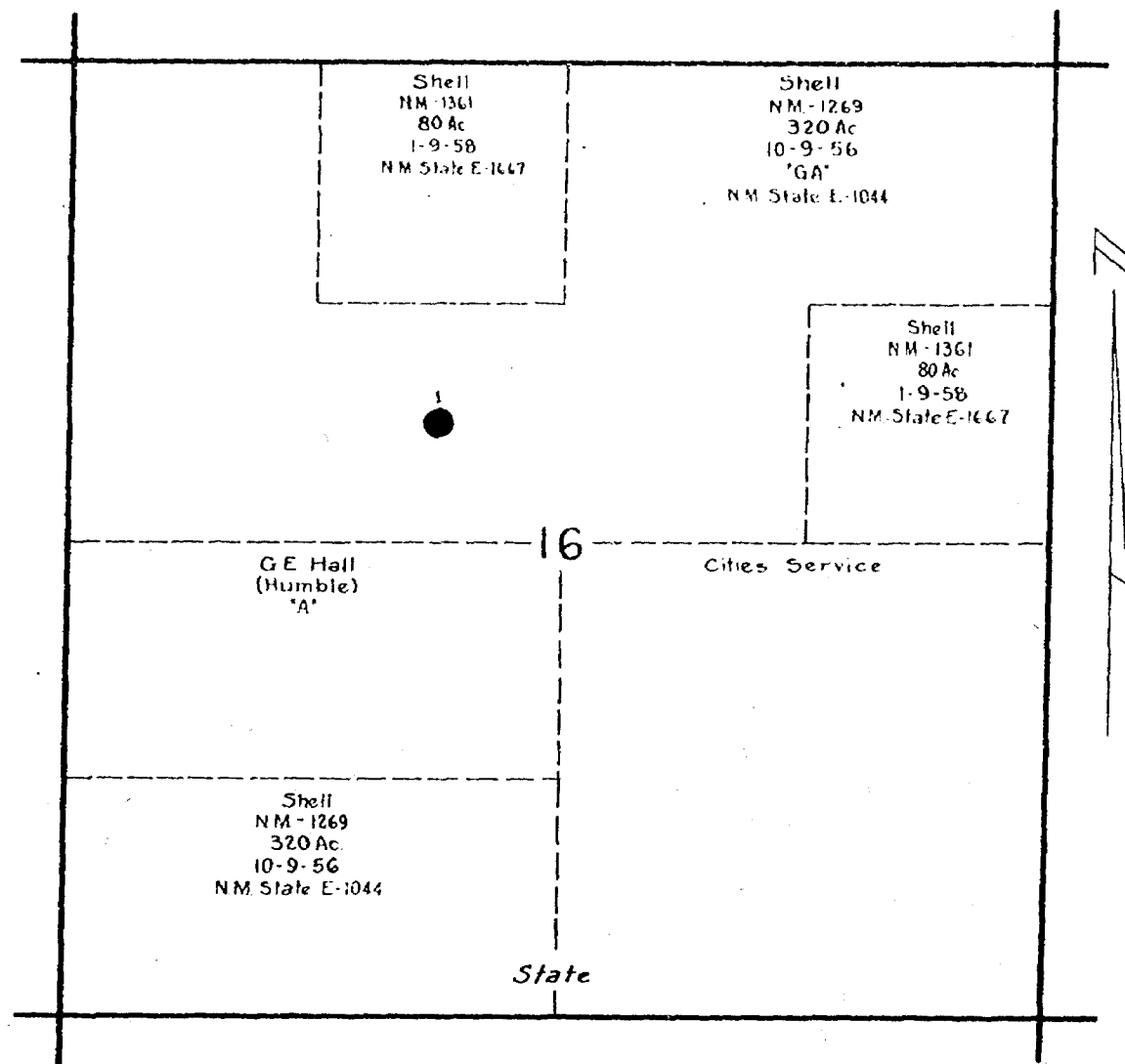
Shell's first well in the Caudill Field is nearing completion. The aforementioned investment saving is partially dependent upon knowing at the time of this initial well completion that the centralized tank battery to serve the subject leases meets with the Commission's approval. Therefore, if this plan meets with your approval, an early reply is requested.

Yours very truly,


W. E. Owen
Division Manager

Attachments

cc: New Mexico Oil Conservation Commission (w/attach.)
P. O. Box 2045
Hobbs, New Mexico



Shell Oil Company
Hobbs Production Division
CAUDILL FIELD
T-15-S R-36-E. Lea Co., N. M.
Scale: 1"=1000' Date: 2-14-55

STATE LAND OFFICE

Santa Fe, New Mexico

E. S. WALKER
COMMISSIONER OF PUBLIC LANDS



Refer Reply To:
Oil & Gas Royalty Div.

February 21, 1955

*WFO DHT
BAZ CHD
FOH*

Coudill Field

Shell Oil Company
P. O. Box 1957
Hobbs, New Mexico

Att: Mr. W. E. Owens
Division Manager

Gentlemen:

E-1667

E-1044

With regard to your letter dated February 17th, 1955, we hereby granted you by the State Land Office to commingle future production from all Shell wells to be located on State leases NM-1269 and NM-1361, subject to approval by the Oil Conservation Commission. The usual procedure is to request a hearing from the Oil Conservation Commission.

No separate accounting of royalty by the individual lease numbers will be required, however, consolidated reports of production and pipeline runs must indicate separately thereon the production and pipeline runs from individual wells, as is done where more than one well is located on the same original lease. All forms and reports should bear both lease numbers. This is for your protection as well as for the benefit of our records, so that no lease could be cancelled in error.

It is understood that the central tank battery will include adequate tankage and other equipment so that the production from each well can be accurately determined at reasonable intervals. No well on the above described leases shall at any time be permitted to produce at a rate in excess of the ton allowable as fixed by the Oil Conservation Commission.

Very sincerely yours,

E. S. Walker

E. S. WALKER
Commissioner of Public Lands

LC:ESW:ocdb

BEFORE THE
Oil Conservation Commission
SANTA FE, NEW MEXICO
April 20, 1955

IN THE MATTER OF:

CASE NO. 878 - Regular Hearing

TRANSCRIPT OF PROCEEDINGS

ADA DEARNLEY AND ASSOCIATES
COURT REPORTERS
605 SIMMS BUILDING
TELEPHONE 3-6691
ALBUQUERQUE, NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
April 20, 1955

IN THE MATTER OF:

Application of Shell Oil Company for excep-
tion to Rule 309 to permit comingling into
common tankage of oil produced from two
separate state leases in the Caudill-Devon-
ian Pool (Leases E-1044 and E-1667 in 16-
15S-36E.)

Case No. 878

BEFORE:

Mr. E. S. (Johnny) Walker
Mr. William B. Macey

TRANSCRIPT OF HEARING

MR. MACEY: The next case on the docket is Case 878.

MR. HUGHSTON: I am Richard L. Hughston appearing for Shell
Oil Company, the applicant in this matter.

This is the application of Shell for an exception to Rule 309
to permit the comingling into common tankage of oil produced from
two separate state leases in the Caudill-Devonian Pool, Leases
E-1044 and E-1667, both located in Section 16, Township 15 South,
Range 36 East.

The applicant asks that the reporter identify a plat showing the
relative location of the leases as Applicant's Exhibit 1.

(Marked Shell Oil Company's Exhibit
No. 1, for identification.)

MR. N E S T O R ,

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

ADA DEARNLEY & ASSOCIATES
STENOGRAPHIC REPORTERS
ALBUQUERQUE, NEW MEXICO
TELEPHONE 3-6691

DIRECT EXAMINATION

By MR. HUGHSTON:

Q Mr. Nestor, you have heretofore testified before the Commission, have you not?

A I have.

Q On your qualifications as petroleum engineer?

A Yes, sir.

Q You are a petroleum engineer?

A Yes, sir.

Q Employed by Shell Oil in that capacity?

A Yes, sir.

Q You are familiar with the Caudill-Devonian Pool?

A I am.

Q And with the location of the State Leases E-1040 and E-1667?

A Correction, that is E-1044

Q In Township 15 South --

A Yes, sir.

Q In 16-15 South, 36 East?

A Yes, sir.

Q Is Shell the owner of both those leases?

A Yes, sir.

Q Will you look at the applicant's Exhibit No. 1 and explain to the Commission the problems involved and the desirability of common tankage for the two leases?

A This particular lease situation is somewhat complicated. The lease which we know as the NM-1269, State of New Mexico E-1044 is described as 320 acres, being the north half northeast quarter, southwest quarter northeast quarter, west half northwest quarter,

ADA DEARNLEY & ASSOCIATES

STENOGRAPHIC REPORTERS

ALBUQUERQUE, NEW MEXICO

TELEPHONE 3-6691

southeast quarter northwest quarter, and south half southwest quarter, Section 16, Township 15 South, Range 36 East. This lease then has a total of 240 acres in the north half of the section, with two separate 40-acre tracts not in the lease and also an 80-acre tract, being the south half of the southwest quarter, which acreage is, of course, not contiguous with the remainder of the lease.

In addition, the lease which we know as our Shell NM-1361, State of New Mexico E-1667, comprises the balance of the north half of the section, being the southeast quarter northeast quarter and northeast quarter northwest quarter, Section 16, Township 15 South, Range 36 East.

Q The Lease E-1667 is comprised of two separate 40-acre tracts that are separated by Lease E-1044, is that right?

A Yes, sir.

Q Would it be desirable that both those leases be produced into common tankage?

A It is desirable, definitely, from an economic standpoint that these leases be produced into common tankage, not only from the standpoint of savings initially, as capital investment, but also the fact that such a lease might be treated much easier from an automatic tank battery standpoint.

Q Has any approach been made to the Commissioner of Public Lands of the State of New Mexico with reference to obtaining his consent to such a procedure?

A Upon advice from the Oil Conservation Commission, Shell wrote a letter dated February 17, 1955. Subject: Centralization of Tankage, Shell Leases NM-1269 (E-1044) and NM-1361 (E-1667), Caudill Field, Section 16, Township 15 South, Range 36 East, NMPM, Lea

County, New Mexico, and addressed to Mr. E. Walker, Commissioner of Public Lands, Santa Fe, New Mexico.

(Marked Shell Oil Company's Exhibit No. 2, for identification.)

Q I hand you a copy of the letter addressed to Mr. Walker, identified as Exhibit No. 2, and ask you if that is a copy of the letter sent to Mr. Walker?

A This is a complete copy.

MR. HUGHSTON: We offer this as Applicant's Exhibit No. 2.

Q What reply did you receive from Mr. Walker, Mr. Nestor?

A Received a letter dated February 21, 1955 from E. S. Walker, Commissioner of Public Lands, stating generally as follows: "That the State Land Office would grant permission to commingle future production from all Shell wells on State leases NM-1269 and NM-1361, subject to approval by the Oil Conservation Commission.

Further, "No separate accounting of royalty by the individual lease numbers would be required, however, consolidated reports of production and pipeline runs would indicate separately thereon, the production and pipeline runs from individual wells, as is done where more than one well is located on the same original lease. All forms and reports should bear both lease numbers. This is for your protection as well as for the benefit of our records, so that no lease could be cancelled in error.

It is understood that the central tank battery will include adequate tankage and other equipment so that the production from each well can be accurately determined at reasonable intervals. No well on the above described leases shall at any time be permitted

to produce at a rate in excess of the top allowable as fixed by the Oil Conservation Commission."

Q Are all the conditions attached to Mr. Walker's letter acceptable to Shell if this application is granted?

A They are.

Q And will be recognized and abided by?

A Yes, sir.

(Marked Shell Oil Company's Exhibit No. 3, for identification.)

Q I hand you an instrument identified as Applicant's Exhibit 3 and ask you if that is a true and correct copy of the letter about which you testified?

A It is.

MR. HUGHSTON: We offer this Exhibit 3 in evidence.

Q Is there any other facts that should be related to the Commission so that it will be fully advised in this matter?

A We have also our letter to the Commission stating generally that we had, as advised, by the Commission, written to the State Land Office, and that we had an affirmative reply from the Land Office, signed by Mr. Walker, Commissioner of Public Lands, granting permission to commingle, subject to approval by the New Mexico Oil Conservation Commission.

"We further state that,"All Oil Conservation Commission Rules and Regulations will be complied with in the centralized handling of oil, including Rule 309 regarding central tank batteries. No more than eight units will be handled in the same tank battery without prior approval from your office. Adequate tankage and testing facilities will be installed so that the production from each

well can be accurately determined at reasonable intervals."

That generally is the content of this letter. We point out again the advantage of the central tank battery and the savings in investment and normal operating expenses and also that it might be adapted to automatic or semi-automatic control.

Q Is that all?

A Yes, sir.

MR. HUGHSTON: I would like to call to the Commission's attention that in the rule proposed by the Commission in Case 789, that each of the steps there mentioned for such an exception to Rule 309, have been complied with except that, relating to all owners of the adjoining oil and gas leases, have consented in writing to commingling of oil from separate leases that wasn't in the rule at the time, but this hearing takes care of that. They have their opportunity to make any objection here.

That is all.

MR. MACEY: Any questions of the witness? If not the witness may be excused.

(Witness excused.)

MR. MACEY: We will take the case under advisement. Let the record show that the exhibits were offered and received in evidence.

STATE OF NEW MEXICO)
: ss.
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF I have affixed my hand and notarial seal this 29th day of April, 1955,

My Commission Expires:
June 19, 1955

Ada Dearnley
Notary Public, Court Reporter
ADA DEARNLEY & ASSOCIATES
STENOGRAPHIC REPORTERS
ALBUQUERQUE, NEW MEXICO
TELEPHONE 3-6691

Box 1957
Hobbs, New Mexico

February 17, 1955

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
Shell EXHIBIT No. 2
CASE 178

Subject: Centralization of Tankage
Shell Leases NM-1269 (E-1044)
and NM-1361 (E-1667)
Caudill Field, Section 16, T-15-S,
R-36-E, NMPL, Lea County, New Mexico

Mr. E. S. Walker
Commissioner of Public Lands
Santa Fe, New Mexico

Dear Sir:

We have initiated development of a State oil lease in the Caudill (Devonian) Field, with the No. 1 well currently drilling below 12,700 feet in the SE/4 NW/4 of Section 16, T-15-S, R-36-E, NMPL, Lea County, New Mexico. This well is on Shell's State lease NM-1269 (New Mexico State E-1044), which consists of an 80-acre tract and a 240-acre tract in Section 16. Further development is planned for this lease as well as State lease NM-1361 (New Mexico State E-1667), an 80-acre lease consisting of two 40-acre tracts in the N/2 of Section 16. These lease holdings and the drilling well are shown on an attached plat.

We propose to utilize centralized oil treating and storage facilities for Shell wells drilled in Section 16 (NM-1269 and NM-1361), with the facilities to be located at a favorable location in the N/2 of Section 16. In view of the attractive saving in initial capital investment cost and operational expense over life of centralized battery facilities as compared with a tank battery on each tract, we request the permission of your office to commingle future production from all Shell wells to be located on State leases NM-1269 and NM-1361 and completed in the same pay formation. After your permission has been obtained, the New Mexico Oil Conservation Commission will be consulted on their requirements regarding common storage for the subject tracts.

An advantage of centralized storage in addition to the afore-mentioned monetary saving in investment for lease facilities and normal operating expense is the fact that centralized storage is more readily adapted to automatic or semi-automatic control.

Mr. M. S. Walker

- 2 -

February 17, 1955

Since our first well will be completed in the near future, an early reply from your office will be appreciated.

Yours very truly,

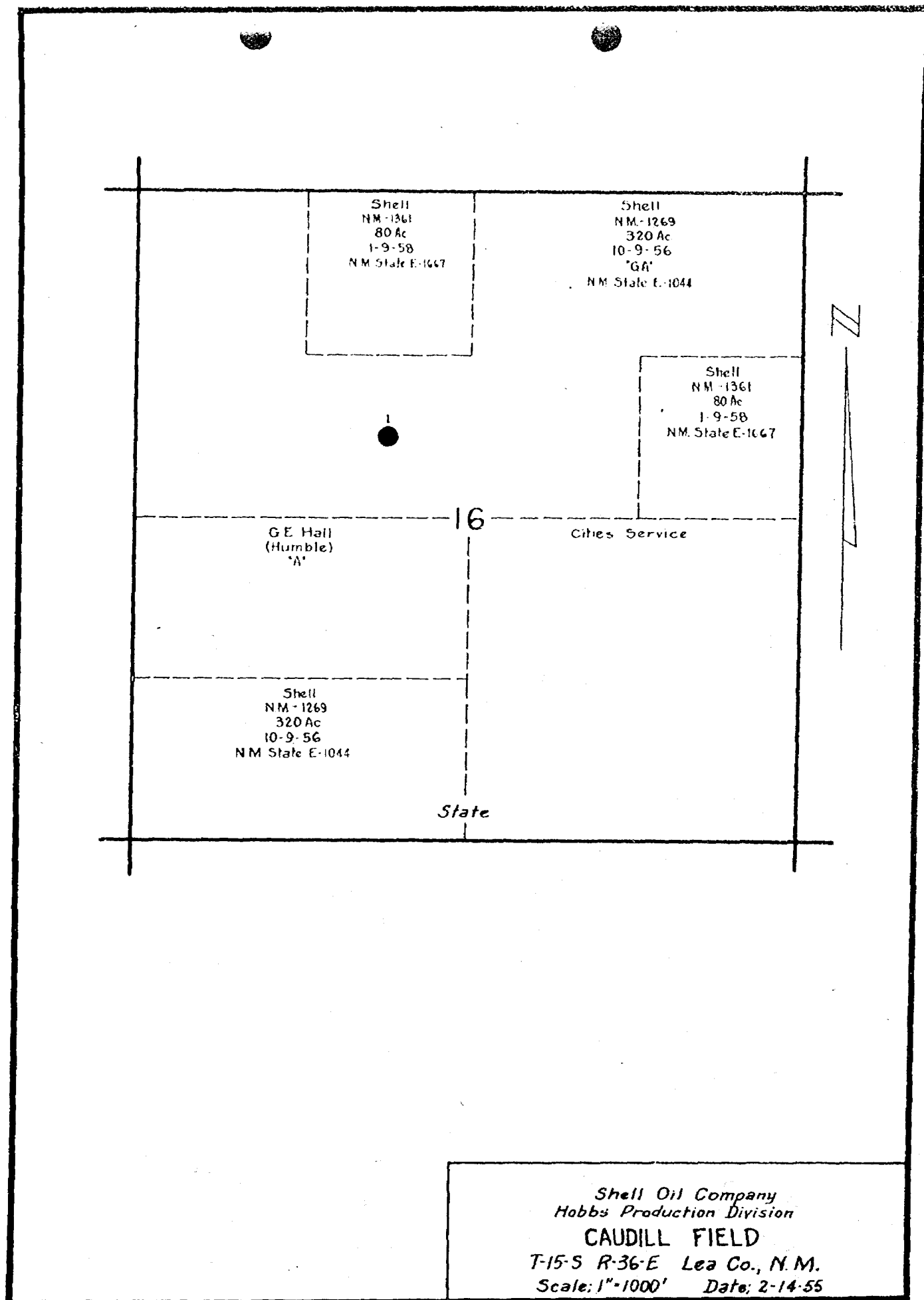
ORIGINAL SIGNED
BY W. E. OWEN

W. E. Owen
Division Manager

Attachment

BOC:PD

cc: Production Manager - Midland



File
Case 878

Box 1957
Hobbs, New Mexico

February 25, 1955

Subject: Centralization of Tankage
Shell State Leases NM-1269 (N-1044)
and NM-1361 (N-1667), Caudill Field
Section 16, T-15-S, R-36-E, NMPZ
Lea County, New Mexico

New Mexico Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Gentlemen:

The Shell Oil Company has initiated development of a State oil lease in the Caudill (Devonian) Field, with the number one well currently drilling below 13,000 feet in the SE/4, NW/4 of Section 16, T-15-S, R-36-E, NMPZ, Lea County, New Mexico. This lease is Shell's State NM-1269 (New Mexico State N-1044), which consists of an 80-acre tract and a 240-acre tract in Section 16. Further development is planned for NM-1269 as well as State lease NM-1361 (New Mexico State N-1667), an 80-acre lease consisting of two 40-acre tracts in the N/2 of Section 16. These lease holdings and the drilling well are shown on an attached plat.

In view of the attractive saving in initial capital investment costs and operational expense over lease life of centralized battery facilities as compared with a tank battery on each tract, we propose to utilize centralized storage facilities for Shell wells drilled in Section 16 (NM-1269 and NM-1361), with the facilities to be located at a favorable location in the N/2 of Section 16. As advised by Mr. S. J. Stanley, Engineer District 1, New Mexico Oil Conservation Commission, Hobbs, New Mexico, and Mr. W. S. Pacey, Secretary and Director, New Mexico Oil Conservation Commission, Santa Fe, New Mexico, the State Land Office was consulted regarding the subject centralization of tankage by letter dated February 17, 1955, in which permission was requested to commingle future production from all Shell wells to be located on State leases NM-1269 and NM-1361 and completed in the same pay formation. A copy of the affirmative reply by the State Land Office dated February 21, 1955 and signed by Mr. E. S. Walker, Commissioner of Public Lands, is attached. In this letter, permission was granted to commingle future production from the Shell State leases in Section 16, subject to approval by the New Mexico Oil Conservation Commission.

All Oil Conservation Commission rules and regulations will be complied with in the centralized handling of oil, including Rule 309 regarding

New Mexico Oil Conservation Commission

Page 2

February 15, 1955

central tank batteries. No more than eight units will be handled in the same tank battery without prior approval from your office. Adequate tankage and testing facilities will be installed so that the production from each well can be accurately determined at reasonable intervals.

In the event that six wells are completed as producers on the subject leases, it is estimated that the initial capital investment for surface equipment utilizing common, centralized storage will be approximately \$32,000 less than the total cost which would be required with a tank battery on each producing tract. An advantage of a central tank battery in addition to the monetary saving in investment and normal operating expense is the fact that centralized storage is more readily adapted to automatic or semi-automatic control.

Shell's first well in the Caudill Field is nearing completion. The aforementioned investment saving is partially dependent upon knowing at the time of this initial well completion that the centralized tank battery to serve the subject leases meets with the Commission's approval. Therefore, if this plan meets with your approval, an early reply is requested.

Yours very truly,

ORIGINAL SIGNED
BY W. E. OWEN

W. E. Owen
Division Manager

BOC:PD

Attachments

cc: New Mexico Oil Conservation Commission (w/attach.)
P. O. Box 2045
Hobbs, New Mexico

bcc: Production Manager - Midland

STATE LAND OFFICE

Santa Fe, New Mexico

E. S. WALKER
COMMISSIONER OF PUBLIC LANDS

Refer Reply To:
Oil & Gas Royalty Div.



February 21, 1955

*WFO DHT
BMB CHD
FDH*

Caudill Field

Shell Oil Company
P. O. Box 1957
Hobbs, New Mexico

Att: Mr. W. E. Owens
Division Manager

Gentlemen:

With regard to your letter dated February 17th, permission is hereby granted you by the State Land Office to commingle future production from all Shell wells to be located on State leases NM-1269 and NM-1361, subject to approval by the Oil Conservation Commission. The usual procedure is to request a hearing from the Oil Conservation Commission.

No separate accounting of royalty by the individual lease numbers will be required, however, consolidated reports of production and pipeline runs must indicate separately thereon the production and pipeline runs from individual wells, as is done where more than one well is located on the same original lease. All forms and reports should bear both lease numbers. This is for your protection as well as for the benefit of our records, so that no lease could be cancelled in error.

It is understood that the central tank battery will include adequate tankage and other equipment so that the production from each well can be accurately determined at reasonable intervals. No well on the above described leases shall at any time be permitted to produce at a rate in excess of the top allowable as fixed by the Oil Conservation Commission.

Very sincerely yours,

E. S. Walker

E. S. WALKER
Commissioner of Public Lands

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
Shell EXHIBIT No. *3*
178

LC:ESW:ocdb

OIL CONSERVATION COMMISSION

P. O. BOX 871
SANTA FE, NEW MEXICO

June 15, 1955

C
O
P
Y

Shell Oil Company
P.O. Box 1957
Hobbs, New Mexico

Attention: W. E. Owen

Gentlemen:

We enclose a copy of Order R-644 issued on June 13, 1955, by the Oil Conservation Commission in Case 878, which was heard at the April 20th hearing upon your company's application.

Very truly yours,

W. B. Macey
Secretary - Director

WBM:brp
Enclosure

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. 878
Order No. R-644

THE APPLICATION OF SHELL OIL
COMPANY FOR EXCEPTION TO RULE
309 FOR AUTHORIZATION TO COMMINGLE
IN A COMMON TANK BATTERY OIL
PRODUCED FROM TWO SEPARATE STATE
LEASES, NO. E-1044 AND NO. E-1667, BOTH
LOCATED IN SECTION 16, TOWNSHIP 15 SOUTH,
RANGE 36 EAST, NMPM, LEA COUNTY, NEW
MEXICO, IN THE CAUDILL-DEVONIAN POOL.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on April 20, 1955, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this 13th day of June, 1955, the Commission, a quorum being present, having considered the testimony adduced and the exhibits received at said hearing, 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 applicant, Shell Oil Company, is the owner of two New Mexico State oil and gas leases, No. E-1044 and No. E-1667, described as follows:

E-1044: 320 acres comprising the N/2 NE/4,
SW/4 NE/4, W/2 NW/4, SE/4 NW/4,
and S/2 SW/4 of Section 16, Township
15 South, Range 36 East.

E-1667: 80 acres comprising the SE/4 NE/4
and NE/4 NW/4 of Section 16, Township
15 South, Range 36 East.

both leases covering 400 acres, being the N/2 and the S/2 SW/4 of Section 16, Township 15 South, Range 36 East, NMPM, Lea County, New Mexico.

(3) That for reasons of efficiency and economy, applicant desires to use common tankage for the storage and measurement of oil produced from the Caudill-Devonian Oil Pool underlying said leases.

(4) That applicant proposes to install appropriate physical equipment so that the production from each well completed on the described acreage may be accurately determined as prescribed by the Commission.

(5) That by reason of practical convenience and economy, and in the absence of objection by the Commissioner of Public Lands of New Mexico, exception to Rule 309 should be granted.

(6) That no objection by the Commissioner of Public Lands of New Mexico has been received.

IT IS THEREFORE ORDERED:

That the application of Shell Oil Company for an exception to Rule 309 be, and the same hereby is approved, and Shell Oil Company be and it hereby is authorized to establish, maintain, and operate a central tank battery to receive production from the Devonian formation of the Caudill-Devonian Pool only, on the following described acreage:

TOWNSHIP 15 SOUTH, RANGE 36 EAST, NMPM
N/2 and S/2 SW/4 Section 16

PROVIDED, HOWEVER, That adequate tankage and proper equipment be installed and maintained so as to permit specific production tests of each connected well at reasonable intervals or upon requests of the Commission, or of the Commissioner of Public Lands of New Mexico, and

PROVIDED FURTHER, That no well now or hereafter connected to such tank battery be permitted to produce at a rate in excess of top allowable as now or hereafter may be fixed for the Caudill-Devonian Pool, and

PROVIDED FURTHER, That production from no more than eight wells be received into said tank battery.

IT IS FURTHER ORDERED: That jurisdiction of this case is hereby retained for purpose of revocation and modification under changed conditions.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

John F. Simms
JOHN F. SIMMS, Chairman

E. S. Walker
E. S. WALKER, Member

W. B. Macey
W. B. MACEY, Member and Secretary



