

CASE 2694: Application of SOUTHERN
UNION PRODUCTION for amendment to
Northwest Gas Proration Rules.

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10/10/40

2692

tion, Transcript,
Exhibits, Etc.

GOVERNOR
EDWIN L. MECHEM
CHAIRMAN

State of New Mexico
Oil Conservation Commission

LAND COMMISSIONER
E. S. JOHNNY WALKER
MEMBER



STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

P. O. BOX 971
SANTA FE

December 31, 1962

Mr. George Verity
Verity, Burr & Cooley
Attorneys at Law
152 Petroleum Center Building
Farmington, New Mexico

Re: Case No. 2694
Order No. R-2404
Applicant:
Southern Union Production 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.

A. L. PORTER, Jr.
Secretary-Director

ir/

Carbon copy of order also sent to:

Hobbs OCC X

Artesia OCC

Astec OCC X

OTHER Mr. Norman Woodruff

 Mr. John Anderson

 Mr. Guy Buell

DOCKET: EXAMINER HEARING - THURSDAY - NOVEMBER 8, 1962

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

The following cases will be heard before Daniel S. Nutter, Examiner, or Elvis A. Utz, alternate examiner:

- CASE 2682: Application of Pan American Petroleum Corporation for the creation of a new pool and the establishment of special rules and regulations, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new oil pool to be designated the Simpson-Gallup Oil Pool comprising the S/2 of Section 23, SW/4 of Section 24, N/2 of Section 25, and the NE/4 of Section 26, Township 28 North, Range 12 West, San Juan County, New Mexico. Applicant further seeks the establishment of special pool rules including the provisions for 80-acre proration units.
- CASE 2683: Application of Curtis R. Inman for approval of a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Carnero Peak Unit Area comprising 12,151 acres, more or less, of State, Federal and Fee lands in Townships 22 and 23 South, Ranges 24 and 25 East, Eddy County, New Mexico.
- CASE 2684: Application of Gulf Oil Corporation for a triple completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to complete its H. T. Mattern (NCT-A) Well No. 3, located in Unit P of Section 24, Township 21 South, Range 36 East, Lea County, New Mexico, as a triple completion (conventional) to produce oil from the Paddock, Blinebry, and Drinkard Oil Pools through parallel strings of tubing.
- CASE 2685: Application of Gulf Oil Corporation for a triple completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to complete its Graham State (NCT-I) Well No. 2 located in Unit L of Section 19, Township 21 South, Range 37 East, Lea County, New Mexico, as a triple completion (conventional) to produce oil from the Paddock, Blinebry, and Drinkard Oil Pools through parallel strings of tubing.
- CASE 2686: Application of Marathon Oil Company for a dual completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to complete its State Hansen Well No. 5, located in Unit H of Section 16, Township 20 South, Range 37 East, Lea County, New Mexico, as a dual completion

CASE 2686 (Cont.)

(conventional), to produce oil from the Weir-Blinebry and Monument-Tubb Pools through parallel strings of 1.41 ID and 2-inch ID tubing.

CASE 2687:

Application of Shell Oil Company for a dual completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to complete its Emerald Unit Well No. 1 located in Unit C of Section 23, Township 16 South, Range 32 East, Lea County, New Mexico as a dual completion (Conventional) to produce oil from the Penrose and Wolfcamp formations through parallel strings of tubing.

CASE 2688:

Application of Socony Mobil Oil Company for a quadruple Completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to complete its State Bridges Well No. 95 located in Unit P of Section 26, Township 17 South, Range 34 East, Lea County, New Mexico, as a quadruple completion (conventional) to produce oil from the Abo, Wolfcamp, Pennsylvanian and Devonian formations through parallel strings of tubing.

CASE 2689:

Application of Socony Mobil Oil Company for a dual completion and certain administrative procedures, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to complete its State Bridges Well No. 27-DD located in Unit H of Section 26, Township 17 South, Range 34 East, Lea County, New Mexico as a dual completion (conventional) to produce oil from the Vacuum (San Andres) Pool and an undesignated Yeso pool through parallel strings of 2 3/8 inch and 2 3/8 x 1 1/4 inch tapered tubing strings. Applicant further seeks the establishment of administrative procedures whereby similar dual completions could be approved in this area.

CASE 2690:

Application of Phillips Petroleum Company for a special allowable, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order authorizing the assignment of a special allowable to its Mexco "A" Well No. 2, located in Unit I of Section 2, Township 17 South, Range 32 East, Maljamar Pool, Lea County, New Mexico. Said well offsets and has received a response from Boller and Nichols Water-flood project in said Section 2.

- CASE 2691: Application of El Paso Natural Gas Company for the creation of a new gas pool and establishment of special rules and regulations, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new gas pool for the Morrow formation underlying Sections 18, 19, 20, and 29, Township 19 South, Range 32 East, Lea County, New Mexico. Applicant further seeks establishment of special pool rules including provisions for 640-acre proration units and the allocation of allowables to non-marginal wells in the proportion that each well's acreage factor bears to the total of the acreage factors for all non-marginal wells in the pool.
- CASE 2692: Application of Amerada Petroleum Corporation for an exception to a Commission shut-in order, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Rule 15 (A) Order R-1670, Southeast New Mexico Gas Proration Rules and Regulations, to permit its Shell-Amerada State "A" Unit Well No. 1 located in Unit P, Section 33, Township 11 South, Range 33 East, Bagley-Lower Pennsylvanian Gas Pool, Lea County, New Mexico, to produce a minimum of 2000 MCF per month in exception to an overproduction shut-in notice.
- CASE 2693: Application of NWJ Producing Company for an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox oil well location 330 feet from the South and West lines of Section 14, Township 15 South, Range 38 East, Medicine Rock-Devonian Pool, Lea County, New Mexico, in exception to Rule 3, Order R-2315, Medicine Rock-Devonian Pool Rules.
- CASE 2694: Application of Southern Union Production Company for an amendment to the Northwest New Mexico Gas Proration Rules and Regulations. Applicant, in the above-styled cause, seeks an amendment to Order R-1670 as amended by Order No. R-2086, Rules and Regulations for Prorated Gas Pools, San Juan, Rio Arriba, McKinley and Sandoval Counties, New Mexico, to permit wells ordered shut-in for extended periods to make up accumulated overproduction to produce a minimum of 500 MCF each month during such shut-in.
- CASE 2695: In the matter of the hearing called on the motion of the Oil Conservation Commission to consider revising Commission Orders R-333-C & D and R-333-E as the same relate to the season for taking Northwest New Mexico gas well deliverability tests and to the procedure for taking and calculating such tests, San Juan, Rio Arriba, McKinley and Sandoval Counties, New Mexico.

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Docket No. 32-62

CASE 2670: (Cont)

Application of Elwyn C. Hale for a quadruple completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the quadruple completion (combination) of his Hale State Well No. 3, located in Unit H of Section 2, Township 25 South, Range 37 East, Lea County, New Mexico, in such a manner as to produce oil from the Devonian, McKee, Waddell and Ellenburger Pools, North Justis Field, through two strings of 2 7/8 inch casing and two strings of 3 1/2 inch casing all cemented in a common well bore.

iqg/

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. 2694
Order No. R-2404

APPLICATION OF SOUTHERN UNION PRODUCTION
COMPANY FOR AN AMENDMENT TO THE NORTHWEST
NEW MEXICO GAS PRORATION RULES AND REGULA-
TIONS.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on November 8, 1962, at Santa Fe, New Mexico, before Daniel S. Nutter, Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this 31st day of December, 1962, the Commission, a quorum being present, having considered the application, the evidence adduced, and the recommendations of the Examiner, Daniel S. Nutter, 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 under the provisions of Order No. R-1670 as amended by Order No. R-2086, the Commission has ordered over-produced wells shut-in for extended periods of time in order to effect a balancing of accumulated overproduction in excess of previously assigned allowables.

(3) That the applicant, Southern Union Production Company, proposes that the Commission should allow wells shut-in for over-production to produce up to 500 MCF of gas each month during such shut-in periods in order to prevent lessors from terminating oil and gas leases because of non-production.

(4) That under the provisions of Order No. R-1670 as amended by Order No. R-2086, wells are shut-in because of over-production in order to protect correlative rights.

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Case No. 2694

Order No. R-2404

(5) That the applicant has failed to establish that approval of the subject application would either prevent waste or protect correlative rights.

(6) That the applicant has failed to establish that approval of the subject application would be in the interest of conservation of oil or gas.

(7) That the subject application should be denied.

IT IS THEREFORE ORDERED:

(1) That the subject application is hereby denied.

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

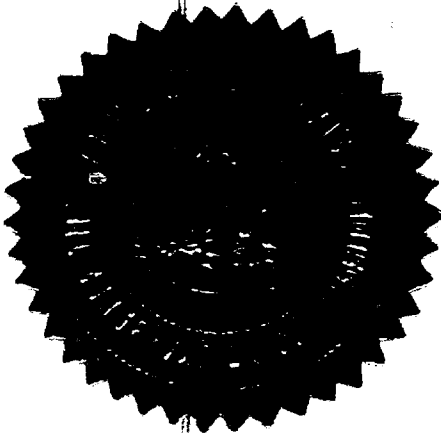
DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


TOM SOLACK, Chairman


E. S. WALKER, Member


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



lr/

NEW MEXICO OIL CONSERVATION COMMISSION

IN THE MATTER OF APPLICATION OF)
SOUTHERN UNION PRODUCTION COMPANY)
FOR AN AMENDMENT TO ORDER NO.)
R-1670 AND AMENDATORY ORDER NO.)
R-2086 PROMULGATING GENERAL RULES)
AND REGULATIONS, NORTHWESTERN)
NEW MEXICO)

CASE NO. 2694

APPLICATION

To the Secretary-Director of the
Oil Conservation Commission of
the State of New Mexico:

Southern Union Production Company, herein called "Applicant" hereby makes application for an amendment of the rules and regulations adopted in Order No. R-1670 (May 20, 1960) and Amendatory Order No. R-2086 (October 13, 1961) for prorated gas pools in Northwestern New Mexico and in support of such Application Applicant respectfully states and represents:

1.

Applicant is a corporation organized under the laws of the State of Delaware and is qualified to do business in the State of New Mexico. Applicant's principal place of business and principal office is located at the following address:

Fidelity Union Tower
1507 Pacific
Dallas, Texas

2.

By the aforesaid orders the New Mexico Oil Conservation Commission adopted rules and regulations for prorated gas pools in Northwestern New Mexico which require, in certain instances, that wells be shut-in for extended periods to effect a balancing of accumulated production in excess of previously assigned allowables.

3.

Applicant has been advised by the Regional Oil and Gas Supervisor of the United States Department of Interior, Geological Survey, that, in his opinion, oil and gas leases covering Indian Lands in Northwestern New Mexico issued on the required Bureau of Indian Affairs form specify a lease term extending:

"For the term of 10 years from and after approval hereof by the Secretary of the Interior and as much longer thereafter as oil and/or gas is produced in paying quantities from said land."

are subject to termination by the Indian Lessors for nonproduction of oil or gas from the leased lands extending for periods of one or more calendar months after the primary term of 10 years.

If the interpretation of the Regional Oil and Gas Supervisor be well taken, shut-in of wells on Indian leases for overproduction will subject Indian Lessees to possible termination of their leases and loss of valuable property rights.

4.

This exposure to possible termination of Indian leases can be avoided through the amendment of rules and regulations adopted in Order Nos. R-1670 and R-2086 so as to provide that wells on Indian leases or on pooled units composed in part of Indian leases which would, under existing rules be shut-in for accumulated overproduction, be assigned a minimum allowable rate of production of 500 MCF for each month during periods necessary to effect a balance of prior overproduction. Applicant is of the opinion that such an amendment would be consistent with the prevention of waste and the protection of correlative rights and therefore proposes its adoption.

WHEREFORE, Southern Union Production Company prays that after notice and hearing, the New Mexico Oil Conservation Commission make and enter an order amending its rules and regulations as proposed in this Application.

Respectfully submitted,

SOUTHERN UNION PRODUCTION COMPANY

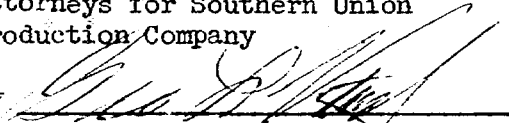
By


Vice President

APPLICANT

VERITY, BURR & COOLEY
Attorneys for Southern Union
Production Company

By



STATE OF TEXAS)
COUNTY OF DALLAS)

Before me, the undersigned authority, on this day personally appeared
A. M. Wiederkehr, Vice President of Southern Union Production Company, who,
upon his oath, stated that he executed the above and foregoing Application
on behalf of Southern Union Production Company, and that to the best of his
knowledge and belief the matters and facts therein stated are true and correct.

Sworn to and subscribed this the 1st day of October, 1962.

Genevieve Osmont
Notary Public in and for
Dallas County, Texas

My Commission Expires:

June 1, 1963

STATE OF)
COUNTY OF)

Before me, the undersigned authority, on this day personally appeared
_____, to me known to be the person described in and
who executed the foregoing instrument, and acknowledged that he executed the
same as his free act and deed.

Notary Public in and for
County, _____

My Commission Expires:

CLASS OF SERVICE
This is a fast message unless its deferred character is indicated by the proper symbol.

WESTERN UNION TELEGRAM

1201 (4-60)

SYMBOLS
DL = Day Letter
NL = Night Letter
LT = International Letter Telegram

W. P. MARSHALL, PRESIDENT

The filing time shown in the date line on domestic telegrams is LOCAL TIME at point of origin. Time of receipt is LOCAL TIME at point of destination.

LA176 KA310
K DVF197 PD=FAX DENVER COLO 7 143P MST=
NEW MEXICO OIL CONSERVATION COMM=
STATE LAND OFFICE BLDG SANTA FE NMEX=

ATTN A L PORTER JR. RE EXAMINER HEARINGS SCHEDULED FOR
NOVEMBER 8, 1962 AT SANTA FE. SPECIFICALLY CASE 2694.
TEXACO INC. AS LEASEHOLD OWNER AND OPERATOR OF PRORATED
GAS POOL WELLS IN SAN JUAN COUNTY RECOMMENDS ADOPTION
OF A MINIMUM MONTHLY GAS WITHDRAWAL FOR THOSE WELLS
SHUTIN FOR EXTENDED PERIODS DUE TO OVERPRODUCTION.
SINGLE-WELL LEASES ARE UNDULLY JEOPARDIZED BY LOSS OF
LEASEHOLD ESTATE DURING SHUTIN PERIODS. FOR THIS REASON
TEXACO SUPPORTS SOUTHERN UNION PRODUCING COMPANY'S

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

VERITY, BURR & COOLEY
ATTORNEYS AND COUNSELORS AT LAW
SUITE 152 PETROLEUM CENTER BUILDING
FARMINGTON, NEW MEXICO

*Case
2694*

GEO. L. VERITY
JOEL B. BURR, JR.
WM. J. COOLEY

NORMAN S. THAYER
RAY B. JONES

October 8, 1962

TELEPHONE 325-1702

New Mexico Oil Conservation Commission
Land Office Building
Santa Fe, New Mexico

Gentlemen:

Enclosed herewith is an original and two copies of an
Application for an Amendment to Order R-1670, and
Amendatory Order R-2086.

Will you please set this case for hearing and give
notice thereof?

Very truly yours,

VERITY, BURR & COOLEY

By

[Signature]
Geo. L. Verity

GLV:mts
Enc.

cc: Phil McGrath, U.S.G.S.

DOCKET MAILED

Date 10/26/62
[Signature]

ZACHRY # 19

Basin Dakota Pool
Sec. 12, Twp. 28 N, Rge. 10 W.
San Juan County, New Mexico

Production 500 MCF

Price of Gas - 13¢ per MCF

Gross Income	500 MCF @ 13¢ =	\$ 65.00
Less Federal Royalty	12 1/2 percent	<u>-8.125</u>
		\$56.875
Balance After Federal Royalty		\$56.875
(Less Following Taxes Calculated on 7/8 of Gross Income)		
Conservation Tax	.0014 percent	\$.079625
School Tax	.02 percent	1.1375
Severance Tax	.025 percent	1.421875
County and School District Tax	.024 percent	<u>1.365</u>
		\$52.871
Balance After Federal Royalty and Taxes		\$52.871
Less Operating Expense - Monthly Average		<u>30.91</u>
		\$21.961
Net Income		\$21.96

BEFORE EXAMINER NUTTER

OIL CONSERVATION COMMISSION

EXHIBIT NO.

CASE NO.

2694

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
November 8, 1962

EXAMINER HEARING

DEARNLEY-MEIER REPORTING SERVICE, Inc.

FARMINGTON, N. M.
PHONE 325-1182

SANTA FE, N. M.
PHONE 983-3971

IN THE MATTER OF:

Application of Southern Union Production
Company for an amendment to the Northwest
New Mexico Gas Proration Rules and Regu-
lations. Applicant, in the above-styled
cause, seeks an amendment to Order R-1670
as amended by Order No. R-2086, Rules
and Regulations for Prorated Gas Pools,
San Juan, Rio Arriba, McKinley and Sando-
val Counties, New Mexico, to permit wells
ordered shut-in for extended periods to
make up accumulated overproduction to
produce a minimum of 500 MCF each month
during such shut-in.

Case 2694

BEFORE: Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

MR. NUTTER: We will call Case 2694.

MR. DURRETT: Application of Southern Union Production
Company for an amendment to the Northwest New Mexico Gas Pro-
ration Rules and Regulations.

MR. VERITY: George L. Verity for the applicant. I
would like to make an opening statement with regard to this
matter. Practically all modern oil and gas leases have a provi-
sion to the effect that the lease will be held in force and



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effect beyond its primary term for as long a period of time as oil or gas is produced in paying quantities from the land. This paying quantities has been defined by most courts to mean not the return of the initial investment, but paying quantities meaning merely a profit over and above month to month operating expenses.

The Commission, in its wisdom, has seen fit to make pro-ration orders with which Southern Union is in accord, and on occasion without anyone being in fault wells and gas pools will become overproduced. This happens occasionally in Northwest New Mexico. The paying quantities clause, the produced in paying quantities clause of the ordinary gas lease thus come into question if a well is shut in and not allowed to produce at all for a period of time.

Southern Union does not take the position, and in fact it resists the concept that a well which has been overproduced and is shut in should terminate by its terms under the thought that it is not producing in paying quantities, but particularly the United States Geological Survey for the Navajo Tribe has given notice to Southern Union, and I think other producers in the area, that if a well is shut in for one or more months, the Navajo Tribe may take the attitude that it has terminated by virtue of its terms.

For this reason Southern Union has filed its application



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and would like the Commission to enter, and thinks that it's necessary to protect correlative rights, that the Commission enter an order amending Order R-1670 in its various aspects, I believe A, B, C, D, E and F, and Order No. R-2086 which have promulgated rules and regulations for the production of gas from Northwestern New Mexico. That was our application.

At this time I am amenable to an amendment to our prayer for a change of rules here by reason of the fact that El Paso Natural Gas Company approached us prior to this hearing and said that they would object to a general order that allowed 500,000 MCF of production a month from a well even though it was overproduced and under a shut-in order, if such an order was to be generally applicable to all wells in the pool. They are sympathetic with the problem that I have outlined regarding termination of leases and have suggested that in lieu of a general minimum order of 500 MCF applying to any well, that the Commission amend the rules to provide that any operator whose lease was in jeopardy, by virtue of such shut-in provisions, should have the right to apply to the Commission for an administrative order setting out his peril with regard to the possibility of losing his lease, and that the Commission then enter an administrative order granting such relief as was necessary.

We are amenable to such change of our application, provided



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that the administrative authority is granted on the district level so that if Southern Union or another operator came up to the end of a month and suddenly realized that they were in this situation they could get administrative relief at the district level and wouldn't have to come possibly to Santa Fe.

MR. NUTTER: Would your 500 MCF still stand, Mr. Verity?

MR. VERITY: As a maximum, yes, sir. We think it's necessary that if we are going to set aside a shut-in order of the Commission that we keep it to the minimum figure that will grant relief that is necessary, and we have some evidence as to why we think 500,000 MCF per month is the proper place this should be placed.

MR. NUTTER: When we received the application and were preparing the legal notice of the case, frankly we interpreted the application as wanting this provision for Indian leases. However, we weren't sure that you wanted to restrict to Indian leases, so we advertised it without any restriction as to any type of leases.

MR. VERITY: I don't think it should be restricted to Indian leases. I really believe that probably the only place the problem will be acute is on Indian leases.

MR. NUTTER: But the notice we gave to cover any kind



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of lease is satisfactory?

MR. VERITY: I think the administrative order should be this broad. Probably it wouldn't be effectuated except in Indian lease situations, because in the ordinary fee lease I think there's less possibility that the courts might cancel or terminate for non-production if it had previously been over-produced than there is no Indian leases, because they take the position that this Commission has no authority over their land or properties.

MR. NUTTER: We will so amend the case, Mr. Verity, so that this will be directed towards an administrative procedure rather than a blanket exception.

MR. VERITY: This would be for administrative authority at district level?

MR. NUTTER: Yes.

MR. VERITY: With that I would like to call Mr. Minick.

(Witness sworn.)

LYNN MINICK

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

DIRECT EXAMINATION

BY MR. VERITY:

Q State your name, please.



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PHONE 983-3171

ALBUQUERQUE, N. M.
PHONE 243-6691

A My name is Lynn Minick.

Q What is your occupation, Mr. Minick?

A I am a petroleum engineer.

Q By whom are you employed at the present time?

A I'm employed by Southern Union Production Company.

Q What is your educational background, very briefly?

A Degree in petroleum and natural gas engineer, Texas A & M College, worked for Southern Union Production as petroleum engineer for seven years.

Q Are you presently located in their Farmington field office, district office?

A Yes, sir.

Q Are you familiar with the production situation generally in the San Juan Basin and in Northwestern New Mexico?

A Yes, I am.

Q Have you familiarized yourself over a period of the past several days with the costs of producing gas wells in that area?

A Yes, I have.

Q Mr. Minick, are you familiar with the fact that the vast majority of the oil and gas leases in Northwestern New Mexico provide that they must be producing oil or gas in paying quantities if they are to be held?



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A Yes, I mean we were informed by the United States Geological Survey that Indian leases, if not produced in paying quantities for a well each month, that the lease would be in jeopardy of being terminated.

Q Have you made any study as to the cost of producing gas wells in your area?

A Yes, I have. I went through the company records for the past nine months on average trying to determine average operating costs on the various wells and found that the operating costs on wells varied greatly from well to well as well as month to month. However, we did take an average of as many as fifty wells to come up with the average operating cost.

Q What all did you consider in arriving at the average operating cost?

A We considered all direct charges to the well maintenance. The only thing we did not include was office overhead or indirect expense from our Dallas office.

Q Does Southern Union keep an accurate record of the cost of operating its wells?

A Yes, sir, we do, we have an I.B.M. recording of it.

Q Have you prepared an exhibit which would show the income to a Dakota gas well in the Basin-Dakota Gas Pool if it had production of 500 MCF for one month?



A Yes, sir, I have.

(Whereupon, Applicant's Exhibit No. 1 was marked for identification.)

Q I hand you what the reporter has marked Exhibit No. 1. Will you explain it to us, please?

A We took an average of fifteen Dakota wells, our Dakota wells had the most expenses with the operating cost due to drip tanks which required greater attention. That is the reason we took the Dakota. We came up with an average cost. We picked an average Dakota which we list here as the Zachary No. 19, showing the operational costs for an average of a nine-month period. In the Basin-Dakota Pool that gas is selling for thirteen cents per MCF.

We show then the gross income of \$65.00 less our Federal royalty of 12½%, less the following taxes, conservation tax, school tax, severance tax, county and school district tax, and also less our average operating expense of \$30.91, and at that producing rate of 500 MCF we would show a profit or net income of \$21.96.

Q Mr. Minick, when you say the average cost of \$30.91, are you referring to the average cost of your Zachary No. 19 Well for a period of nine months?

A That is correct.

Q Did you make a study with regard to the average cost of

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Dakota takes in the area?

A Yes.

Q What did you find was the average cost per month?

A The average cost on the Dakota was \$39.92 per month.

They varied greatly depending on the number of days the wells were on production from as low as \$14.00 a month to above \$39.00 a month.

Q In your opinion, in order to be assured that a well in Northwestern New Mexico is producing gas in paying quantities, you think it's necessary that you have the right to produce it in the amount of 500 MCF per month?

A Yes, I do.

Q Mr. Minick, in the nature of gas production, does it oftentimes occur that wells become overproduced?

A Yes. It is not uncommon, particularly during the winter where the pipeline has some wells and you are unable to get to them, the wells were overproduced and been shut in by the Commission.

Q In your opinion, is it necessary that the Commission amend its rules with regard to Northwestern New Mexico gas pools to permit a minimum allowable even on shut-in wells of 500 MCF per month?

A Yes, I do.

Q Do you think that this is necessary in order to protect



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the correlative rights of the producers in the area?

A Yes, sir, I do.

Q Do you think that this need to protect correlative rights would be adequately safeguarded if the 500,000 MCF minimum allowable were granted in those cases where the Commission has shut in a well only on administrative order after application?

A Yes, I believe so.

Q State whether or not you feel this authority should be vested in the district level.

A Yes, I believe this authority should be in the district level due to the fact that at times an operator may not be aware until near the end of the month that a particular lease has not been produced and would need quick relief which could be gotten at the district level. I believe that it is necessary to obtain the relief that we feel is necessary.

MR. VERITY: We offer Exhibit No. 1 in evidence.

MR. NUTTER: Exhibit 1 will be admitted in evidence.

(Whereupon, Applicant's Exhibit No. 1 was admitted in evidence.)

MR. VERITY: I believe that's all we have.

MR. NUTTER: Does anyone have any questions of Mr.

Minick?

MR. DURRETT: Yes, sir, I have a few questions.



MR. NUTTER: Mr. Durrett.

CROSS EXAMINATION

BY MR. DURRETT:

Q Mr. Minick, you are familiar with the rules and regulations governing the Commission and with the statutes as passed by the State of New Mexico applicable to this Commission?

A Yes.

Q I believe you stated on direct examination that in your opinion this would protect correlative rights, is that correct?

A Yes.

Q I would like to go into detail with you a little bit on that. Would you explain as to how you feel correlative rights would be protected?

MR. VERITY: You might excuse my interruption. I feel this is a legal question and would request permission to answer it.

MR. NUTTER: The witness stated that he thought it would protect correlative rights. He must have had a legal opinion there.

MR. DURRETT: Let me clarify my question a little bit, Mr. Verity. I would like to read to you the definition of correlative rights, Mr. Minick, appearing in the definitions preceding the rules, and then I would like to ask you if you feel that this

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would fall within that definition. These definitions read as follows: "Correlative rights shall mean the opportunity afforded, so far as it is practicable to do so, to the owner of each property in a pool to produce without waste his just and equitable share of the oil or gas, or both, in the pool, being an amount, so far as can be practically determined, and so far as can be practicably obtained without waste, substantially in the proportion that the quantity of recoverable oil or gas, or both, under such property bears to the total recoverable oil or gas, or both, in the pool, and for such purpose to use his just and equitable share of the reservoir energy."

In your opinion, would that for this case fall within the protection of correlative rights, under that definition?

A Exactly under that definition, no. In regard to our share of the production, I was speaking more of the fact that the lease would be in jeopardy if we were not allowed to produce this and we would possibly lose our lease on which we had a well producing which we would also lose, and we would not have our rights protected.

Q (By Mr. Durrett) To go a little bit further into the point, I believe Mr. Verity will go along with me to the extent that the New Mexico Supreme Court has held that correlative rights are directly related to waste. Now, referring to this application,



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do you feel that this application will prevent waste in any manner other than economic waste to the operators own personal income?

MR. VERITY: I object to the question, first on the grounds that correlative rights are not related only to waste. Correlative rights are the relation of one party's right to the relation of the owners of their mineral interests and working interests in the pool. In this particular situation correlative rights are involved because if in order to protect all correlative rights the Commission shuts in one lease completely and totally, then they, if the Indian Tribe is correct about termination of lease, they have destroyed by this rule the correlative rights of the party whose lease is terminated and he does not have his correlative rights to produce his just share of the oil and/or gas from the pool.

Therefore, I think the question is improper and that the witness' original answer that correlative rights are affected and that this order is necessary to protect them is correct.

MR. DURRETT: May the Examiner please, I do not wish to examine Mr. Verity, so I'll withdraw my question and state a new question to the witness.

Q (By Mr. Durrett) Do you feel that this application, as presented to this Commission, will prevent waste of natural



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resources?

A Yes, I believe it will.

Q Will you please explain how it will?

A In the event that a lease was terminated due to a well being overproduced and shut in and the Indian lease was terminated and we would lose our particular well, that well would not be produced, therefore there would be waste involved in that we would not be able to produce oil and gas.

Q Would that well not revert to the Indians and would they not have the right to produce that well or drill new wells as they always have had as the royalty owners?

A It would probably revert to the Indians, that would be a legal question in the courts I imagine before it would all come about.

Q If it would not revert to the Indians, then there is no reason for this application being filed. We would have to assume it would revert to Indians or there's no reason for this rule to be passed?

A That is correct. We would be in jeopardy of losing the lease as well as the wells.

Q If you did lose it, the Indians would always have the right to produce it as they always have as a royalty owner and as a fee owner if you assumed the lease terminated and it was no



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longer in operation, they would have the entire fee, would that be correct?

A I am sure it would. I'm not familiar with their operations, but I would assume that would be correct.

MR. NUTTER: Let's put it this way, Mr. Minick, if the gas were produced, if the gas were not produced there might be waste?

A That's correct.

MR. NUTTER: Do you have another question?

MR. DURRETT: Yes, I have one other question.

Q (By Mr. Durrett) Do you feel that this Commission has the jurisdiction, and I'll let Mr. Verity object to this if he would like, to protect operators in their leases, which is in effect drawing a lease for the parties?

A I don't believe I quite understand your question.

MR. NUTTER: I believe the provision of the lease provides if it's not produced in thirty days.

MR. VERITY: May I answer the question?

Q It will terminate. Don't you feel that that would be, the Commission if it approved this application, would be drawing the lease in effect for the parties, changing the terms of that lease?

MR. VERITY: I object to the question.



MR. NUTTER: Would you give your opinion on that?

MR. VERITY: Yes, I would like to. I don't think that this would be in any way redrafting the lease. Of course, the whole point of our application is that if the Commission rules are to be applied strictly so that a lease is shut in over a period of months without it being permitted to produce, then the lease is going to terminate by virtue of the order of this Commission, not by virtue of the intent of the parties or the terms of the instrument, but because this Commission in its police power intervenes with the right of the individual to continue his lease in force. This is the whole point of our application, that the rules should not be so stringent or inflexible that it would cause an individual to lose his lease, but that rather the waste should be protected against or prevented, and correlative rights should be protected in such a manner that everybody's rights are enjoyed to the fullest and a lease should be curtailed down to the minimum point to where it would not be permanent. If it comes to that point, then the Commission, we feel, should allow that minimum amount of production so that the individual's economic interest will not be forfeited if the law comes to this.

MR. NUTTER: Mr. Verity, you stated that you felt that this shut-in order would intervene with the right of the

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individual to keep his lease in force and effect. Do you think that an order such as the one you have proposed here would intervene with the right of the royalty owner under the terms of the lease to cancel the lease?

MR. VERITY: This is the reason when you ask "Should it be confined to Indian leases", I don't think that it should be, but the problem is not so acute with the fee lease as it is with an Indian lease because if it's overproduced the fee royalty owner who is unequivocally subject to the law of New Mexico and the rules and regulations of this Commission can not complain that he has had this month's royalty last month, if you follow me.

But the theory of the Indians is that we haven't had this month's royalty at all, even though you say it was overproduced last month, we say we were entitled to take whatever we took out of it and you can't tell us that we can't.

The problem is much more acute with regard to an Indian lease, and there's a greater possibility that the courts might hold the lease terminated in the case of the Indian lease than in the case of the fee lease. I don't think it's going to be cancelled in either instance, and Southern Union doesn't think it should be. We don't think that the courts would so hold. We can't prejudge these courts and we have been wrong before about it, and we feel we should not be put to the jeopardy of losing a lease.



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MR. NUTTER: Before I get on with some questions to Mr. Minick, I want to ask you, Mr. Verity, in setting up this administrative procedure, what would constitute the proof of peril that the operator would have to present to get the exception?

MR. VERITY: It seems to me reasonable that the operator should make showing that his lease is non-productive unless he's given an administrative order of 500,000 MCF allowable for the month.

MR. NUTTER: There would be no proof of anything except that the well has not produced yet this month?

MR. VERITY: Proof that it's not allowed to produce.

MR. NUTTER: Under a shut-in order.

MR. VERITY: And this is the point I think that El Paso is making, that it should be a matter of a lease rather than a well. In other words, if a lease has got one well that's not under a shut-in order and another one that is, they don't have a problem, but you only need production in paying quantities from the lease, not from each well on the lease.

MR. NUTTER: Minimum amount of gas, say one MCF would not be in paying quantities, would not hold the lease?

MR. VERITY: No, it would not, because the law has with pretty much uniformity held paying quantities meaning some profit over and above the cost of operation.



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I have one thing with regard to Mr. Durrett's question that I would like to get in the record, I can do it with the witness. I think really it's apparent if I could make the statement. Some waste would occur if you allow these leases to be terminated, because although the leasehold estate would revert to the Indian Tribe or to the owner of the mineral interest, the oil and gas leases uniformly provide that the lessee may recover whatever personal property he has placed on the lease. This means if the Indians say "Well, the lease is terminated and there's no out to this at all", then the operator goes in and pulls his tubing and pulls his pipe and there's no well there.

Now, if the property has been partially depleted, which certainly at this instance it would, you might leave a great measure of unrecovered gas in the ground which still would not be a sufficient amount of gas to justify the drilling and completion of a new well. So, although the lease reverts, the personal property and the development of the lease does not revert. No one is entitled to that except the owner of the lease.

MR. NUTTER: Can the owner of the lease plug the well?

MR. VERITY: He not only can, he must under your orders. He must do this when he pulls his pipe. Certainly if the lease is terminated he's going to recover his personal property, which are sizeable values on leases.



MR. NUTTER: Is this an automatic thing that he recovers his personal property, or would that be part of the judgment of the court?

MR. VERITY: No, this is a matter of contract. A lease universally provides that the lessee may recover any property that he places on it. This is an exception to the general rule of law which would make pipe that is cemented into the ground a part of the real estate, so for this reason, even though you put a building on the lease, cement pipe in the ground, set a tank there, even though these would be in the nature of permanent installations so that they might be a part of the real estate under normal legal considerations, the oil and gas lease itself provides that any property that the lessee places upon the lease may be removed by the lessee at his will or at the termination of the lease.

BY MR. NUTTER:

Q Mr. Minick, to get on with some of these other things. You stated that over a nine-month period the Basin-Dakota Zachary No. 19 had had an average operating cost of \$30.91?

A That's correct.

Q You also said this included maintenance but no overhead and office expense in Dallas. Just what type of maintenance are you including there?

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A I am including maintenance on the particular separators, tanks or any maintenance on the particular well.

Q If you had had a workover on that well, would that have been included in that?

A That would be included in maintenance, yes.

Q How about your other wells, you said that the Dakota wells were the most expensive to operate. What are the operating costs on some of the others?

A I have an average of thirty-four Mesaverdes, and average cost of those Mesaverdes, and this is for a nine-month period, was \$30.68 per well. Then I have some, oh, twenty-six Pictured Cliffs wells where the operational cost was just \$3.47 per month, and then I have some more Pictured Cliffs where the cost ran as low as \$1.29 per month.

These wells are wells that produce no drip or tied into a line. The field men may not have to make these wells, the pipeline turns them on and off, the men may not hit those wells for a month or two at a time. As I stated, they vary greatly from well to well and month to month.

Q Is this average cost or have you picked your wells at random or picked wells that look like average?

A No, I picked a field at a time, the Ballard Field, thirty-four wells.



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Q How did you pick the thirty-four wells in the Mesaverde?

A That was the total wells in that field.

Q That's all that you operate?

A Yes, in this particular field.

Q So this is just a random selection of all the wells?

A Yes, it was random in that we took about four of the fields in various parts of the country. We took Jicarilla, the Apache, the Basin-Dakota, and we took the Mesaverde and we took a Pictured Cliffs and Ballard area.

MR. NUTTER: Any further questions of Mr. Minick? Mr. Utz.

BY MR. UTZ:

Q Mr. Minick, I gather from Mr. Verity's statement a while ago that actually your application is not on a well basis, it's on a lease basis?

A That is correct.

Q So long as you had one well on a lease, regardless of how many wells that were on that lease that would produce 5 MCF per day, you would not need any relief?

A That is correct.

Q You are familiar with the proration rules, I understand, aren't you?

A Yes.



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Q Any overproduction you have in one six-month's period you have another six-month's period in which to make that up, isn't that true?

A You say overproduction?

Q Yes, sir.

A Yes, you are speaking of underproduction?

Q I am speaking of over or under production. Here we're only talking about overproduction.

A Yes.

Q So would it not seem that an operator in a six-month's period ought to be able to make up overproduction from the previous six-month's period?

A That, in most cases you should be able to; however, we have had two particular cases in the last year where a well was shut in because of overproduction, pipeline had overproduced it, not a great amount however. The allowable during the summer was very low on the well, and the well had to be shut in. It was an Indian lease, a Navajo lease, and the United States Geological Survey, the Indians were going to put the lease in jeopardy if the well did not produce. The well was, in that particular case was a one-well lease.

Q Well, actually, in making up of overproduction, even though the well is not shut in by a Commission order, you have to



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shut in the well for a thirty-day period in order to make up over-production, is that true?

MR. VERITY: If I might answer this. We agree with you completely that you should be able to balance this off on six-month's period and that if you are overproduced, even if it's for a two-year period, that the lease should not terminate, because it's had its production, but our problem is that the Indians don't agree with us and possibly some fee owners might not agree with us.

The Indians are definitely contending that as far as we are concerned the lease is terminated. We contend the lease is terminated if it goes a month without production in paying quantities. We feel that we don't want to run the risk of being put in the jeopardy of that termination and that we should be allowed to produce this minimum amount from each lease during every month.

Q (By Mr. Utz) Let me ask this. Are most of your Indian leases in the Pictured Cliff Pools?

A I'd say the larger percent is. However, we have a number of Dakotas and some Mesaverde also, but I would say the greater majority is Pictured Cliffs.

Q What are the sizes of those leases, do you have quite a number of one-well leases, Indian leases?

A If I recall, we have either five or six one-well leases



and a number of two-well leases. Then we have a number of leases with as many as twenty wells.

Q Well, the chances are pretty remote, are they not, that you wouldn't actually need any relief on any leases except possibly the one or two-well leases?

A That is correct.

MR. UTZ: That's all I have.

MR. NUTTER: Any further questions?

MR. VERITY: I would like to make this one more point before the witness leaves. We have presented to you here an average cost and we've talked about averages, but actually our problem is not necessarily one of averages because we may have a lease shut in that has a well on it that has a greater average cost. We still feel that with the margin that we have in all except the rarest of instances, that a 500 MCF would give us the protection that is required, and we think that it is a proper figure to place it, but the mere fact that an average lease might produce in paying quantities would not protect you on a given lease if it cost more than that to produce it.

MR. NUTTER: Mr. Minick may be excused.

(Witness excused.)

MR. DURRETT: I have one question of Mr. Verity. Don't you feel this is basically a question between private parties

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that should be determined by the courts and not by this Commission?

MR. VERITY: No, I really don't, because this Commission regulates the production of oil and gas and what we felt, and I earnestly believe in this instance, as I said a while ago, or endeavored to, that the rules or regulations of the Commission should not be so harsh that in protecting correlative rights and preventing waste they put a particular operator at a given moment where his lease might terminate. I don't think that's the purpose of the Commission and I don't think that's the purpose of its rules, but in this instance that is the situation that we have if it's not relinquished in the manner that we have requested.

I don't think this is just a matter where two people should be left to their contract, because this isn't the situation, the Commission has interposed itself between their contract and we think rightfully so.

In other words, two people make a contract, but then the Commission comes along and says "Irrespective of the contract you made we are going to regulate the way that this lessee produces this oil and gas lease", and that regulation is what we are talking about here and we are saying it should not be so harsh that it places the lessee in jeopardy of losing his rights.

Have I made our position clear now?



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MR. DURRETT: I think you have.

MR. NUTTER: Do you have anything further, Mr. Verity?

MR. VERITY: That's all.

MR. NUTTER: Does anyone have anything to offer in this case?

MR. DURRETT: Yes, sir, I have a telegram I would like to read into the record. Received November 7, reads as follows: "Re: Examiner hearing scheduled for November 8, 1962 at Santa Fe, Specifically Case 2694, Texaco, Inc., as leasehold owner and operator of prorated gas pool wells in San Juan County, recommends adoption of a minimum monthly gas withdrawal for those wells shut in for extended periods due to overproduction. Single-well leases are unduly jeopardized by loss of leasehold estate during shut-in periods. For this reason Texaco supports Southern Union Production Company's amendment to Order No. R-1670 as amended by Order No. R-2086, Texaco, Inc., Domestic Producing Department, J. F. Neil", N-e-i-l.

I also have a letter in the Commission files received November 7. I would like to read a portion of this letter.

"Case No. 2694. Continental supports the application of Southern Union Production Company for an amendment to the Northwest New Mexico Gas Proration Rules and Regulations which will permit wells ordered shut-in for extended periods to make up accumulated



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overproducing to produce a minimum of 500 MCF each month during shut-in. Such a provision will allow an operator to maintain a well bore condition free from accumulated formation water during the shut-in periods which will allow a more economic lease operation and prevent waste which could result from possible damage to the producing formation. Continental does question however, the use of the word minimum in the last sentence of Case No. 2694 as presented on the docket." This letter is signed by R. E. White, Division Superintendent, Production Department.

I also have been requested to read a statement into the record furnished to me by Pan American Petroleum Corporation. I will read that statement at this time. This statement reads as follows: "Pan American Petroleum Corporation concurs with Southern Union's application and recommends that the rules be amended to provide that wells that are overproduced may produce a maximum of 500 MCF per month while making up their overproduction."

MR. NUTTER: Does anyone have anything further? Mr. Woodruff.

MR. WOODRUFF: Norman Woodruff on behalf of El Paso Natural Gas Company. We would like to indicate concurrence in the revised or clarified application by Southern Union Production Company in this case. In support of our concurrence I would like



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to make several observations. One, the problem of applicant here is a real problem shared by many producers in the San Juan Basin. We believe that it is the desire of no operator, nor should be the desire of the Commission, to force dedication on this matter. There is a serious legal question involved.

I would like to speak as an individual for a moment relative to the question of correlative rights. In my own concept I believe the correlative rights must be considered in terms of cumulative performance within a field, otherwise we would never at any one time have perfect protection of correlative rights. The Commission recognizes this and permits wells to come in balance on a cumulative basis.

Applicant here seeks the same thing. Permission to bring wells in balance with others in the same pool on a cumulative basis. It would appear to me that the correlative rights within a field are protected if upon depletion of the field each party's correlative rights have been protected. It is not something to be applied on a time basis sometime during the production as the questions have caused us to consider here today. We think that present relief probably could only be obtained as a result of a hearing, which because of the length of time involved, could cause the month period to be exceeded.

I do recall the Commission having emergency powers to permit



production, certainly, if I'm correct in my recollection what is being requested here by applicant could be accomplished under those emergency powers. There is nothing which would permit an injured party within a pool from appealing administrative order granted by the Commission under such a circumstance.

We would concur with Mr. Verity's last statement, or last answer to the question tendered by Commission's counsel concerning the Commission's responsibility in this matter. We agree that the Commission must take action, that the cause of concern is a Commission rule and the relief of this concern can only be accomplished by additional Commission ruling. Thank you.

MR. NUTTER: Mr. Anderson.

MR. ANDERSON: John Anderson, Geological Survey, Roswell, New Mexico. This matter that we have been discussing here today first came to our attention several years ago when El Paso Natural Gas Company asked us whether in our opinion an Indian lease, either tribal or allotted, which was in its standard term by reason of production would expire or terminate if the well were shut-in by Commission order for overproduction. We have had no cases like this in the department on which to base any answer.

We replied that since there was no department decisions on the matter, that in our opinion the best answer to all of it

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would be to produce the well for a period each month sufficient production to be production in paying quantities, and so avoid any question on the part of individuals, Indians or tribes of Indians, as to whether or not the lease terminated by its own terms.

We also forwarded El Paso's request to the Gallup area office of the Bureau of Indian Affairs, which is in charge of all of the Indian agencies in New Mexico. As I recall, the answer of the Bureau of the Gallup area office was essentially the same as ours. As far as any individual Indians or tribes of Indians threatening to cancel leases that might be shut in by reason of overproduction, I know of no cases where this has happened, but at the same time we feel very definitely that the lessees of Indian leases should take proper precaution so it won't happen.

We don't know what the answer would be on the part of the Department of Interior, nor what it would be next, but we certainly would not advise the lessee simply to let the thing go and get the answer and at the same time lose the lease.

MR. NUTTER: Thank you. Does anyone have anything further?

MR. DURRETT: Yes, sir, I would like to recall Mr. Minick for just a minute for purpose of clarification.

MR. NUTTER: Mr. Minick.

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LYNN MINICK

recalled as a witness, having been previously duly sworn, testified further as follows:

CROSS EXAMINATIONBY MR. DURRETT:

Q Mr. Minick, I notice in this case on the docket the word minimum is used. I'm not sure just how your application read. The docket reads "to permit wells ordered shut-in for extended periods to make up accumulated overproduction to produce a minimum of 500 MCF each month during such shut-in." I would like to question the use of the word minimum and ask you if you really intended to use the word maximum?

A We would prefer that the word maximum be used, that it be a maximum of 500.

MR. NUTTER: It would be a volume of gas not to exceed 500, is that what you mean?

A That is correct. When the application was filed the application was filed in Dallas, they put minimum of 500. This was that that much would be required to show that the lease was producing in paying quantity. In other words, to cover your operational costs that the lease would be considered producing in paying quantities.

MR. VERITY: In other words, what the Dallas attorney

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who prepared this application was meaning is that that minimum be allowed. Not that it be in excess of it, but that in each instance the allowable be not less than that minimum. We have no objection to that also being the maximum.

MR. NUTTER: We've used the term minimum allowable a lot of times, I think it's a minimum-maximum actually.

MR. VERITY: Right, we will agree.

MR. DURRETT: Thank you. I think that clears it up.

MR. NUTTER: Does anyone have anything further?

MR. WOODRUFF: If I may be privileged to do so, I would like to ask Mr. Anderson relative to his letter to El Paso, because it's not clear in my mind whether your letter was relative to individual wells or leases.

MR. ANDERSON: That was to leases entirely.

MR. WOODRUFF: Then the application here would cover the question that you raised?

MR. ANDERSON: That is right.

MR. WOODRUFF: That is right.

MR. NUTTER: Does anyone have anything further in Case 2694? We will take the case under advisement.



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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 5th day of December, 1962.

Ada Dearnley
Notary Public-Court Reporter

My commission expires:

June 19, 1963.

I do hereby certify that the foregoing is a complete record of the proceedings in the hearing of Case No. 2694, heard by me on 11-8, 1962.

[Signature]
Examiner
New Mexico Oil Conservation Commission



**CASE 2694: Application of SOUTHERN
UNION PROD. CO. FOR A HEARING DE NOVO
REGULAR HEARING - FEBRUARY 14, 1963**

2694

Index, Transcript,
Exhibits, Etc.

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. 2694
Order No. R-2404-A

APPLICATION OF SOUTHERN UNION PRODUCTION
COMPANY FOR AN AMENDMENT TO THE NORTHWEST
NEW MEXICO GAS PRORATION RULES AND REGULA-
TIONS.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing de novo at 9 o'clock a.m. on February 14, 1963, at Santa Fe, New Mexico, before the oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 11th day of March, 1963, the Commission, a quorum being present, having considered the testimony presented 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 the applicant, Southern Union Production Company, seeks an amendment to the Northwest New Mexico Gas Proration Rules and Regulations to permit wells that have been shut in for overproduction to produce up to 500 MCF of gas each month during such shut-in periods.

(3) That in some cases requiring complete shut in of gas wells in order to balance overproduction imposes undue hardship upon the operators of such wells.

(4) That approval of the subject application will tend to prevent premature abandonment of wells that have been ordered shut in because of overproduction, thereby preventing waste.

(5) That approval of the subject application will not cause waste.

IT IS THEREFORE ORDERED:

(1) That Rule 15(A), Rule 15(B), and Rule 15(D) of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico, as promulgated by Order No. R-1670, as amended, are hereby amended to read as follows:

RULE 15(A). Overproduction: Any well which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up during the succeeding gas proration period. Any well which has not made up the overproduction carried into a gas proration period by the end of said proration period shall be shut in until such overproduction is made up. Provided, however, that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship; provided further, that any well produced in excess of the monthly rate of production authorized by the Secretary-Director shall be shut in until all overproduction is made up.

RULE 15(B). If, at any time, a well is overproduced an amount equaling six times its current monthly allowable, it shall be shut in during that month and each succeeding month until the well is overproduced less than six times its current monthly allowable. Provided, however, that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship; provided further, that any well produced in excess of the monthly rate of production authorized by the Secretary-Director shall be shut in until all overproduction is made up.

RULE 15(D). The Commission may allow overproduction to be made up at a lesser rate than permitted under Rule 15(A) or 15(B) upon a showing at public hearing that shut in under Rule 15(A) or 15(B) would result in material damage to the well.

IT IS FURTHER ORDERED:

That Rule 15(B) of the Special Rules and Regulations governing the Tapacito-Pictured Cliffs Gas Pool, as promulgated by Order No. R-1670, as amended, is hereby amended to read as follows:

-3-

CASE No. 2694

Order No. R-2404-A

RULE 15(B). If, at any time, a well is overproduced in an amount equaling six times its average monthly allowable for the last six months, it shall be shut in during that month and each succeeding month until it is overproduced less than six times its average monthly allowable. Provided, however, that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship; provided further, that any well produced in excess of the monthly rate of production authorized by the Secretary-Director shall be shut in until all overproduction is made up.

IT IS FURTHER ORDERED:

(1) That Order No. R-2404, entered by the Commission on December 31, 1962, is hereby superseded.

(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

Jack M. Campbell

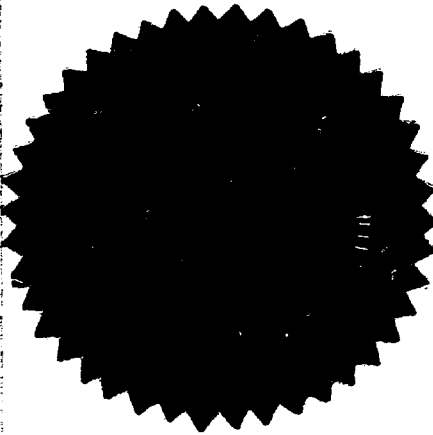
JACK M. CAMPBELL, Chairman

E. S. Walker

E. S. WALKER, Member

A. L. Porter, Jr.

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



esr/

REGULAR HEARING

Application of Southern Union Production Company for an amendment to the Northwest New Mexico Gas Proration Rules and Regulations. Applicant, in the above-styled cause, seeks an amendment to Order No. R-1670 as amended by Order No. R-2086, Rules and Regulations for prorated gas pools, San Juan, Rio Arriba, McKinley and Sandoval Counties, New Mexico, to permit wells ordered shut-in for extended periods to make up accumulated overproduction to produce not more than 500 MCF each month during such shut-in. Upon application of Southern Union Production Company, this case will be heard de novo under the provisions of Rule 1220.

Case 2694

Honorable Jack M. Campbell
Mr. A. L. "Pete" Porter
Mr. E. S. "Johnny" Walker

MR. PORTER: The next case to be heard will be Case 2694, application of Southern Union Production Company for an amendment to the Northwest New Mexico Gas Proration Rules and Regulations.

(Witness sworn.)

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MR. PORTER: Mr. Verity.

MR. VERITY: George Verity for Southern Union Production Company.

LEN MUENNINK

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

DIRECT EXAMINATION

BY MR. VERITY:

Q Will you please state your name?

A My name is Len Muennink.

Q What is your present occupation?

A My present occupation is Area Superintendent for Southern Union Production Company in the Farmington District.

Q Have you testified heretofore before this Commission as an expert?

A Yes, I have.

Q Mr. Muennink, are you familiar with the mechanics of the production of gas wells in the San Juan Basin and the Basin-Dakota area?

A Yes, sir, I am.

Q And for the seven prorated gas pools in Northwest New Mexico?

A Yes.



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Q If you will, please relate to us the mechanics of the production of an oil and gas well, particularly with regard to the mechanics of turning it on and turning it off and how it gets produced.

A In general, on the gas wells in the Basin the pipelines control the turn-on and turn-off of these wells. They do this in order to better balance their production between operators and the operators themselves do not have much control over whether a well is turned on or turned off.

Q I believe you are familiar with the fact that gas wells are prorated on a six months' period?

A Yes, sir.

Q Is it possible from the standpoint of pipeline companies marketing of gas to produce the same amount of gas during each of the six months of the period?

A Would you repeat that? Is it possible they produce exactly the same amount?

Q That's right.

A No, sir, it is not.

Q Why is it necessary that it be otherwise produced?

A Because of the market demand in the Basin it's inherent in our marketing that at times during cold weather the market requires a great deal of gas. There may be wells producing



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at the time and these wells are left on while the switchers are busy turning on additional wells in order to cover the market.

Q Then, if I understand you, irrespective of the fact that the order provides for the allowable during the six-month period, there may be a much greater need for gas during the, say the month of January than there is during the last month of that six-month period, June?

A That is right.

Q Also, if I understand your statement, Southern Union Production Company and other operators in the pool actually do not control the turning on and the turning off of their wells?

A That is correct.

Q Who does turn on a well?

A The pipeline company that is tied into the gas well.

Q Tell us what necessitates, or tell us, is it necessitated that a well become overproduced inherently in our system of production and marketing of gas?

A Yes, it is at times. I'll have to go back to the statement I made a little bit ago where the market demand, weather, a lot of times road conditions where it is impossible to get to a particular well that may be overproduced, and it may become overproduced more. Situations such as that.

Q By this are you saying that a well that may be produced



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up to its peak or even overproduced and is in the process of where it would be shut off, cannot be shut off because of the weather?

A At times this is possible, yes.

Q Is this because that the weather necessitates more gas or because the weather makes it impossible to get to the well or both?

A It could be both, but a lot of times the weather makes it impossible to get to the well and other times the market is such that they need that immediate gas and leave the well on.

Q Then, if I understand you, the operator really and actually has nothing to do with the well becoming overproduced beyond its allowable?

A No, sir.

Q Mr. Muennink, are you familiar with the cost of operating gas wells in the Northwest New Mexico area?

A Yes, I am.

Q Have you made any particular study with regard to costs of producing wells, gas wells in that area?

A Yes, I have. I've studied a number of wells and I have some right here.

(Whereupon, Applicant's Exhibit No. 1 was marked for identification.)



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Q I hand you what the reporter has marked Exhibit No. 1. Will you tell us what it is, please?

A This is a Pictured Cliff well, Southern Union Company Pictured Cliff well located in the Fulcher Kutz-Pictured Cliff Pool. Here we are showing the well has production of 500 MCF taking off royalty, taxes, less our operating expenses to show what the net income would be for that particular well had it produced 500 MCF.

Q Have you entered on this exhibit the average cost of operating a particular well?

A This is the actual monthly average for a nine-month period for this particular well.

Q What well are you referring to?

A Summit No. 3-B.

Q It is, I believe, a Pictured Cliff well?

A Yes, sir.

Q What is your actual operating expense for that well average over a period of months?

A Our operating expense for a nine-month average was \$12.70 per month.

Q Is that the last nine months that you had available at the time this exhibit was prepared?

A That's right.



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Q Does that \$12.70 include only direct expenses?

A It includes direct expense only, that is correct.

Q Does it include any cost for supervision and overhead expenses with regard to the operation of that well?

A No, I do not have the overhead in this expense.

Q Do you know what your direct and overhead supervision expense on a gas well in the Northwest area is?

A Yes. I don't have the accurate figures from my IBM at the time, but they average between thirteen and fifteen dollars a month per well.

Q Then, if I understand you, if you had a maximum production on a well during the month, on this well during the month of 500 MCF, it would operate at a \$32.04 profit without regard to a thirteen or fourteen-dollar expense of supervision and overhead?

A That's correct.

Q And that would have to be taken off of it to leave it operating at a profit?

A That's correct.

(Whereupon, Applicant's Exhibit No. 2 was marked for identification.)

Q I next hand you what the reporter has marked Exhibit 2. Will you please tell us what it is?



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A Exhibit 2 is a Southern Union Production well, the Quinn No. 5, located in the Blanco-Mesaverde Pool, San Juan County, New Mexico. Likewise on this exhibit we have taken 500 MCF production, shown the royalty, the taxes and also the average operating expense and came up with what we would show as net income.

Q How did you arrive at your monthly operating cost for this well?

A The monthly operating cost for this well was arrived at from a nine-months average from our IBM reports.

Q Again did you make any inclusion for supervision or overhead charges on the producing of this well?

A No. The overhead is not shown in this operating expense.

Q Again, it is necessary that you have supervision of production by personnel, is it not?

A That is true.

Q And it would be a proper charge here?

A That is correct.

Q Do you know what the approximate average cost of such charges would be on your Mesaverde wells?

A They will average about the same, thirteen to fifteen dollars a month.



(Whereupon, Applicant's Exhibit No. 3 was marked for identification.)

Q Mr. Muennink, I hand you what the reporter has marked Exhibit 3. Will you please tell us what it is?

A Exhibit 3 is a Basin-Dakota well, Southern Union Production Company Zachary No. 19, located in the Basin-Dakota Pool, San Juan County, New Mexico. On this exhibit we show a production of 500 MCF taken of our royalty, our taxes and our operating expense to show a net income.

Q What is your monthly average operating expense on this well?

A On this particular well the average monthly operating expense was \$30.91.

Q Does this include supervision or overhead charges?

A No, once again, the overhead charges are not in this expense.

Q From the study that you've made, not only of these wells but the wells in the Northwest producing area, do you have an opinion as to whether or not an allowable of 500 MCF per month would allow wells to operate at a profit?

A Yes, from studying the wells that we're operating an allowable of 500 MCF would show a profit.

Q You think in order for a well to operate at a profit

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or in paying quantities that it would be necessary that it produced during the month at least 500 MCF?

A That is correct.

MR. VERITY: That's all.

MR. PORTER: Does anyone have a question of Mr. Muennink?

MR. DURRETT: Yes, sir, I have a question or two.

CROSS EXAMINATION

BY MR. DURRETT:

Q Mr. Muennink, I'm quite interested in this statement or question about who turns gas wells off and on. Did you mean literally that the pipeline taker or the pipeline transporter comes in and turns the operator's wells off and on?

A The pipeline or transporter designates which wells are to be turned on and turned off.

Q But they are, in fact, turned off and turned on by switchers, is that correct?

A By switchers, and in our particular case with gas company, a lot of the Pictured Cliffs and Mesaverde are turned on strictly by the transporter's switchers.

Q And the transporter pays these switchers?

A That is correct.

Q They're on his payroll?

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A That is correct.

Q But you also have some switchers on your payroll, do you not?

A That's correct.

Q Let's make this statement, agree or disagree with me whether or not this is true. If a well is allowed to run over the amount that you intended to take out of it, the amount to be taken out of it is a switcher's fault, as a rule, is that correct?

A No, sir.

Q Well, would you have a general statement as to whose fault it usually is?

A Normally it would not necessarily be anyone's fault. It could be that the well was needed to be off for some particular reason. They're trying to balance production, the pipeline, or dispatch the proration. They are trying to balance production between five, six hundred wells, and at times it happens due to market, as I say, at other times due strictly to the operations of that many wells.

Q Well, sometimes they are intentionally overproduced to meet the market at that time, is that what you mean?

A They are left on and they're known to be overproduced due to market, yes.



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Q Going to the statement that was made about the fact that wells have to be overproduced to meet market demand somewhat at least in the colder months, how long would you say this would hold true as a general situation, two or three months, or what?

A You mean the over-all, an individual well being on or --

Q Well, take a bunch of wells or all the wells in a pool, I believe you made a statement on direct examination that during the cold winter months there were times when the wells had to be overproduced to meet market demand.

A Yes.

Q Let me more or less rephrase my question. This would not be true for the entire year, is that correct?

A That is correct, it would not.

Q It probably would not be true for a half a year, would it?

A No.

Q Well, then, it would just be true for at least less than six months, two or three months, would that be correct?

A I would say three or four months during the hardest winter, yes.

Q Well, even at that, since we have a six months' pro-ration period and a six months' balancing period, then that fact



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alone would not mean that it was impossible to keep a well within its allowable considering the six month balancing period, is that correct?

A It would not be impossible. There are a number kept in balance, but at times with the low allowables in these fields, a well gets overproduced during this winter to such an extent that six months, they can not make it up.

Q Well, could we say that it might be impractical to do it but it's definitely not impossible to do?

A It definitely is not impossible, at times it is impractical, yes.

Q Let me ask you this question, Mr. Muennink, is Southern Union Pipeline Company the purchaser for Southern Union Production Company in the Northwesterly area up there?

A They are one of the purchasers, yes.

Q Is it a correct statement that the market demand in that area is less than the allowable indicated to Southern Union Pipeline Company?

A That's true.

Q Isn't it also true that Southern Union Pipeline Company allocated market demand is less than the allowables for the wells that they are connected to?

A I lost you there. Would you repeat that, please?



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Q Isn't it true that Southern Union Pipeline Company allocated market demand is less than the allowables for the wells that they're connected to?

A Yes.

Q Isn't it also a correct statement that in a total one-year period Southern Union Pipeline Company has enough flexibility in their required take they should be able to control their takes in order to never have a well overproduced through a six months' balancing period in the proper administration of a company, if it's handled right?

A I believe it would be nearly physically impossible to keep from getting any well overproduced in a six months' period due to the mechanics of it itself and due to the situation of the market.

Q You believe it is impossible to keep from overproducing wells to the point that they have to be shut in after a one-year period, within a one-year period of time, you do not think that Southern Union Pipeline Company has enough flexibility that they can control their takes so as not to get any given well in an overproduced status?

A No, sir. I don't believe due to the great mechanics of it that they can keep every well from being overproduced. Due to the inherent characteristics of operations and the market,



at times these wells become overproduced.

Q Well, you would be willing to go along with me to the point that they could certainly keep the great majority from getting in that status?

A Yes, I'll go along with that.

Q So the number left would be almost very small?

A There would be a smaller number that got greatly overproduced, that is correct.

MR. DURRETT: Thank you, I believe that's all I have.

MR. PORTER: Does anyone have a question of Mr. Muennink?

MR. VERITY: I have another question.

REDIRECT EXAMINATION

BY MR. VERITY:

Q Mr. Muennink, if I understand you then, it isn't anyone else's fault that a well becomes overproduced even beyond a six months' balancing period?

A No, I do not feel it is.

Q This is a matter of the weather and the exigencies of the market situation, is this correct?

A That's correct.

Q It's necessary, is it not, that pipeline companies maintain a staff that is reasonably busy during the entire year?



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A That is correct.

Q If they multiply this staff by a hundred times or by many, many times during unusual weather conditions and during periods when it can be made up, this would possibly enable companies to eliminate some of the overproduction, correct?

A That is correct.

Q Again, from a practical and an economic standpoint this is not a possibility, is it?

A That's correct.

Q So we do have a result without any fault of any operator of overproduction of a well?

A That is correct.

MR. VERITY: That's all.

MR. DURRETT: I have one further question, if the Commission please.

MR. PORTER: Mr. Durrett.

RECROSS EXAMINATION

BY MR. DURRETT:

Q Mr. Muennink, since we seem to be assuming that it's no one's fault that wells get into an overproduced status through a one-year period and have to be shut in, and since the only person or element that could be at fault is the weather and the market, and I suppose that you feel that the Commission should be



controlling the weather and the market and not the operator?

A No, sir, I don't feel that way.

MR. DURRETT: Thank you. I think that's all I have.

MR. PORTER: Any further questions? Mr. Utz.

BY MR. UTZ:

Q Mr. Muennink, you are asking for this, this 500 minimum for how many prorated pools?

A For Northwest New Mexico.

Q All the prorated pools in Northwest New Mexico?

A The Indian leases. This is covering the Indian leases in those particular pools.

Q Is it possible due to the low market demand for the Northwest area to have allowables of less than 500 MCF a month assigned to certain wells?

A Allowables of less?

Q Yes.

A Mr. Utz, I'm not that familiar with the proration schedules. I have seen some very low allowables on some of the poor Pictured Cliffs, yes.

Q Do you recall seeing allowables of less than 500 MCF a month?

A Right off-hand I don't. A lot of those wells that won't hardly produce that are classified on the marginal

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schedule. I don't off-hand recall it.

Q Would you agree that it was a distinct possibility that we could have allowables over a six-month period assigned to certain wells with less than 500 MCF a month?

A For the individual month you are speaking of?

Q No, as an average for the six-month period.

A Yes, I imagine that it would be possible or probable.

Q Then in that case if we assigned an overproduced, a well that is overproduced an allowable of 500 MCF a month and his allowable was 500 MCF a month or less, then he could never make up any overproduction, could he?

A If that particular well was involved, I believe so, but I would think that a well that had a small allowable would be on the marginal schedule.

Q Wouldn't that depend on the market demand for the pool?

A It would to a certain extent, the allowable, yes, it sure would.

Q I think you've agreed that that situation could exist. Do you have any answer as to how we can ever get a well back in balance?

A The particular well like that, of course, if the market increased the allowable would increase.



Q Is there any prospect of the market increasing in the San Juan Basin in the next two or three years?

A That I'm not qualified to answer.

MR. PORTER: Could you give us an optimistic prediction?

MR. UTZ: That's all I have.

MR. PORTER: Mr. Verity.

REDIRECT EXAMINATION

BY MR. VERITY:

Q Mr. Muennink, the problem of overproduced wells doesn't occur in your small allowable wells, does it?

A Not normally, no.

Q These problems occur in the high potential wells, isn't this correct?

A Yes.

Q Because that's the wells that they overproduce in the cold weather?

A In most of the cases, yes. There are exceptions, of course.

MR. VERITY: That's all.

MR. PORTER: Anyone else have a question?

MR. DURRETT: I have a question, if the Commission please.

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MR. PORTER: Mr. Durrett.

RECROSS EXAMINATION

BY MR. DURRETT:

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Q Mr. Muennink, isn't it a fact that it does occur, the question does occur in small allowable wells? Let me call your attention to a well that I have some history on here, Basin-Dakota well, Delhi-Taylor, I believe it's Hargraves Well No. 1. That well had a twelve-month average allowable during the last twelve months of 480 MCF. It's low monthly allowable was in July, 1962 and it had an allowable of 310 MCF. This happens to be a well that's on 40 acres and capable of producing more than that 310. Isn't that actually where the problem occurs in that usually a well, as far as we're talking about, as far as this application goes, isn't it usually a well on 40 acres and the only well that would be inclined to overproduce to keep the lease?

A There could be exceptions to that, yes. But the cases we have run across were not wells on 40 acres, they were on standard spacing patterns, but had become overproduced having allowables up to four or five million a month and had become overproduced. I think there could be exceptions, yes.

Q Would you agree with me, assuming that there could be exceptions and that this situation existed, if you established



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the 500 MCF per month, would it not be to the operator's advantage to overproduce his well and acquire an overproduced status so he then could produce 500 MCF per month rather than his allowable of less than that?

A Well, the operators themselves could not overproduce the well as the pipeline controls their market and designates which wells will be turned on and off. I think that the pipeline would have the control of whether the well is on or off.

Q You wouldn't be inclined to think that an operator might try to influence a pipeline in order to get more out of this so that he could produce the 500 MCF rather than the 380 or whatever he had before?

A I think it would be very unethical.

Q It's a possibility?

A Yes, it's a possibility, but I would say it's very unethical.

MR. DURRETT: That's all I have.

MR. VERITY: One more question.

REDIRECT EXAMINATION

BY MR. VERITY:

Q Mr. Muennink, it hasn't been lawful for many years in Northwest New Mexico to drill a 40-acre gas well?

A No, not to my knowledge.



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Q There are only a few 40-acre wells up there, isn't that correct?

A I would say that there are very few. I don't believe we have any.

Q You don't have any at all?

A No, sir.

MR. VERITY: That's all.

MR. DURRETT: One further question.

RECROSS EXAMINATION

BY MR. DURRETT:

Q Mr. Muennink, doesn't the Commission have rules allowing non-standard proration units?

A Yes, sir.

Q It can be acquired legally then?

A Yes.

Q Forty acres?

BY MR. UTZ:

Q Mr. Muennink, you have recommended 500 MCF here, have you not?

A Yes.

Q Would you agree that you could probably get by on something less than 500 MCF, say 400, 300?

A Yes, sir, we could on some Pictured Cliffs and



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Mesaverde wells. Mr. Utz, we took the 500 MCF as a figure in order to cover our more expensive Dakota operations. Where I say expensive where we have drip tanks, separators to maintain, and in order to show that that particular well or lease was in paying quantities, that's the figure that we arrived at. However, Pictured Cliffs and so forth could operate on less.

Q What would you say the minimum would be in your opinion on the Pictured Cliffs?

A I would say the minimum would be 250.

Q To produce gas in paying quantities?

A That's correct.

Q Two hundred wouldn't do it?

A Well, I haven't made a study that close, but if I could --

Q But in round figures?

A Round figures, 250, yes.

MR. PORTER: If no further questions, the witness may be excused.

(Witness excused.)

MR. PORTER: Did you have some exhibits that you would like to introduce?

MR. VERITY: I would like to introduce Exhibits 1, 2 and 3.



MR. PORTER: Those are the three sheets on cost of operation?

MR. VERITY: That is correct.

MR. PORTER: Without objection the exhibits will be admitted for the record. You may call your next witness, please.

MR. VERITY: May it please the Commission, probably any lawyer in the court room could serve as the next witness, but I think there is one that I feel is eminently qualified. I would like for Guy Buell to take the stand, if he will.

(Witness sworn.)

GUY BUELL

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

DIRECT EXAMINATION

BY MR. VERITY:

Q You are, I believe, a lawyer and an attorney?

A Yes, sir. That's correct, Mr. Verity.

Q I think that also you have been practicing before this Commission over a period of several years, have you not?

A Yes, sir, it has been several years.

Q During this period of time you have become familiar with the conservation laws of New Mexico and the rules and



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regulations of this Commission?

A Yes, sir, in the course of my experience I have become generally familiar both with the statutes and with the rules of this Commission.

Q And I believe you are familiar in a general way with the application of conservation rules in Northwest New Mexico?

A Yes, sir, that's correct.

Q You are a staff attorney for what company?

A Pan American Petroleum Corporation. I am just an attorney, not a staff attorney.

Q I beg your pardon. I believe that Pan American Production Company --

A Petroleum Corporation.

Q Pan American Petroleum Corporation has extensive interests in Northwest New Mexico gas pools?

A Yes, sir, we do have extensive interest in that area as well as Southeast New Mexico.

Q You are familiar with the practical effects as well as the legal effects with regard to the rules and proration in Northwest New Mexico?

A Yes, sir.

Q Are you also familiar with the attitude of the Navajo Tribe of Indians with regard to whether or not a lease has



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terminated that goes for one month without any production and is beyond its primary term?

A It is my understanding that they are insisting on that interpretation and say they will literally stand behind it and consider a lease cancelled or forfeited, or however you would like to put it.

Q Mr. Buell, you were in the Commission hearing room and heard the testimony of Mr. Muennink, I believe?

A Yes, I was here.

Q Are you also independently familiar with the facts that he testified to with regard to why wells become overproduced?

A I am certainly familiar in Pan American's operations with overproduction and underproduction of gas wells.

Q Does this occur without Pan American bringing it about, overproduction of some of their wells?

A Actually, probably Pan American is in a little different position than most operators in that for all practical purposes we switch our own wells. So we are different in that regard.

Q But the average operator up there does not switch his own wells?

A That's my understanding. We are one of the few who do.

Q Are you familiar with the fact that weather and market



conditions play upon whether or not wells become overproduced?

A Actually, Mr. Verity, it's been the history with gas proration that due to seasonal fluctuations such as weather, the over-all picture of demand as well as what I term interseasonal fluctuations, the gas purchasers may not agree with that nomenclature, but that's what I call it. In other words, in January and February Southern Union and El Paso know that it's going to be cold but they don't know how cold. It's tremendously difficult to forecast the demand.

Q If the Commission allows the application in this case and would permit leases that were on Navajo lands to be produced under some proper administrative procedure in an amount of 500 MCF during the month, do you think that this would adversely affect correlative rights of adjoining lease holders?

A No, sir. I cannot see how allowing production of that magnitude could adversely affect anyone's correlative rights.

Q Do you have an opinion as to whether or not such an order would protect the correlative rights of the particular lessee on the Indian lands?

A Well, in this case you are looking at the possibility of a loss of a lease or leases, certainly if you lose your lease you have no correlative rights left to protect. It would seem to me that the granting of an allowable of that low magnitude

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to a well that is in an overproduced condition would be a rule that would protect correlative rights.

Q Is it necessary to protect correlative rights to sometimes produce an overproduced well in order to insure against the lease termination?

A Yes, sir.

Q Mr. Buell, you are a lawyer and a graduate lawyer. What is the basis for the authority of regulatory bodies in general, and the New Mexico Oil Conservation Commission in particular, to regulate the production of oil and gas wells?

A I haven't thought of it in a long time, Mr. Verity, but actually all the authority and power of this Commission derive from the police powers of the State of New Mexico.

Q Does the Constitution of the United States and the State of New Mexico require that these powers be applied within certain limits?

A Mr. Verity, the police power of the State, in all aspects it's a tremendous power, normally a lot of us, we think of police power, we think of it mostly affecting a person. Actually the police power affects property rights as well. The subject case is a good case in point. We are discussing an amendment to a rule here that a lot of lawyers think the way it's written out could cause the loss of a valuable property right.



The Basin-Dakota case which is coming up next, millions of dollars in property rights are involved in that case. The police power is tremendous, and in our systems of laws, our checks and balances where the power is tremendous, there are safeguards set up to see that there is no abuse of that power. Those safeguards would apply to this Commission.

In other words, for any rule or order of this Commission to be valid it cannot be unreasonable. It cannot be a capricious it cannot be arbitrary, and it cannot be confiscatory.

Q In your opinion if the rules and regulations of the Commission in regard to Northwest New Mexico causes an Indian lease to be shut in for a period in excess of six months and the Navajo tribe cancels or terminates that lease, do you think that that order in that particular instance to that extent would be confiscatory?

A The loss of the lease under those terms that you set out would be confiscation.

Q Now, do you think that if the Commission sees fit to grant an allowable which would permit even an overproduced lease to produce an amount sufficient that it could produce during that month in paying quantities, that this is the proper method to soften this rule so that it does not amount to an abuse of the police power?



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A Yes, sir. Actually the complete shut in, as far as I know there is no justification for it, it's arbitrary. Your 500 MCF is a semi-arbitrary figure except that under your circumstances it will allow you to produce in paying quantities and continue your lease in effect. I can see no deterrent whatsoever from a legal standpoint of this Commission amending the rule, not only in the Northwest but in the Southeast to allow an overproduced well to produce up to 500 MCF a month while it is making up its overproduction. Did that answer your question?

Q That answered it, thank you. Mr. Buell, if the Commission insists on a stringent application of the rule that we have asked be amended and softened in this respect, what is the alternative that is left to the operator in the area in order to protect himself from possibly having a lease cancelled?

A The only alternative you would have would simply be to make sure that your well was never overproduced.

Q From a practical standpoint is this possible?

A It is not possible from a practical standpoint. Theoretically two and two make four, you can theoretically say you can do it. From a practical standpoint, I don't think you can, and after all, the very purpose of a balancing rule is that it recognizes the inherent fluctuation of gas production and by its very terms it anticipates that, so if you are precluded



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from using your balancing rule you have no flexibility whatsoever.

Q So, then, if each and every operator insisted that his well never become overproduced, the net effect of this would be to disrupt the economic system of marketing gas?

A Historically gas production fluctuates from month to month for one reason or another and it would be tremendously difficult and it would disrupt gas production in New Mexico.

Q If this occurred, do you have an opinion as to whether or not that would adversely affect the correlative rights of all of the producers in the pool?

A I'd say this, it would result in the production of less gas in New Mexico, as all of us know now, our gas market is not what we would like for it to be even producing with our flexibility, so any reduction in the gas that I, as an operator, would not be able to produce, I would think it would violate my correlative rights.

MR. VERITY: That's all.

GOVERNOR CAMPBELL: I may ask a question.

CROSS EXAMINATION

BY GOVERNOR CAMPBELL:

Q Mr. Buell, are you familiar with the provisions of the Navajo Indians' leases relative to continuing production?



A No, sir, I'm not intimately familiar with the Navajo leases.

Q Do you believe that the police powers of this Commission extend beyond the power to prevent waste and protect correlative rights?

A No, sir. I think that the purposes and the authority of this Commission are to prevent waste and to protect correlative rights.

Q How would you relate an order issued as requested here, with the prevention of waste or the protection of correlative rights, or both?

A I'm a little confused. Mr. Verity, in his questions, more or less restricted his questions to Navajo leases. I was under the impression the call of the docket was to amend the rule as it applies to Northwest Navajo leases, fee leases, state lease.

Q Wouldn't you think this would have to be the case in order to bring it within the general powers of the Commission?

A It would certainly be my recommendation, yes, sir.

Q How, in that event, do you relate the allowable here for the purpose of holding a lease to the prevention of waste or protection of correlative rights?

A The balancing rule as it's now written, the purpose

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of it is to, I think we'd have to say to protect correlative rights and not to prevent waste. I know of no gas reservoir in New Mexico that's rate sensitive. The purpose, and the way I look at it, is that if the Commission has the authority in order to protect correlative rights to provide a rule with a complete shut in for an overproduced well, they certainly have the authority to amend that rule to provide for a nominal amount of production while an overproduced well is making up its overproduction. It seems to me it would be clearly in the interest of protecting correlative rights.

Q What are the correlative positions that are protected in this kind of a situation?

A You mean with respect to the balancing rule?

Q With respect to a rule which would permit a minimum production per month irrespective of the allowable normally granted. Whose correlative rights are involved?

A In this case, and the way you asked the question, the correlative rights of the operator of such a lease.

Q His correlative rights as against who, or what other right? I'll put it this way, do you believe as a lawyer that an order of this kind comes within the definition of correlative rights?

A Yes, sir.



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Q Protection of correlative rights under the New Mexico statute?

A Yes, sir. It's hard for me to distinguish the difference between the validity of a complete shut in as opposed to the validity of a minimum or maximum of 500 MCF per month.

GOVERNOR CAMPBELL: That's all.

BY MR. PORTER:

Q Mr. Buell, has Pan American ever lost a lease because of this rule of the Commission?

A No, sir. As you are aware, there has been a time or two when we thought the possibility of us being challenged might come up. Of course, a lot of lawyers including myself think that you could make a successful fight in court and sustain your lease.

Q In other words, as I've heard it discussed, it might be that the court would rule that the production had already been had for that particular lease?

A That would be the argument I will make. The purpose I would have in urging a nominal allowable like that would be to avoid having the question ever come up. When you go to the Court House someone is going to lose.

Q To your knowledge, though, no one has lost a lease because of this shut in?



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A No, sir, now to my knowledge Pan American has lost a lease but not under identical circumstances as this. It was where a lease was shut in to prevent the flaring of casinghead gas. While it's not completely analogous, it simply shows that the order of the Commission requiring the shut in is not complete provision under your force majeure or anything like that to the loss of the lease.

Q This question concerns waste. Can you see where waste might result?

A Yes, sir.

Q In the event that our order isn't amended?

A I can easily visualize a situation, I don't know of any specific case in New Mexico, but in any gas formation that is making any amount of water I've heard it explained many times that water standing on the near face of the well bore and in the well bore can cause well bore damage. I don't know of any specific situation in New Mexico, but it could easily result in waste.

MR. PORTER: Does anyone else have a question?

MR. DURRETT: Yes, sir, I have a question. It seems like this ought to be a good opportunity for the engineers as well as the lawyers.

BY MR. DURRETT:



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Q Mr. Buell, would you agree with me as a lawyer that the word correlative as used in correlative rights means some type of a reciprocal relationship between people or parties, or somebody?

A I have never thought of it that way, Mr. Durrett. When I talk of correlative rights I always consider it a very personal thing.

Q Couldn't be correlative by the definition of the word unless somebody else has a reciprocal corresponding right?

A If all correlative rights are protected in the sense you are using the word, you are correct.

Q Proceeding a little further, when the parties draw a lease between the lessor and the lessee and they enter into a lease agreement, isn't it a fair assumption they are aware of the Commission rules and regulations when they draw that lease?

A I would say certainly that in the case of Pan American we are aware of it, now as far as our lessor, I don't know.

Q You would say for certain the operators should be aware of it?

A Pan American would certainly be, yes, sir.

Q Well, along my line of thinking in this matter is if both of the parties are aware, if you will assume with me for a moment that the lessee or lessor are aware of the rule and what



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will happen and if the lessee desires the lease not to be forfeited when it was overproduced and shut in why not put a clause in there to that effect and would the operator, if he would agree to it, not persuade him to in their contractual negotiations?

A I got interested in what you were saying, I didn't get the question. What was the question?

Q I'll try to clarify my question, Mr. Buell. Let's assume that the lessee and the lessor in this relationship are both aware of the rules and that they both desire a result of their lease relationship and that result is that if a well is overproduced at the end of a six-month balancing period they desire to not have the lease forfeited, they desire to have the lease continue in effect, if both parties agree on this, would they not put it in the lease?

A I would say this, if both parties do agree to that they could put it in the lease, yes, sir.

Q And would they not be inclined to do so as an ordinary thing?

A I'll say this, that is certainly not the case.

Q Wouldn't the operator be inclined from his own personal interest to try to persuade the lessee to put such a clause in the lease force majeure clause or any other type of clause covering



this situation?

A Most leases have a force majeure clause, but as I pointed out a moment earlier, in one of Pan American's experience, the force majeure did not protect us.

Q Wouldn't the operator be inclined from his own point of view to try to get the lessee to agree that they could put a specific clause in the lease governing the subject matter of the application before us today, that if a well is overproduced at the end of six months' balancing period and shut in, the lease would not be forfeited?

A Yes, sir, that could protect it. Let me say this, certainly Pan American to my knowledge has not included any such provision in any of their leases. It was always my understanding, and I never urged that they do and I don't know that anyone has, because I always felt that in a case such as that where a lease was in possible jeopardy, that you could get relief from the Commission to produce a nominal amount of gas. That's where you and I meet on that.

Q Yes, that's true. Would you go along with me to the effect that if they are both aware of the rule and they do not put it to a lessor, make some type of a contractual arrangement concerning it, that at least one of those parties is not too interested in having it in there?

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A No, sir, I'd rather think this, and since we are both just kind of supposing, I would rather suppose that they felt like I did, both parties did, that they would have no trouble getting relief from the Commission.

Q They would be inclined to put that in there if they could get no relief from the Commission?

A This has only been a recent development.

Q Would you go along with me that since the lessee did not want such a provision in his lease, in other words, that he wanted the lease forfeited if the well was shut in, whether it was shut in by the Commission or weather or something else, isn't that a contractual right that he has, rather than a correlative right, is it not rather a contractual type of right?

A I see the approach you are taking. I don't think that's any more of a contractual right than putting in the lease it would be developed at a ten-acre density, because that is a portion that is governed by the rules and regulation of the Commission. You can get a contract to defeat the rules of the Commission. I see nothing sacrosanct about complete shut in. The Commission could have, when they originally adopted the rule, put in 500 MCF a month, a thousand MCF a month, it would have been just as valid.

Q If you found, Mr. Buell, if you would assume that



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there's at least some type of a contractual right and maybe we should say contract dash correlative right that is involved between the two parties, then is it really confiscation for the Commission to go ahead with this rule like it is now?

A In my opinion it would be, yes, sir. When the Commission could just as validly grant a maximum allowable of 500 MCF a month.

Q If you granted the 500 MCF a month, would you not be confiscating the lessee's contractual right to have his lease terminated for non-production which is in the lease?

A No, sir, I don't think so, Mr. Durrett, and I don't think so for this reason: I don't think either parties contemplated, when they negotiated that contract they were not considering this type of non-production. This is the type of production over and above the physical aspects of making a well and producing the well. Some supreme body has interjected itself, so-to-speak, being the Commission.

MR. DURRETT: Thank you, Mr. Buell, I believe that's all I have.

MR. PORTER: Governor Campbell.

BY GOVERNOR CAMPBELL:

Q Let's suppose a little more, suppose you have a well



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that's affected in the way you have described and this well has reached a late stage of depletion and it is shut in and the lease is cancelled because it has been shut in under the present rule and the operator moves his equipment and maybe his pipe and everything off the hole and it's not economical to drill a new well for the remaining reserves, would this not cause waste, physical waste?

A Yes, sir. In the situation you are describing with the reservoir at that stage of abandonment, it would probably cause and result in physical waste. Some of the other wells in the field would get some of the gas that this well would have got, but they won't get as much as that well would have got.

MR. PORTER: Mr. Verity.

MR. VERITY: I have another question.

REDIRECT EXAMINATION

BY MR. VERITY:

Q You are aware of the fact that the primary term in Indian oil and gas leases is ten years?

A Is what?

Q Ten years.

A I would have assumed that, and now that you've told me I know it.

Q Are you aware of the fact, or possibly the Commission



will take judicial notice of the fact that Order 1670 is dated November 20, 1960?

A Yes, sir, I know that now.

Q So that the leases that are a problem at the present time with regard to this termination, or which will be a problem prior to 1970, were made prior to this order taking effect, is this correct?

A Yes, that's exactly right, and that's the only type of lease that would be affected, because if you are still in the primary term you have no problem.

Q So actually we have no case where two people are contracting with regard to this order but rather we have two people that contracted and now the Commission is making an order that will affect their contract?

A In that case you are exactly right, but my opinion is not restricted to those facts.

MR. VERITY: All right. That's all.

MR. PORTER: Does anyone else have a question? Mr. Utz.

RECROSS EXAMINATION

BY MR. UTZ:

Q Mr. Buell, I believe early in your testimony you did state, did you not, that you were familiar with the switching



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operations of gas wells?

A No, sir, I stated that it's my understanding, I have never switched a gas well. But it's my understanding that Pan American, for all practical purposes, switches its own gas well.

Q You are familiar with the procedures of switching gas wells?

A No, sir, I am not.

Q You are not?

A I just know --

Q Would you have any opinion as to how easy a 500 MCF rule would be to comply with? In other words, in your opinion is there any danger of overproducing the 500 MCF?

A I would say no more danger than overproducing a thousand MCF. There's always inherent danger that you won't turn the valve at precisely, you'd have to have one man reading and calibrating the meter and the other at the well head to shut her off.

Q There is more danger of overproducing 500 MCF than not producing at all?

A Yes, sir, that's correct..

MR. PORTER: In other words, the 500 MCF rule would be more difficult for the operators to comply with?

A As compared to complete shut in?



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MR. PORTER: Yes, sir.

A Yes, sir.

MR. UTZ: That's all I have.

A May I say this, I discussed this with Mr. Eaton and he advises me that working in that range is not a hard range to work in. You'll turn the valve on and a thousand will slip out before you can shut her back off.

Q (By Mr. Utz) You don't anticipate that a switcher will turn a well on to get his 500 MCF some evening and go back the next morning and be overproduced?

A I won't say it won't happen, because it probably will, but I think it will be very insignificant, Mr. Utz.

MR. PORTER: Any further questions?

MR. DURRETT: May I ask one more question?

MR. PORTER: Yes.

BY MR. DURRETT:

Q Assuming with me that the rule is issued as proposed, the 500 MCF rule, and at the end of a six months' balancing period a well instead of being shut in would be shut in with a 500 MCF allowable, what would you propose to do if he overproduced his 500 MCF, which we just discussed could happen very easily?

A That's right, it could happen, but I think it would be



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so seldom and so insignificant that it will not really be a problem for the Commission.

Q We should have something to govern the fact that he could overproduce again? In other words, overproduce the 500 MCF, should we not?

A Are you thinking about overproduction in a substantial amount or just say 510 MCF?

Q I think actually about any overproduction.

A Just any?

Q Yes.

A It would seem to me that if the Commission had experience with an operator who under these conditions continued to overproduce his 500 MCF, I think the rule should provide that he would be completely shut in.

Q But we would have to almost make it part of the rule that anyone that overproduced the 500 MCF would be shut in, would he not, in order not to be discriminatory?

A Yes, sir.

Q Then are we not right back where we started from?

A No, sir.

Q Except you overproduced the 500 MCF instead of a shut in?

A I think when you do that it becomes obvious that the



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operator is, either through absolute carelessness or through a predetermined effort, is going to overproduce his 500 MCF, I wouldn't have any sympathy at all for him. I say shut him in.

Q You don't think that the weather or any of the other factors could influence that?

A I think under these conditions and the provision that you refer to in the order, it would be incumbent on the operator to shut the well off.

Q Well, Mr. Buell, if he knows he's going to lose his lease under the present rule, is it also not incumbent upon him now to do the same thing to protect his lease?

A Mr. Durrett, you are right, it is. But think for a minute like an operator thinks. You know, we all know that our market demand for gas in New Mexico is not, is low to what we would like it to be. Think how hard it would be on an operator to say in the face of a demand for gas "No, you will overproduce my well, don't take that gas." An operator is going to say "Take it", because there's a demand, people might be cold and he's going to say "Take my gas", and he's going to overproduce my well.

Q You don't think he would do that if he had a 500 MCF instead of no allowable?

A No, sir, I don't think he would. Now, I may be putting too much faith in my fellow man, but I don't think so.



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MR. PORTER: Do you think this would be the place where the line might be drawn that the operator might see to the operation of his own well rather than the allocation to the pipeline?

A I am sure you are right.

MR. PORTER: When it comes to the 500 MCF, he might be producing that himself?

A You might be right. We cannot use the excuse that somebody else is overproducing our wells because if we have done it, we have done it. If we have done it, it's because we are gas producers and we want to sell our gas.

BY MR. ARNOLD:

Q You would anticipate that this 500 MCF which is assigned would certainly be taken into account in the final balancing of an allowable on a well anyway, wouldn't you? It isn't actually additional allowables that they're asking for, it's merely flexibility in balance?

A Yes, sir. If I understand your question. Say this well's allowable for this particular month was 2000 MCF and he produces his 500 MCF maximum, then he would only make up 1500 MCF of his overproduction.

Q So nobody is actually asking for additional allowable?

A No, sir, it's just asking for the authority to produce



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a small portion of your allowable while you are making up over-production.

MR. PORTER: Does anyone else have a question? Mr. Buell, you may be excused.

(Witness excused.)

MR. PORTER: Mr. Verity, does that conclude your testimony?

MR. VERITY: That concludes my testimony, Your Honor.

MR. PORTER: I don't know if we took formal action on your exhibit.

MR. VERITY: I believe you admitted them.

MR. PORTER: The exhibits will become a part of the record. Does anyone have anything further, any testimony they want to offer in this case? Mr. Howell.

MR. HOWELL: Ben Howell, El Paso Natural Gas Company. Yes, we would like to make a statement in support of the application and in that connection I would like to state to the Commission that this matter that is raised by Southern Union is a matter of real concern to lessees. There is a case in Texas in which the operators shut in his well in the Sprayberry Field pursuant to an order of the Commission. Later in a case in which this operator was not even a party, the Supreme Court of Texas determined that the shut in order was beyond the



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jurisdiction of the Texas Railroad Commission, whereupon this man having, this operator, this lessee having complied with the Commission's order, and in the case the order being found invalid, lost his lease because the production terminated and he could not interpose the invalid order of the Commission as a shield.

Now, I am quite familiar with the situation in connection with certainly the Navajo tribal leases and the position which the Navajo tribe takes, and that position is one which does challenge the jurisdiction of any state to exercise control over a well drilled upon the Navajo Reservation, so that if the Navajo tribe should in a court proceeding be found correct in that assumption, then any protection that the lessee or operator would normally have by reason of having obeyed an order of the Commission would leave the operator in the same position as the operator was down in Texas who lost his lease, and it is a real problem.

Mr. Whitworth and I have given considerable study to this problem and in fact we just finished an article that will be published in one of the law reviews which covers that study that we have made. While I certainly concur with Mr. Buell in his testimony that overproduction should be considered as constructive production on down until such time as the well is in balance, and



I hope that the law is going to be that some day, nevertheless I haven't been able to find a decision that held that yet where some court has agreed with that.

So that it is a matter of serious concern to the operators and it is a matter in which I believe the Commission clearly has jurisdiction because as Mr. Buell pointed out, the Commission has the jurisdiction in protection of correlative rights to order an overproduced well shut in. Well, it certainly has the jurisdiction to order less than a complete shut in if it so desires. Furthermore, there is the clear statutory grant of the power which the Commission has to make orders to prevent the premature abandonment of wells, and as Governor Campbell brought out, it could very easily result in premature abandonment of a well if the order should in any case be held invalid, and no one else would be willing to go in and drill that acreage.

Now, we feel we wish to support the application. However, we feel this, that there should be at least a form of administrative action so that one would have a record of having obtained permission to produce the well during the period. Otherwise we fear that an operator might face it that if he shut his well in to try to keep from overproducing it, that since he might under a general authority to produce not to exceed 500 MCF, might imperil his lease by having failed during that month to

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produce anything on it even though it was shut in and he was trying to balance before it was necessary for the Commission to issue an order, so we feel that it would be desirable to have some type of record granting that permission to the individual operator, and we think an administrative procedure without the necessity of notice and hearing would be a proper way to handle it, so please count us as supporting Southern Union's position in this matter.

MR. PORTER: Anyone else have a statement to make?

Mr. Buell.

MR. BUELL: Pan American Petroleum Corporation supports the rule.

MR. PORTER: Mr. Anderson.

MR. ANDERSON: John Anderson, Geological Survey, Roswell, New Mexico. This matter first became apparent to us, oh, several years ago when we received a letter from El Paso Natural Gas Company asking us in our opinion whether an Indian tribal lease or allotted land lease in its extended term by reason of production would expire if the well was shut in for proration purposes.

As I recall, our reply was something like this, that the Survey didn't believe that the lease would expire, but we were not the ones who made the final decision as to whether it expired



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or not, that decision is in the Bureau of Indian Affairs, and the tribe in the case of a tribal lease. For that reason we suggested that a lessee take the precaution of producing a small amount of oil or gas each month, we put it on a monthly basis because that is the reporting period, so that no question would arise that might result in the termination of a lease.

We referred the inquiry to the Gallup area office, the Bureau of Indian Affairs, which has jurisdiction over the various Indian tribes and reservations in northern New Mexico, in fact, all of New Mexico, with a request that the area director reply to the question. The area director's answer was quite similar to ours.

Now, in Northwestern New Mexico we have three Indian reservations on which there are producing oil and gas wells, the Navajo Reservation, the Ute Mountain Reservation and the Jicarilla Reservation; all of them have gas wells and a lot of these are in their extended term because of production or some of them shortly will be in their extended term. As far as the Indian tribes are concerned, I think some of you are probably aware that certain responsible men for the Navajo tribe make the assertion that the reservation isn't even in New Mexico. The Southern Ute tribe is in Colorado, but in their communitization they put in a clause that simply because they go along with the



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spacing set by the Colorado Oil and Gas Commission, that accepting that spacing is not an admission by the Southern Ute tribe that the Colorado Commission has now, ever did have or ever will have any jurisdiction over the lands of the Southern Ute Indians. The Jicarillas so far have been silent.

We did have a case of a gas well on a Navajo Reservation here within the last year or two where the lease went into its extended term and the well was produced through a temporary line for a period of, oh, six or eight months. During a portion of this time the well produced only about ten dollars of gas a month. The Navajo tribe contested the fact that we and the Indian Bureau believed that the lease was continued by production in paying quantities and went so far as to appeal to the Secretary from the decision of the Superintendent that the lease was still extended. Then they withdrew their appeal and everything seems to be peaceful.

In any event, we believe that if it is possible under the laws and regulations that the Commission might operate under, that they could give this relief to the operators of Indian leases that are in their extended term, that it certainly would be helpful to the lessees of these leases, and also make it quite certain that our lessees would not be faced with possible suits to cancel leases because wells were shut in by the Commission for



overproduction.

MR. PORTER: Thank you, Mr. Anderson. Mr. Durrett, do you have some correspondence?

MR. DURRETT: Yes, sir, I have a letter from Texaco I would like to read into the record. This letter was received on February 11. It reads as follows: "Dear Sir: This letter is in regard to Case Number 2694-De Novo to be heard February 14, 1963 at Santa Fe. Texaco is a leasehold owner and has six completed gas wells in the Basin Dakota Pool. It is Texaco's opinion that leasehold estate could be jeopardized if a producing well is shut in completely, without any production, for extended periods. For this reason Texaco concurs with and supports Southern Union Production Company's application, Case No. 2694-De Novo." That letter is signed by Mr. J. F. N-e-i-l-l.

MR. PORTER: Mr. Swanson.

MR. SWANSON: Kenneth Swanson, Aztec Oil and Gas. Mr. Anderson may have been referring to a situation that involved Aztec. We had a similar attack in a Navajo lease of ours made by the tribe. The question of restricted production because of overproduced status, it was not in that case. However, it was attacked on several grounds, including non-commercial production or interrupted production, and we were satisfied that the tribe probably felt any interrupted production past the term did

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satisfy the lease. We were able to satisfy them that those allegations were not facts in this case.

We would like to go on record as supporting this application. We feel that it applies not only to Indian acreage. My understanding of the federal regulation, no lease may be terminated if it's in a producible status provided it is put on production after a specified time after notice to that effect is given. I believe this is a ninety-day period.

It occurs to me that it could arise that a well would still be overproduced and it would be impossible for the operator to place it back on production as requested by the regulations. We feel, of course, that if this protection is extended to Indian and federal leases, it should apply as well to fee leases.

MR. PORTER: Thank you, Mr. Swanson. Mr. Anderson.

MR. ANDERSON: I would like to add to my statement.

The Bureau of Indian Affairs is now considering legislation to enable tribal leases to be extended past their fixed term where production in paying quantities has been obtained but is not being marketed because of lack of a market for it. At the same time, in connection with some of the other matters that were brought up as to why certain things were not in the Indian leases, we have recently recommended to the Bureau of Indian Affairs that

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it amend its lease terms and regulations to the effect that no lease will expire whether it is shut in in its extended term for proration, whether the Bureau will put that in the regulation or leases or not I don't know, but I see no reason why they shouldn't. I think it would be a very good addition to them.

MR. PORTER: Anyone else have any comment on this case? Mr. Verity, I had a question of you before you get into your statement.

MR. VERITY: Yes, sir.

MR. PORTER: In the event that the Commission saw fit to grant your application, is it your recommendation that this be something that's automatic or something that the affected operator would have to apply to the Commission for, say in the form of a letter?

MR. VERITY: No, sir. This is the first point that I meant to take up. From the standpoint of our application, we have suggested 500 MCF a month. After living with this matter for several months, we have this problem, we can't strike an average because an average is not the problem that will be encountered. We must have a situation so that any particular lease will have a sufficient monthly allowable that will give some pay or paying quantities over and above the cost of operating that lease.



Now, the Basin-Dakota wells cost more to produce, as you probably noticed from this testimony, than do the Pictured Cliffs wells, and this was undoubtedly in Mr. Utz' mind with his questions. We feel that the proper way for this matter to be handled, and which I feel will answer this question, also, is that the Commission enter an order which sets up an administrative procedure that would call for an affidavit from the particular operator who has the Navajo lease that has been overproduced and is facing a complete shut in. That he file an affidavit as to the amount of gas that must be produced in order to preserve that, not to exceed 500 MCF, and that then the Commission allow your Aztec office to grant a letter that permits this amount of production on that lease which would be something in excess of the amount to put it in paying quantities not to exceed 500 MCF per month.

MR. PORTER: That answers my question.

MR. VERITY: We do think that it is necessary, because sometimes this just comes to light toward the end of the month, that this can be granted at the local office or at the district office in Aztec.

Very briefly, Your Honor, and the Commission, I would like permission to file a brief with regard to this matter. We think that the interest that is evidenced and the fact that there's no

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opposition to this and that the industry is becoming more and more aware of the fact that we have this problem, that it is one of magnitude, and I would like to more or less make my statement in that brief, but we feel that the Commission must at all times be aware of the fact that its authority does base itself on police power, and this is a power that the courts have uniformly and universally held must be exercised with discretion, and in this instance we think that the discretion is that there must be some minimum relief that will not adversely affect these lessees' correlative rights.

MR. PORTER: How long would you like, how long a period of time to file your brief?

MR. VERITY: Ten days or two weeks. Ten days would be all right.

GOVERNOR CAMPBELL: I would like to ask Mr. Verity another question, I'm not clear on exactly what's being sought here. Are you seeking a general amendment to the shut in provisions of the gas prorationing rule which would have the effect of abrogating them or are you seeking limited authority just on the Navajo leases because those are the lessors that pressure the most, or what?

MR. VERITY: Our critical situation at this time, or the one that is impending critical, are the Navajo leases.



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The industry is aware of the fact, as you have been advised here today, that these problems oftentimes go outside of that, but the scope of our application merely pertains to Indian leases, tribal leases.

GOVERNOR CAMPBELL: Do you believe that authority of this kind limited only to a particular type of lease would be a valid exercise of the Commission power?

MR. VERITY: I think it would be valid, Your Honor. I don't think it would, as the testimony has shown, adversely inflict on anybody else's correlative rights. But we certainly would not have any objection, and as a matter of fact, we would urge that the Commission not necessarily limit it to Navajo leases.

Our problem is the Navajo leases, and that's all that we have requested at this time. The problem does exist outside of that and we think the Commission should be aware of that also. Does that answer your question, Governor?

GOVERNOR CAMPBELL: The case has been advertised as a general rule, as I understand it, and not as particular leases, so that's the way you want to approach it, but you want to be sure you are protected on the Navajo lease?

MR. VERITY: Our application was on the Navajo lease. If the advertisement, if it was that broad, we think it would be



proper and we would join in urging the Commission in solving the entire problem at one time.

MR. PORTER: Mr. Verity, the Commission will allow you to March 1st to file a brief. That will give you approximately two weeks.

Does anyone else have a statement or anything else to say concerning this case? If not, the case will be taken under advisement. We're going to have a short recess after which we'll take up Case 2504.

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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 20th day of February, 1963.

Ada Dearnley
 Notary Public-Court Reporter

My commission expires:

June 19, 1963.

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GOVERNOR
JACK M. CAMPBELL
CHAIRMAN

State of New Mexico
Oil Conservation Commission



LAND COMMISSIONER
E. S. JOHNNY WALKER
MEMBER

P. O. BOX 871
SANTA FE

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

March 11, 1963

✓
Mr. George Verity
Verity, Burr & Cooley
Attorneys at Law
152 Petroleum Center Building
Farmington, New Mexico

Re: Case No. 2694
Order No. R-2404-A
Applicant:
Southern Union Production 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.

A. L. PORTER, Jr.
Secretary-Director

ir/

Carbon copy of order also sent to:

Hobbs OCC x

Artesia OCC

Astec OCC x

OTHER ✓ Mr. Guy Buell

Mr. J. F. Neill, Texaco, Inc.

✓ Ben Howell

John Anderson
Kenneth Swanson

Dyan

TEXACO
MAIN OFFICE OCC INC.

PETROLEUM PRODUCTS

1963 FEB 11 AM 11:19

DOMESTIC PRODUCING DEPARTMENT

DENVER DIVISION

J. F. NEILL, ASSISTANT DIVISION MANAGER



P. O. BOX 2100

DENVER 1, COLORADO

February 7, 1963

CASE NUMBER 2694-DE NOVO
NEW MEXICO OIL AND GAS
CONSERVATION COMMISSION
HEARING FEBRUARY 14, 1963

Mr. A. L. Porter, Jr.
New Mexico Oil and Gas
Conservation Commission
State Land Office Building
Santa Fe, New Mexico

Dear Sir:

This letter is in regard to Case Number 2694-De Novo to be heard February 14, 1963 at Santa Fe. Texaco is a leasehold owner and has six completed gas wells in the Basin Dakota Pool. It is Texaco's opinion that leasehold estate could be jeopardized if a producing well is shut in completely, without any production, for extended periods. For this reason Texaco concurs with and supports Southern Union Production Company's application, Case No. 2694-De Novo.

Very truly yours,

J. F. Neill
J. F. NEILL

JTT-WH

No. 6-63

DOCKET: REGULAR HEARING - THURSDAY - FEBRUARY 14, 1963

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

- ALLOWABLE:**
- (1) Consideration of the oil allowable for March, 1963.
 - (2) Consideration of the allowable production of gas for March, 1963, from ten prorated pools in Lea and Eddy Counties, New Mexico, also consideration of the allowable production of gas from nine prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico, for March, 1963.

CASE 2694:

(De Novo)

Application of Southern Union Production Company for an amendment to the Northwest New Mexico Gas Proration Rules and Regulations. Applicant, in the above-styled cause, seeks an amendment to Order No. R-1670 as amended by Order No. R-2086, Rules and Regulations for prorated gas pools, San Juan, Rio Arriba, McKinley and Sandoval Counties, New Mexico, to permit wells ordered shut-in for extended periods to make up accumulated overproduction to produce not more than 500 MCF each month during such shut-in. Upon application of Southern Union Production Company, this case will be heard de novo under the provisions of Rule 1220.

CASE 2504:

(Rehearing - Continued from December 19, 1962)

Application of Consolidated Oil & Gas Inc., for an amendment of Order No. R-1670-C, changing the allocation formula for the Basin-Dakota Gas Pool, San Juan, Rio Arriba and Sandoval Counties, New Mexico. Applicant seeks an amendment of Order No. R-1670-C to establish an allocation formula based 60% on acreage and 40% on acreage times deliverability. The Commission will hear opening statements and under the provisions of Rule 1214, and Rule 1215, may refer the presentation of evidence concerning recoverable reserves in the Basin-Dakota Gas Pool to Daniel S. Nutter, duly appointed examiner, or A. L. Porter, Jr., alternate examiner. The Commission would then hear all closing arguments.

CASE 2753:

Southeastern New Mexico nomenclature case calling for an order renaming, creating, abolishing and extending certain pools in Lea, Eddy, and Chaves Counties, New Mexico.

(a) Rename the Vacuum-Abo Pool, classified as an oil pool for Abo production, to the Vacuum-Abo Reef Pool with the vertical limits of said pool changed from the entire Abo formation to the Abo Reef formation and the horizontal limits the same. This change is necessary to correct for geologic nomenclature.

(b) Create a new oil pool for Bone Spring production, designated as the Greenwood-Bone Spring Pool, and described as:

TOWNSHIP 19 SOUTH, RANGE 31 EAST, NMPM
Section 12: NE/4

(c) Create a new oil pool for Strawn production, designated as the Greenwood-Strawn Pool, and described as:

TOWNSHIP 19 SOUTH, RANGE 31 EAST, NMPM
Section 12: NE/4

(d) Create a new oil pool for Glorieta production, designated as the Vacuum-Glorieta Pool, comprising the SE/4 of Section 26, Township 17 South, Range 34 East, with the vertical limits thereof described as being from the top of the Glorieta as depicted at 5840 feet on the log of Socony Mobil Oil Company's State Bridges Well No. 95, located in Unit P of said Section 26, to a point 275 feet above the Blinebry marker found at 6510 feet on said log.

(e) Create a new oil pool for Blinebry production, designated as the Vacuum-Blinebry Pool, comprising the SE/4 of Section 26, Township 17 South, Range 34 East, with the vertical limits thereof described as being from 275 feet above the Blinebry marker at 6510 feet on the above described log to the top of the Tubb formation at 7238 feet on said log.

(f) Create a new oil pool for Abo production, designated as the North Vacuum-Abo Pool, with vertical limits defined as the Abo formation, and described as:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM
Section 26: SE/4

- (g) Create a new oil pool for Wolfcamp production, designated as the Vacuum-Wolfcamp Pool, with vertical limits defined as the Wolfcamp formation, and described as:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM
Section 26: SE/4

- (h) Abolish the South Benson-Yates Pool, described as:

TOWNSHIP 19 SOUTH, RANGE 30 EAST, NMPM
Section 23: E/2
Section 24: SW/4, SW/4 NW/4 and W/2 SE/4

- (i) Abolish the Hackberry-Yates Pool, described as:

TOWNSHIP 19 SOUTH, RANGE 30 EAST, NMPM
Section 36: SE/4 and S/2 NE/4

- (j) Extend the Bishop Canyon-San Andres Pool, to include:

TOWNSHIP 18 SOUTH, RANGE 38 EAST, NMPM
Section 10: SW/4

- (k) Extend the Corral Canyon-Delaware Pool, to include:

TOWNSHIP 25 SOUTH, RANGE 30 EAST, NMPM
Section 8: SE/4 and E/2 NE/4
Section 9: SW/4

- (l) Extend the Double X-Delaware Pool, to include:

TOWNSHIP 24 SOUTH, RANGE 32 EAST, NMPM
Section 11: N/2

- (m) Extend the Drinkard Pool to include:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM
Section 17: N/2 NW/4

- (n) Extend the Fowler-Paddock Gas Pool, to include:

TOWNSHIP 24 SOUTH, RANGE 37 EAST, NMPM
Section 15: SW/4
Section 23: W/2

- (o) Extend the North Hackberry-Yates Pool, to include:

TOWNSHIP 19 SOUTH, RANGE 33 EAST, NMPM

Section 23: E/2

Section 24: W/2 and SE/4

Section 25: N/2 NE/4

Section 36: E/2

- (p) Extend the North Justis-Waddell Pool, to include:

TOWNSHIP 24 SOUTH, RANGE 37 EAST, NMPM

Section 36: SW/4

- (q) Extend the Lusk-Strawn Pool, to include:

TOWNSHIP 19 SOUTH, RANGE 32 EAST, NMPM

Section 20: SE/4

Section 30: NE/4

- (r) Extend the Monument-Tubb Pool, to include:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM

Section 16: NE/4

- (s) Extend the Paddock Pool, to include:

TOWNSHIP 21 SOUTH, RANGE 37 EAST, NMPM

Section 19: S/2 NW/4

Section 21: S/2 SE/4

- (t) Extend the Pearl-Queen Pool, to include:

TOWNSHIP 19 SOUTH, RANGE 35 EAST, NMPM

Section 23: SE/4

- (u) Extend the Red Lake Pool, to include:

TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM

Section 31: SE/4

- (v) Extend the Round Tank-San Andres Pool, to include:

TOWNSHIP 15 SOUTH, RANGE 29 EAST, NMPM

Section 30: NE/4 and SW/4

- (w) Extend the South Tonto-Yates Pool, to include:

TOWNSHIP 19 SOUTH, RANGE 32 EAST, NMPM

Section 24: SE/4 SE/4

Section 25: E/2 NE/4

- (x) Extend the Weir-Blinebry Pool, to include:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM

Section 16: E/2 NE/4

CASE 2754:

Northwestern New Mexico nomenclature case calling for an order extending existing pools in Rio Arriba, Sandoval, and San Juan Counties, New Mexico.

- (a) Extend the South Blanco-Pictured Cliffs Pool to include:

TOWNSHIP 23 NORTH, RANGE 2 WEST, NMPM

Section 1: W/2

Section 6: W/2

Section 7: NW/4

Section 13: W/2

TOWNSHIP 23 NORTH, RANGE 3 WEST, NMPM

Section 12: NE/4

TOWNSHIP 24 NORTH, RANGE 2 WEST, NMPM

Section 31: W/2

- (b) Extend the Tapacito-Pictured Cliffs Pool to include:

TOWNSHIP 26 NORTH, RANGE 3 WEST, NMPM

Section 5: SE/4

TOWNSHIP 26 NORTH, RANGE 4 WEST, NMPM

Section 17: NW/4

Section 18: NE/4

- (c) Extend the Otero-Chacra Pool to include:

TOWNSHIP 25 NORTH, RANGE 5 WEST, NMPM

Section 5: All

Section 6: E/2

Section 8: All

Section 9: W/2

Section 10: SW/4

Section 14: SW/4

Section 15: SE/4

Section 22: NE/4

Section 23: NW/4

TOWNSHIP 26 NORTH, RANGE 5 WEST, NMPM

Section 31: E/2

- (d) Extend the Blanco-Mesaverde Pool to include:

TOWNSHIP 27 NORTH, RANGE 8 WEST, NMPM
Section 31: W/2

TOWNSHIP 27 NORTH, RANGE 9 WEST, NMPM
Section 14: S/2
Section 24: All

- (e) Extend the Flora Vista-Mesaverde Pool to include:

TOWNSHIP 30 NORTH, RANGE 12 WEST, NMPM
Section 21: W/2

- (f) Extend the Boulder-Mancos Oil Pool to include:

TOWNSHIP 28 NORTH, RANGE 1 WEST, NMPM
Section 26: E/2 SW/4

- (g) Extend the Devils Fork-Gallup Pool to include:

TOWNSHIP 24 NORTH, RANGE 6 WEST, NMPM
Section 16: E/2 SW/4 & SE/4

- (h) Extend the Escrito-Gallup Oil Pool to include:

TOWNSHIP 24 NORTH, RANGE 7 WEST, NMPM
Section 36: N/2 NW/4

- (i) Extend the South Blanco-Tocito Oil Pool to include:

TOWNSHIP 26 NORTH, RANGE 7 WEST, NMPM
Section 4: All

MAIN OFFICE OCC
VERITY, BURR & COOLEY
ATTORNEYS AND COUNSELORS AT LAW
SUITE 152 PETROLEUM CENTER BUILDING
FARMINGTON, NEW MEXICO
JAN 14 1963 8:28

January 9, 1963

GEO. L. VERITY
JOEL B. BURR, JR.
WM. J. COOLEY
NORMAN S. THAYER
RAY B. JONES

TELEPHONE 325-1702

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

Re: Case No. 2694 - Order No. R-2404 -
Application of Southern Union
Production Company for amendment
to the Northwestern New Mexico
gas proration rules and regulations.

Gentlemen:

Enclosed herewith is original and two copies of Application for De Novo Hearing in the captioned matter.

Will you please file such application and grant de novo hearing therein in accord with the provision of Rule 1220.

Yours very truly,

VERITY, BURR & COOLEY

By

Geo. L. Verity

GLV/kp
Encs.

Set for Regular
Hearing
JAN 14 1963

DOCKET MAILED

Date

2/4/63

MAIN OFFICE OCC
BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO
1963 JAN 14 AM 8:28

IN THE MATTER OF:

THE APPLICATION OF SOUTHERN)	
UNION PRODUCTION COMPANY FOR AN)	
AMENDMENT TO THE NORTHWESTERN)	CASE NO. 2694
NEW MEXICO GAS PRORATION RULES)	
AND REGULATIONS)	

APPLICATION FOR DE NOVO HEARING

Comes now the applicant, SOUTHERN UNION PRODUCTION COMPANY, and requests that it be granted de novo hearing with regard to the captioned application, and in support thereof alleges as follows:

1. That its application for amendment to the rules and regulations adopted in Order No. R-1670 (May 20, 1960) and Amendatory Order No. R-2086 (October 13, 1961) for prorated gas pools in Northwestern New Mexico filed herein was heard on November 8, 1962, before Daniel S. Nutter, Examiner, and that such application was by Order No. R-2404, issued on the 31st day of December, 1962, denied.

2. That by the aforesaid orders the New Mexico Oil Conservation Commission adopted rules and regulations for prorated gas pools in Northwestern New Mexico which require in certain instances that wells be shut-in for extended periods to effect a balancing of accumulated production in excess of previously assigned allowables.

3. That oil and gas leases in Northwestern New Mexico which cover Indian lands are issued on Bureau of Indian Affairs lease forms which specify a term extending

"for the term of 10 years from and after the approval hereof by the Secretary of the Interior and as much longer thereafter as oil and/or gas is produced in paying quantities from said land."

and that the Department of the Interior has announced that in its opinion any lease which is shut-in for non-production of oil or gas for a period extended for one or more calendar months after the expiration of the primary term, will expire.

4. That the above mentioned Commission Order No. R-1670, as amended by Order No. R-2086, if enforced so as to prohibit production from a lease issued on Indian lands in Northwestern New Mexico for a period of one month or more would, according to the contention of the lessor and the United States Department of the Interior, terminate such lease. That such orders, if they require that production be shut-in so as to terminate an oil and gas lease, are unlawful and unconstitutional as depriving the various lessees of their property without due process of law. That this would adversely affect the applicant's correlative rights, and in fact if such orders were enforced in such instances would completely confiscate and destroy applicant's correlative rights.

5. That the Order of the Commission denying the application in this matter was improper, and that its finding to the effect that applicant failed to establish that approval of the subject application was necessary in order to protect its correlative rights, was incorrect, and that it is absolutely essential to the protection of applicant's correlative rights that the Commission enter an order amending Order No. R-1670, as amended by Order No. R-2086, so as to permit that leases on Indian lands, or on pooled units composed in part of Indian leases, which would, under existing rules, be shut-in for accumulated overproduction, be assigned a minimum allowable rate of production of 500 M.C.F. for each month during periods necessary to effect a balance of prior overproduction.

WHEREFORE, applicant prays that it be granted a de novo hearing with regard to this application; that due notice thereof be given in accord with the laws of the State of New Mexico and the rules of this Commission; that from the evidence to be adduced at such de novo hearing this Commission enter its order amending Order No. R-1670, as amended by Order No. R-2086, and assigning a minimum allowable

rate of production of 500 M.C.F. for any leases on Indian lands, or pooled units composed in part of Indian leases, which would, under existing rules, be shut-in for accumulated overproduction for a period of one month or more in order to effect a balance of prior overproduction; and make any other and further provisions as may be necessary in order to protect the correlative rights of the applicant and other producers affected.

VERITY, BURR & COOLEY
Attorneys for Applicant

By 

Geo. L. Verity
152 Petroleum Center Building
Farmington, New Mexico

SUMMIT #3-B

FULCHER KUTZ PICTURED CLIFFS POOL
 Sec. 20, Twp. 29-N, Rge. 11-W
 San Juan County, New Mexico

Production 500 MCF

Price of Gas - 11¢ per MCF

Gross Income 500 MCF @ 11¢ \$ 55.00

Less Federal Royalty 12-1/2 percent 6.875
 \$ 48.125

Balance After Federal Royalty \$ 48.125

(Less Following Taxes Calculated on 7/8 Gross Income)

Conservation Tax .0014 percent .067375

School Tax .02 percent .9625

Severance Tax .025 percent 1.203125

County & School District Tax .024 percent 1.155

\$ 44.737

Balance After Federal Royalty & Taxes \$ 44.737

Less Operating Expense - Monthly Average \$ 12.70

Net Income \$ 32.04

BEFORE THE
 OIL CONSERVATION COMMISSION
 SANTA FE, NEW MEXICO

EXHIBIT No. 2094

QUINN # 5

BLANCO MESA VERDE POOL
Sec. 18, Twp. 31-N, Rge. 8-W
San Juan County, New Mexico

Production 500 MCF

Price of Gas - 13¢ per MCF

Gross Income 500 MCF @ 13¢ \$ 65.00

Less Federal Royalty 12-1/2 percent 8.125

\$ 56.875

Balance after Federal Royalty \$ 56.875

(Less Following Taxes Calculated on 7/8 of Gross Income)

Conservation Tax .0014 percent .079625

School Tax .02 percent 1.1375

Servence Tax .025 percent 1.421875

County & School District Tax .024 percent 1.365

\$ 52.871

Balance After Federal Royalty & Taxes \$ 52.871

Less Operating Expense - Monthly Average \$ 23.03

Net Income \$ 29.84

APPEAL THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
Appl. EXHIBIT No. 2
CASE 2694

ZACHRY # 19

Basin Dakota Pool
Sec. 12, Twp. 28 N, Rge. 10 W.
San Juan County, New Mexico

Production 500 MCF		
Price of Gas - 13¢ per MCF		
Gross Income	500 MCF @ 13¢	\$ 65.00
Less Federal Royalty	12-1/2 percent	<u>-8.125</u>
		\$ 56.875
Balance After Federal Royalty		\$ 56.875
(Less Following Taxes Calculated on 7/8 of Gross Income)		
Conservation Tax	.0014 percent	\$.079625
School Tax	.02 percent	1.1375
Severance Tax	.025 percent	1.421875
County and School District Tax	.024 percent	<u>1.365</u>
		\$52.871
Balance After Federal Royalty and Taxes		\$52.871
Less Operating Expense - Monthly Average		<u>30.91</u>
		\$21.961
Net Income		\$21.96

THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
CASE appt EXHIBIT No. 3
2694