

CASE 3451: Application of ERNEST  
A. HANSON for a dual, acreage re-  
dedication & adm. procedure for  
multiple completions.

Case Number

3451

Application  
Transcripts.

Small Exhibits

ETC.

GOVERNOR  
JACK M. CAMPBELL  
CHAIRMAN

State of New Mexico  
Oil Conservation Commission



LAND COMMISSIONER  
GUYTON B. HAYS  
MEMBER

P. O. BOX 2086  
SANTA FE

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

December 6, 1966

Mr. Jason Kellahin  
Kellahin & Fox  
Attorneys at Law  
Post Office Box 1769  
Santa Fe, New Mexico

Re: Case No. 3451  
Order No. R-3160  
Applicant:

ERNEST A. HANSON

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       

Aztec OCC       

OTHER Mr. Bill Kastler, Gulf Oil Corporation, Roswell, N.M.

GOVERNOR  
JACK M. CAMPBELL  
CHAIRMAN

State of New Mexico  
Oil Conservation Commission



LAND COMMISSIONER  
GUYTON B. HAYS  
MEMBER

P. O. BOX 2088  
SANTA FE

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Artesia OCC       

Aztec OCC       

OTHER Mr. Bill Kastler, Gulf Oil Corporation, Roswell, N.M.

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. 3451  
Order No. R-3160

APPLICATION OF ERNEST A. HANSON  
FOR A DUAL COMPLETION, ACREAGE  
REDEDICATION AND AN ADMINISTRATIVE  
PROCEDURE FOR MULTIPLE COMPLETIONS,  
LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on September 7, 1966, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 6th day of December, 1966, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Ernest A. Hanson, seeks authority to complete his Max Gutman Well No. 1, located in Unit M of Section 19, Township 22 South, Range 38 East, NMPM, Lea County, New Mexico, as a dual completion (conventional) to produce oil from the Blinebry Oil Pool and from an undesignated Granite Wash pool through parallel strings of 2 1/16-inch tubing, with separation of zones by a packer set at approximately 5669 feet.

(3) That the applicant also seeks the rededication of the SW/4 EW/4 of Section 19, Township 22 South, Range 38 East, NMPM, Lea County, New Mexico, to the said well for the production of oil from the Blinebry Oil Pool.

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CASE No. 3451

Order No. R-3160

(4) That the applicant further seeks the establishment of an administrative procedure for the dedication and rededication of acreage from oil to gas, and from gas to oil, and for the dual completion in any combination as to the San Andres, Paddock, Blinebry Oil, Tubb Oil, Drinkard, and Granite Wash formations in the area of the subject pool.

(5) That the said SW/4 SW/4 of Section 19, Township 22 South, Range 38 East, NMPM, Lea County, New Mexico, is presently dedicated as a part of a 160-acre standard proration unit in the Blinebry Gas Pool, to the Gulf Oil Corporation Max Gutman Well No. 1, located in Unit N of said Section 19.

(6) That by Order No. R-610, dated April 11, 1955, as amended by Order No. R-610-A, May 27, 1955; Order No. R-610-B, June 13, 1955; Order No. R-610-C, January 9, 1956; and Order No. R-610-D, February 26, 1957, special rules and regulations were adopted for the Blinebry Oil Pool and the Blinebry Gas Pool, Lea County, New Mexico.

(7) That Rules 2 and 3 of said order define oil wells and gas wells in the Blinebry Oil Pool and the Blinebry Gas Pool, respectively.

(8) That Order No. R-1670, dated May 20, 1960, superseded Orders Nos. R-610, R-610-A, R-610-B, R-610-C, and R-610-D with respect to the Blinebry Gas Pool, and promulgated Special Rules and Regulations for the Blinebry Gas Pool, Lea County, New Mexico, in addition to the General Rules and Regulations for Southeastern New Mexico adopted by Order No. R-1670, dated May 20, 1960, as amended by Order No. R-2761, dated January 1, 1965.

(9) That Rules 27(A) and 27(B) of said Order No. R-1670 define gas wells and oil wells in the Blinebry Gas Pool and the Blinebry Oil Pool, respectively.

(10) That Rule 5(A) of Order No. R-1670, dated May 20, 1960, established 160 acres as a standard gas proration unit in the Blinebry Gas Pool.

(11) That on October 25, 1956, a 160-acre allowable was assigned to Gulf Oil Corporation's Max Gutman Well No. 1, located in Unit N of Section 19, Township 22 South, Range 38 East, NMPM, Lea County, New Mexico, said well having the SW/4 of said Section 19 dedicated to the well.

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CASE No. 3451

Order No. R-3160

(12) That the applicant has the right to drill and has drilled a well in the SW/4 SW/4 of Section 19, Township 22 South, Range 38 East, NMPM, Lea County, New Mexico.

(13) That the said well is an oil well and it appears that the SW/4 SW/4 of said Section 19 is productive of oil from the Blinebry Oil Pool.

(14) That waste will result if applicant is not allowed to produce the oil from the Blinebry Oil Pool in said quarter-quarter section.

(15) That in order to protect the correlative rights of the applicant and to prevent waste, the SW/4 SW/4 of said Section 19 should be deleted from the 160-acre standard gas proration unit presently dedicated to the Gulf Oil Corporation Max Gutman Well No. 1 located in Unit N of said Section 19 and should be re-dedicated to the Ernest A. Hanson Max Gutman Well No. 1 located in Unit M of said Section 19 as a standard oil proration unit for the production of oil from the Blinebry Oil Pool.

(16) That a 120-acre non-standard gas proration unit in the Blinebry Gas Pool comprising the N/2 SW/4 and SE/4 SW/4 of Section 19, Township 22 South, Range 38 East, NMPM, Lea County, New Mexico, should be established and dedicated to the Gulf Oil Corporation Max Gutman Well No. 1, located in Unit M of said Section 19.

(17) That the mechanics of the proposed dual completion of the applicant's Max Gutman Well No. 1 are feasible and in accord with good conservation practices.

(18) That approval of the said dual completion will prevent waste and protect correlative rights.

(19) That the evidence fails to establish the necessity for the establishment of an administrative procedure for approval of the dual completion in any combination as to the San Andres, Paddock, Blinebry Oil, Tubb Oil, Drinkard, and Granite Wash formations; therefore, the applicant's request for such administrative procedure should be denied.

(20) That inasmuch as administrative procedures already exist for the dedication and rededication, by the operator, of acreage from oil to gas, and from gas to oil, in the Blinebry Gas Pool and the Blinebry Oil Pool and the evidence fails to establish the

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CASE No. 3451

Order No. R-3160

necessity for any additional administrative procedure, applicant's request for said administrative procedure should be denied.

IT IS THEREFORE ORDERED:

(1) That the SW/4 SW/4 of Section 19, Township 22 South, Range 38 East, NMPM, Lea County, New Mexico, is hereby deleted from the 160-acre standard gas proration unit dedicated to the Gulf Oil Corporation Max Gutman Well No. 1, located in Unit N of said Section 19.

(2) That a 120-acre non-standard proration unit in the Blinebry Gas Pool comprising the N/2 SW/4 and SE/4 SW/4 of Section 19, Township 22 South, Range 38 East, NMPM, Lea County, New Mexico, is hereby established and dedicated to the Gulf Oil Corporation Max Gutman Well No. 1, located in Unit N of said Section 19.

(3) That the applicant, Ernest A. Hanson, is hereby authorized to complete his Max Gutman Well No. 1, located in Unit N of Section 19, Township 22 South, Range 38 East, NMPM, Lea County, New Mexico, as a dual completion (conventional) to produce oil from the Blinebry Oil Pool and from an undesignated Granite Wash pool through parallel strings of 2 1/16-inch tubing, with separation of zones by a packer set at approximately 5669 feet;

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

PROVIDED FURTHER, that the applicant shall take packer-leakage tests upon completion and annually thereafter during the Annual Gas-Oil Ratio Test Period for the Granite Wash zone of the dual completion.

(4) That the application of Ernest A. Hanson for the establishment of an administrative procedure for approval of the dual completion in any combination as to the San Andres, Paddock, Blinebry Oil, Tubb Oil, Drinkard, and Granite Wash formations is hereby denied.

(5) That the application of Ernest A. Hanson for the establishment of an administrative procedure for dedication and



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CASE No. 3451  
Order No. R-3160


rededication of acreage from oil to gas, and from gas to oil  
is hereby denied.

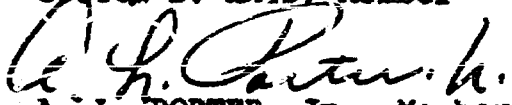
(6) That jurisdiction of this cause is retained for the  
entry of such further orders as the Commission may deem neces-  
sary.

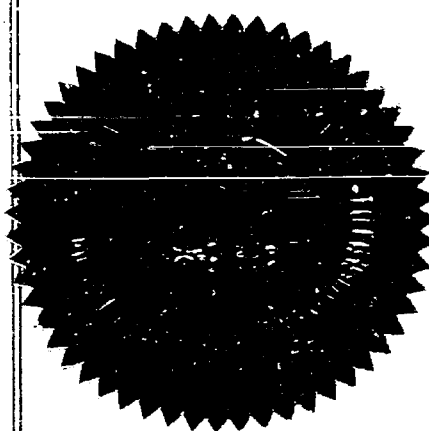
DONE at Santa Fe, New Mexico, on the day and year hereinabove  
designated.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

  
JACK M. CAMPBELL, Chairman

  
GORTON B. HAYS, Member

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



esr/

*[Faint handwritten notes, possibly "S. 96"]*

Harold Harding  
The volume  
to the President

James Earl Ray  
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 and the Pena  
 pool, and fo  
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DOCKET: EXAMINER HEARING - WEDNESDAY - SEPTEMBER 7, 1966

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 3439: (Continued from the August 3, 1966 Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Scanlon and Shepard and all other interested parties to show cause why the following Scanlon and Shepard wells in Township 20 North, Range 9 West, McKinley County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program: Santa Fe Pacific Railroad Lease: Wells Nos. 1, 3, 4, 5, 7, and 8, all in Unit P, No. 10 in Unit H, and No. 2 in Unit L, all in Section 21; Well No. 6 in Unit L and Nos. 9 and 12 in Unit M of Section 22 and Nos. 11 and 13 in Unit D of Section 27. Ray Well No. 1 in Unit, C, State Wells Nos. 1 and 2 in Unit A, and State K-1883 No. 1 in Unit B, all in Section 28.

CASE 3440: (Continued from the August 3, 1966 Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Osborn & Weir, and all interested parties, to show cause why the following Osborn & Weir wells in Township 20 North, Range 9 West, McKinley County, New Mexico, should not be plugged and abandoned in accordance with a Commission- approved plugging program: Scanlon Well No. 17 in Unit P of Section 21 and Nos. 14 and 18 in Unit M of Section 22; Scanlon Ray Wells No. 5 in Unit A and No. 6 in Unit C of Section 28.

CASE 3441: (Continued from the August 3, 1966 Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit LaMar Trucking, Inc., and all interested parties, to show cause why their State Well No. 1 located 495 feet from the North and West lines of Section 28, Township 20 North, Range 9 West, McKinley County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.

CASE 3449: Application of Ray Smith Drilling Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of its Shugart 18-Queen Unit Area comprising 264 acres, more or less, of Federal land in Township 18 South, Ranges 30 and 31 East, Eddy County, New Mexico.

CASE 3450: Application of Ray Smith Drilling Company for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project on its Shugart 18-Queen Unit Area by the injection of water into three wells located in Section 13, Township 18 South, Range 30 East, and Section 18, Township 18 South, Range 31 East, Shugart Pool, Eddy County, New Mexico.

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

# WESTERN UNION TELEGRAM

W. P. MARSHALL, PRESIDENT

1201 (4-60)

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

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

( 10 )

TIME at point of destination

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1966 SEP 6 PM 3 24

K BRA114 PD=UX BARTESVILLE OKLA 6 405P CST=

NEW MEXICO OIL CONSERVATION COMMISSION,

ATTN A L PORTER JR= SANTA FE NMEX=

RE CASE 3451, BLINEBRY POOL, APPLICATION OF ERNEST A HANSEN, PHILLIPS PETROLEUM COMPANY, AS AN OWNER IN THE BLINEBRY POOL, JOINS GULF OIL CORPORATION IN ITS OPPOSITION TO REDEDICATION OF ACREAGE AND ADMINISTRATIVE PROCEDURE FOR REDEDICATION OF ACREAGE AS REQUESTED BY APPLICANT.

COPIES TO A L PORTER JR NEW MEXICO OIL CONSERVATION COMMISSION SANTA FE AND WILLIAM KASTLER GULFOIL

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

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

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CORPORATION ROSWELL NEW MEXICO=

PHILLIPS PETROLEUM CO SHOFNER SMITH=

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

September 7, 1966 Examiner Hearing

CASE 3451: Application of Ernest A. Hanson for a dual completion, acreage rededication and an administrative procedure for multiple completions, Lea County, New Mexico. Applicant, in the above-styled cause seeks authority to complete his Max Gutman Well No. 1 located in Unit M of Section 19, Township 22 South, Range 38 East, Lea County, New Mexico, as an oil-oil dual completion (conventional) for the production of oil from the Blinebry Oil Pool and from an undesignated Granite Wash Pool through parallel strings of tubing. Applicant further seeks rededication to the Blinebry Oil Pool of the SW/4 SW/4 of Section 19, Township 22 South, Range 38 East, for the subject well; this acreage is presently dedicated as a part of a 160-acre standard proration unit in the Blinebry Gas Pool to Gulf Oil Corporation's Max Gutman Well No. 1 located in Unit N of said Section 19. Applicant further seeks the establishment of an administrative procedure for the dedication and rededication of acreage from oil to gas, or from gas to oil, and for the dual completion in any combination as to the San Andres, Paddock, Blinebry Oil, Tubb Oil, Drinkard and Granite Wash formations in the area of the subject well.

CASE 3452: Application of Union Oil Company of California for an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Commission Rule 104 to permit the completion in the Pennsylvanian formation of its Red Hills Unit Well No. 2 located at an unorthodox Pennsylvanian location 990 feet from the North line and 1650 feet from the East line of Section 5, Township 26 South, Range 33 East, Red Hills Pennsylvanian Gas Pool, Lea County, New Mexico. Said well is presently projected and drilling to the Wolfcamp formation by authority of Commission Order No. R-3073.

CASE 3453: Application of Samedan Oil Corporation for a dual completion, Lea County, New Mexico. Applicant, in the above-styled cause seeks approval of the dual completion (conventional) of its U. H. Moore "B" Well No. 1 located in Unit E of Section 25, Township 11 South, Range 32 East, Lea County, New Mexico, to produce oil from the Moore Pennsylvanian and Moore Devonian Pools through parallel strings of tubing.

CASE 3454: Application of Yates Petroleum Corporation for pool consolidation and extension, Eddy County, New Mexico. Applicant, in the above-styled cause seeks the consolidation of Four Mile-San Andres Pool and the Penasco-San Andres Pool, Eddy County, New Mexico, into one pool, and for vertical extension of said pool to include both the San Andres and the Yeso formations.

DOCKET: EXAMINER HEARING - WEDNESDAY - SEPTEMBER 7, 1966

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

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CASE 3450: Application of Ray Smith Drilling Company for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project on its Shugart 18-Queen Unit Area by the injection of water into three wells located in Section 13, Township 18 South, Range 30 East, and Section 18, Township 18 South, Range 31 East, Shugart Pool, Eddy County, New Mexico.

# Gulf Oil Corporation

ROSWELL PRODUCTION DISTRICT

W. B. Hopkins  
DISTRICT MANAGER  
M. I. Taylor  
DISTRICT PRODUCTION  
MANAGER  
F. O. Mortlock  
DISTRICT EXPLORATION  
MANAGER  
H. A. Rankin  
DISTRICT SERVICES MANAGER

August 16, 1966

P. O. Drawer 1938  
Roswell, New Mexico 88201

*Case  
3451*

New Mexico Oil Conservation Commission  
Post Office Box 2088  
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr.

Re: Application of Ernest A. Hanson for a  
Dual Completion of the Max Gutman Well No. 1,  
Unit M, Section 19-22S-38E, Blinebry Oil Pool  
and Granite Wash Wildcat, Lea County,  
New Mexico

Gentlemen:

Gulf Oil Corporation, for the reasons stated below, protests the  
subject application. This well is located on a portion of Gulf's Gutman  
Lease which was farmed out to Mr. Hanson with the Blinebry and Tubb gas  
rights being expressly excluded.

The 40 acres upon which this well is located is presently dedicated  
to Gulf's Gutman Well No. 1 for Blinebry and Tubb gas production. Inasmuch  
as the Blinebry Pool Rules prohibit dual dedication of acreage, this well is,  
in our opinion, ineligible to receive a Blinebry oil allowable.

Yours very truly,

*W. B. Hopkins*  
W. B. Hopkins

JHH:sz

cc: New Mexico Oil Conservation Commission  
Post Office Box 1980  
Robbs, New Mexico 88240

Ernest A. Hanson  
Post Office Box 1515  
Roswell, New Mexico 88201

DOCKET MAILED

Date 8-25-66  
*OK*

1966 AUG 17 AM 7 56



1965 AUG 17 PM 10 22

BEFORE THE  
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION  
OF ERNEST A. HANSON FOR APPROVAL  
OF A MULTIPLE/COMPLETION IN THE  
BLINEBRY AND UNDESIGNATED GRANITE  
WASH POOLS, LEA COUNTY, NEW MEXICO,  
FOR DEDICATION OF ACREAGE TO HIS  
NO. 1 MAX GUTMAN WELL, AND FOR  
ADOPTION OF AN ADMINISTRATIVE PRO-  
CEDURE FOR APPROVAL OF DUAL  
COMPLETIONS

# 3451

A P P L I C A T I O N

Comes now Ernest A. Hanson and applies to the Oil Conservation Commission of New Mexico for approval of the dual completion of his No. 1 Max Gutman well, located in the SW $\frac{1}{4}$ SW $\frac{1}{4}$ , Section 19, Township 22 South, Range 38 East, N.M.P.M., and for other relief, and in support thereof would show.

1. Applicant has completed his No. 1 Max Gutman well as a dual completion in the Blinebry formation at a depth of 5522 to 5619 feet, and in the Granite Wash formation at a depth of 7292 to 7306 feet, all as more fully shown on Form C-107 which is attached hereto and made a part of this application.

2. Applicant seeks re-dedication of the 40-acre tract on which the No. 1 Gutman well is located, to the production of oil from the Blinebry, together with the establishment of an administrative procedure for the dedication of acreage and re-dedication of acreage from oil to gas, or from gas to oil, in the area of the subject well.

3. Applicant further seeks an administrative procedure for approval of dual completion in any combination as to the following formations and reservoirs: San Andres, Paddock, Blinebry (oil), Tubb (oil), Drinkard and Granite Wash.



4. Attached hereto and made a part of this application are the following: Form C-107; diagrammatic sketch of the multiple completion; plat showing location of the well, offsetting wells, and ownership of offsetting acreage, insofar as known to the applicant; copies of receipts for certified mail, showing service of notice of the application for a dual completion on offsetting operators.

WHEREFORE, applicant prays that this application be set for hearing before the Commission's duly appointed examiner, and that after notice and hearing as required by law, the Commission enter its order granting the relief prayed for.

Respectfully submitted,

ERNEST A. HANSON

BY: Jason W. Kellahin  
Kellahin & Fox  
Attorneys for Applicant  
Post Office Box 1769  
Santa Fe, New Mexico

DOCKET MAILED

Date: 8-25-66

NEW MEXICO OIL CONSERVATION COMMISSION  
SANTA FE, NEW MEXICO  
APPLICATION FOR MULTIPLE COMPLETION

Form C-107  
5-1-61

Case 3451

Operator <b>Ernest A. Hanson</b>		County <b>Lea</b>	Date <b>August 12, 1966</b>
Address <b>P. O. Box 1515, Roswell, New Mexico</b>		Lease <b>Max Gutman</b>	Well No. <b>1</b>
Location of Well	Unit <b>M</b>	Section <b>19</b>	Township <b>22-South</b>
			Range <b>38-East</b>

1. Has the New Mexico Oil Conservation Commission heretofore authorized the multiple completion of a well in these same pools or in the same zones within one mile of the subject well? YES \_\_\_\_\_ NO **X**
2. If answer is yes, identify one such instance: Order No. \_\_\_\_\_; Operator Lease, and Well No.: \_\_\_\_\_

3. The following facts are submitted:	Upper Zone	Intermediate Zone	Lower Zone
a. Name of Pool and Formation	<b>Blinbury - Blinbury</b>		<b>Granite Wash - Wildcat</b>
b. Top and Bottom of Pay Section (Perforations)	<b>5511 - 5619</b>		<b>7292 - 7306</b>
c. Type of production (Oil or Gas)	<b>Oil</b>		<b>Oil</b>
d. Method of Production (Flowing or Artificial Lift)	<b>Flowing</b>		<b>Flowing</b>

4. The following are attached. (Please check YES or NO)

Yes	No	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	a. Diagrammatic Sketch of the Multiple Completion, showing all casing strings, including diameters and setting depths, centralizers and/or turbolizers and location thereof, quantities used and top of cement, perforated intervals, tubing strings, including diameters and setting depth, location and type of packers and side door chokes, and such other information as may be pertinent.
<input checked="" type="checkbox"/>	<input type="checkbox"/>	b. Plat showing the location of all wells on applicant's lease, all offset wells on offset leases, and the names and addresses of operators of all leases offsetting applicant's lease.
<input type="checkbox"/>	<input checked="" type="checkbox"/>	c. Waivers consenting to such multiple completion from each offset operator, or in lieu thereof, evidence that said offset operators have been furnished copies of the application.*
<input checked="" type="checkbox"/>	<input type="checkbox"/>	d. Electrical log of the well or other acceptable log with tops and bottoms of producing zones and intervals of perforation indicated thereon. (If such log is not available at the time application is filed it shall be submitted as provided by Rule 112-A.)

5. List all offset operators to the lease on which this well is located together with their correct mailing address.

**Marathon Oil Co., P. O. Drawer 617, Roswell, New Mexico**

**Gulf Oil Corp., P. O. Box 1938, Roswell, New Mexico**

**Texaco, Inc., P. O. Box 2248, Roswell, New Mexico**

**American Petrofina Co., P. O. Box 1311, Big Spring, Texas**

**Texas Pacific Oil Co., P. O. Box 747, Midland, Texas**

**Wolfson Oil Co., 3206 Republic National Bank Tower, Dallas 2, Texas**

6. Were all operators listed in Item 5 above notified and furnished a copy of this application? YES **X** NO \_\_\_\_\_. If answer is yes, give date of such notification **August 13, 1966**.

CERTIFICATE: I, the undersigned, state that I am the **Exploration Manager** of the **Ernest A. Hanson** (company), and that I am authorized by said company to make this report; and that this report was prepared under my supervision and direction and that the facts stated therein are true, correct and complete to the best of my knowledge.

*Harry P. Schuman*  
Signature

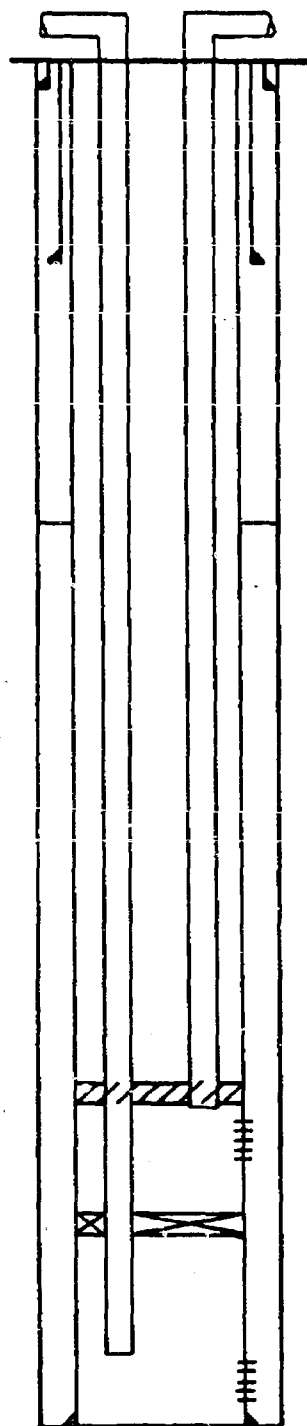
\*Should waivers from all offset operators not accompany an application for administrative approval, the New Mexico Oil Conservation Commission will hold the application for a period of twenty (20) days from date of receipt by the Commission's Santa Fe office. If, after said twenty-day period, no protest nor request for hearing is received by the Santa Fe office, the application will then be processed.

NOTE: If the proposed multiple completion will result in an unorthodox well location and/or a non-standard production unit in one or more of the producing zones, then separate application for approval of the same should be filed simultaneously with this application.

DIAGRAMMATIC SKETCH OF THE MULTIPLE COMPLETION

Ernest A. Hanson - #1 Max Gutman

Granite Wash      Blinebry



13-3/8" casing @ 112' w/100 sx. (Omt. circ. to surf.)

8-5/8" casing @ 1170' w/450 sx. (Omt. circ. to surf.)

5-1/2" casing @ 7328' w/750 sx. (Top of cmt. @ 2490')

Top of cement @ 2490'

2-1/6" tubing set @ 5476' (Blinebry)

Baker Tubing Anchor set @ 5476'

Blinebry perfs. @ 5511-5619'

Baker Lok-Set Casing Packer set @ 5669'

2-1/16" tubing set @ 7255' (Granite Wash)

Granite Wash perfs. @ 7292-7306'

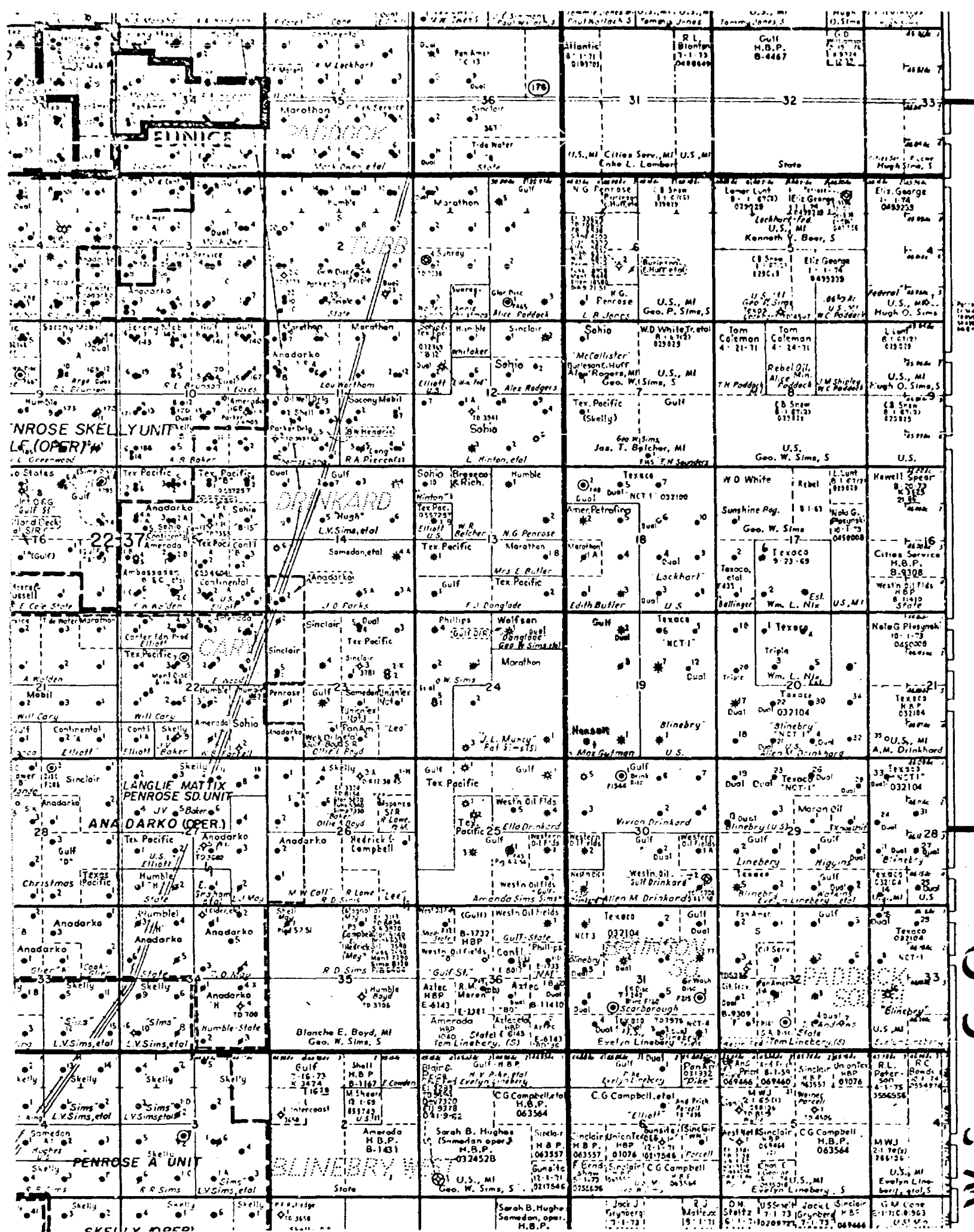
PBTD @ 7319'

TD @ 7328' Granite Wash

Note: Centralizers were set on 60' spacing @ 7322-6375' & 5633-5466'; and on 80' spacing from 5733-6165 & 5462-5494'.  
Scratchers were set on 10' spacing @ 7322-6595, 6475-6275 & 5679-5404'.


EXHIBIT NO. 1

*Case 3451*



No. 291254

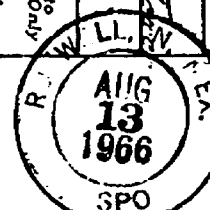
**RECEIPT FOR CERTIFIED MAIL—30¢**

SENT TO <i>Texas Pacific Oil Co.</i>		POSTMARK OR DATE 
STREET AND NO. <i>P.O. Box 747</i>		
P.O., STATE, AND ZIP CODE <i>Midland Texas</i>		
EXTRA SERVICES FOR ADDITIONAL FEES		
Shows to whom and date delivered <input checked="" type="checkbox"/> 10¢ fee	Shows to whom, date, and where delivered <input type="checkbox"/> 35¢ fee	Deliver to Addressee Only <input type="checkbox"/> 50¢ fee

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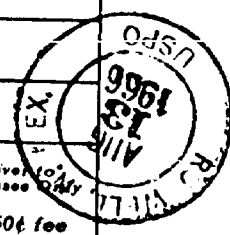
**RECEIPT FOR CERTIFIED MAIL—30¢**

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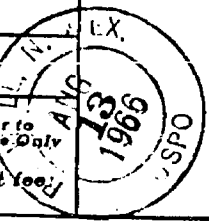
**RECEIPT FOR CERTIFIED MAIL—30¢**

SENT TO <i>Marathon Oil Co.</i>		POSTMARK OR DATE 
STREET AND NO. <i>P.O. Box 617</i>		
P.O., STATE, AND ZIP CODE <i>Roswell, N.M.</i>		
EXTRA SERVICES FOR ADDITIONAL FEES		
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No. 291251

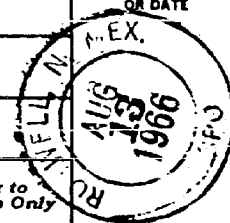
**RECEIPT FOR CERTIFIED MAIL—30¢**

SENT TO <i>Gulf Oil Corp.</i>		POSTMARK OR DATE 
STREET AND NO. <i>P.O. Box 1938</i>		
P.O., STATE, AND ZIP CODE <i>Roswell, N.M.</i>		
EXTRA SERVICES FOR ADDITIONAL FEES		
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No. 291252

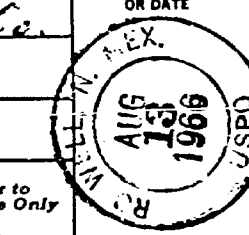
**RECEIPT FOR CERTIFIED MAIL—30¢**

SENT TO <i>Texaco, Inc.</i>		POSTMARK OR DATE 
STREET AND NO. <i>P.O. Box 2248</i>		
P.O., STATE, AND ZIP CODE <i>Roswell, N.M.</i>		
EXTRA SERVICES FOR ADDITIONAL FEES		
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No. 291253

**RECEIPT FOR CERTIFIED MAIL—30¢**

SENT TO <i>American Petroleum Co.</i>		POSTMARK OR DATE 
STREET AND NO. <i>P.O. Box 1311</i>		
P.O., STATE, AND ZIP CODE <i>Big Spring, Texas</i>		
EXTRA SERVICES FOR ADDITIONAL FEES		
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POD Form 3800 NO INSURANCE COVERAGE PROVIDED— (See other side)  
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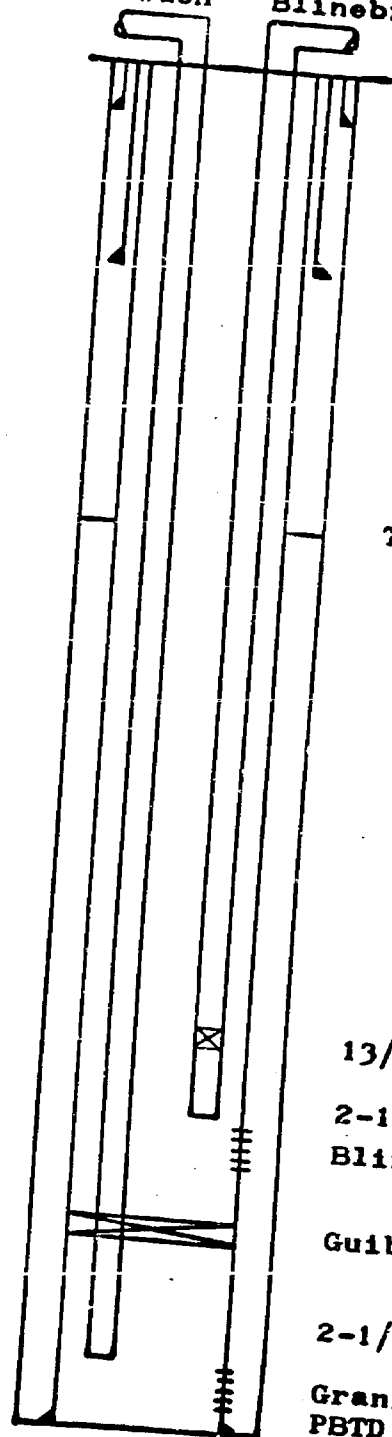
Case 3451  
Exhibit No. 3

DIAGRAMMATIC SKETCH OF THE MULTIPLE COMPLETION

Ernest A. Hanson - #1 Max Gutman

Granite Wash

Blinebry



13-3/8" @ 112' w/100 sx. (Cmt. circ. to surf.)

8-5/8" @ 1170' w/450 sx. (Cmt. circ. to surf.)

Top of cement @ 2490'

13/64" Otis Type B choke @ 5445' (Blinebry)

2-1/16" tubing set @ 5495' (Blinebry)

Blinebry perfs. @ 5511-5619'

Guiberson RMC-1 Casing Packer set @ 5702'

2-1/16" tubing set @ 7249' (Granite Wash)

Granite Wash perfs. @ 7292-7306'

PBTD @ 7319'

TD @ 7328' Granite Wash



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EXAMINER                      HEARING

Case No. 3451

TRANSCRIPT OF HEARING



MR. NUTTER: The Hearing will come to order, please.  
The next case will be Case 3451.

MR. HATCH: Application of Ernest A. Hanson for a dual completion, acreage rededication and an administrative procedure for multiple completions, Lea County, New Mexico.

MR. KELLAHIN: If the Examiner please, Jason Kellahin, Kellahin and Fox, appearing for the Applicant.

MR. NUTTER: Are there any other appearances in this Case?

MR. KASTLER: Yes, Bill Kastler from Roswell with Gulf Oil Corporation appearing for Gulf as a Protestant.

MR. NUTTER: Would you proceed, Mr. Kellahin?

MR. KELLAHIN: I think it might be helpful to state briefly what is involved in this case, although I am sure the Examiner is familiar with it. This is an Application of Ernest A. Hanson for a dual completion for the production of oil from the Blinebry Pool and for the production of oil from an undesignated granite wash pool through parallel strings of tubing.

We're asking for the approval first of all, of the dual completion as outlined, there having been no other duals in this particular area, and in addition to that fact, an exception to the rules is required for an oil-oil dual completion which involves the Blinebry Pool.

In addition, we have the situation that a 160 acre proration unit in the Blinebry Gas Pool is presently dedicated to Gulf Oil Corporation, Max Gutman Well No. 1, which is located in Unit M. of Section 19, Township 22 South, Range 38 East. The 40 acre tract upon which the Applicant's oil well is located within this 160 acre unit, the oil well being located on the southwest quarter of the southwest quarter of Section 19. It is the applicant's position that he is the owner, as defined by the rules and regulations of this Commission, of the oil rights underlying the tract of land involved in this application, which includes the Blinebry oil rights.

Now, we do not ask this Commission, nor do I think it's within the jurisdiction of this Commission, to pass on the ownership of oil or gas. On the other hand, we will offer in evidence, evidence to support our position that we are the owners of the oil, simply to show our right to appear before the Commission as an Applicant in this case without passing on. If Gulf disputes our ownership, I think that would be a matter for some other form than the Oil Conservation Commission of New Mexico.

In our Application, we ask for the dedication of the southwest quarter of the southwest quarter for the production of oil from both zones. The only other alternative, as we can

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see it, for the Commission to follow would be to handle the situation under the Commission Rule 506 which provides as follows, that: "In allocated Pool containing a well or wells producing from a reservoir which contains both oil and gas, each proration unit shall be permitted to produce only that volume of gas equivalent to the applicable limiting gas-oil ratio, multiplied by the top unit oil allowable for the pool. In the event the Commission has not set a gas-oil ratio limit for a particular oil pool, the limiting gas-oil ratio shall be 2,000 cubic feet of gas for each barrel of oil produced. In allocated oil pools all producing wells, whether oil or casinghead gas, shall be placed on the oil proration schedule."

We feel that the most reasonable method for handling this situation would be to delete the 40 acre tract and dedicate it to the Hanson tract as an oil producer leaving the 120 acres dedicated to the Max Gutman Gas Well. If the Commission does not feel this can be done, the only alternative left to the Commission is to treat it as a unit on a penalized basis and to prorate within the accordance of the Rule 506.

In this connection, I would call the Commission's attention to the provisions of the Blinebry Gas Pools Rule R 1670 which Rule 27 A provides that: "A gas well in the Blinebry Gas Pool shall mean a well producing from within the vertical and horizontal limits of the Blinebry Gas Pool,

which: 1. produces liquid hydrocarbons possessing a gravity of 51 degrees API or greater, or, 2. produces liquid hydrocarbons possessing a gravity of less than 51 degrees API but with a producing gas-liquid ratio of 32,000 cubic feet of gas or more per barrel of liquid hydrocarbon."

Rule 27 B: "A well producing from within the horizontal and vertical limits of the Blinebry Gas Pool and not classified as a gas well, as defined in Section (A) of this Rule, shall be classified as an oil well in the Blinebry Oil Pool."

I think our evidence will support a conclusion on the part of the Commission that the Hanson well is definitely an oil well under the provision of the Blinebry Pool Rules. Being an oil well, we are, as owner, entitled under the statutes which I will quote later in this Hearing, to produce our fair share of the oil underlying the tract of land dedicated to the well.

Now, by that tract of land dedicated to the well, 160 acres or 40 acres, as owners we can not under the statutes of the State of New Mexico, be deprived of our right to produce oil which we obtained by contract as will appear later in our testimony.

With that background, we will have two witnesses. I would like to have them both sworn at this time.

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MR. KASTLER: May I ask a question? Are you proposing as an alternative that the Commission adopt something that would require a change of the Rules, a change of the present Rules?

MR. KELLAHIN: I'm not proposing any change of the Rules at all. I am proposing that if Gulf takes the position that this 40 acres can not be deleted from the acreage and that the Commission can not pass on the ownership, then to treat the 160 as a unit to be prorated and leave us to decide who owns the oil. It would be prorated on a penalized basis, on a gas allowable, as I understand the Rule.

MR. NUTTER: In other words, probably what your intent there is, Mr. Kellahin, that the gas unit would receive its allowable, that the oil unit would receive an allowable and that the gas that is produced from the oil unit would be deducted from the gas allowable for the gas unit?

MR. KELLAHIN: No, I don't believe that the Rule actually provides that. I would say that the gas allowable assigned to the unit is penalized by the liquid production of the unit regardless of which well it came from. That's the way I would understand Rule 506.

MR. NUTTER: The gas allowable to the gas unit would be penalized?

MR. KELLAHIN: Yes, sir.

MR. NUTTER: By the amount of liquids that's produced

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from the oil well?

MR. KELLAHIN: From both wells. If the Gulf well makes liquids that would have to be considered to under the provision of Rule 506, the way I would read the Rule. Particularly under provisions of Rule 506 B, subsection 2: "Any unit containing a well or wells producing from a reservoir which contains both oil and gas shall be permitted to produce only that volume of gas equivalent to the applicable limiting gas-oil ratio multiplied by the top unit allowable currently assigned to the pool."

MR. NUTTER: I believe that that Paragraph 2 has in mind what I was talking about a while ago, Mr. Kellahin.

MR. KELLAHIN: The gas allowable would be penalized.

MR. NUTTER: The gas allowable is the thing that's limited.

MR. KELLAHIN: That is correct.

MR. NUTTER: And if you produce gas with the oil, assuming that an allowable was assigned to the oil well, that that gas that was produced with that oil from that oil well would be deductible from the gas which is produceable from the gas well.

MR. KELLAHIN: That would be correct, yes, sir.

MR. NUTTER: I'm not certain that we don't have an Order in effect for one well in this pool similar to that.

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MR. KELLAHIN: It's my understanding you do.

MR. NUTTER: I think in that particular case, the owner of the gas and the owner of the oil were identical, but there was some kind of a limitation placed on the amount of gas withdrawn from the gas well.

MR. KELLAHIN: That's what we asked for in the alternative.

MR. NUTTER: There wasn't any actual simultaneous dedication with the gas well getting a full allowable and the oil well getting a full allowable.

MR. KELLAHIN: We are not asking for a dual dedication of acreage, either.

MR. KASTLER: I am glad you are not asking for a dual dedication. Gulf takes the position that to allow Mr. Hanson to force pool, it would be impairing one of Gulf's property rights without just compensation. Pure and simple, that's their case.

MR. KELLAHIN: Without regard to the contract rights that have been delivered to Mr. Hanson, you deny that Mr. Hanson has the oil rights under this tract?

MR. KASTLER: No, he has the oil rights.

MR. KELLAHIN: You are denying him the right to produce his oil. Would Gulf do this?

MR. KASTLER: We have the gas rights, without being

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compensated for the loss of revenue that we would suffer by changing this from 160 acre gas unit to 120 acre gas unit, with a gas that's produced with the oil well, would deprive Gulf of a property right and we believe that we are entitled to some negotiations before that's done.

MR. KELLAHIN: Mr. Kastler, just to be clear, does Gulf take the position that Mr. Hanson does not own the oil rights underlying this tract of land?

MR. KASTLER: No, he owns the oil rights.

MR. KELLAHIN: He has a right to produce the oil?

MR. KASTLER: He has, considering that the production of the oil will not otherwise jeopardize Gulf's present dedication of the gas rights. By equal token, Gulf was a retainer and reserver and has reserved the gas rights and reserved them for the purposes of being able to continue to produce them.

MR. NUTTER: Just to explore this a little further, Mr. Kastler, if some system were worked out in which the oil well, being Hanson's oil well, would receive an oil allowable and I presume it would produce some gas with that allowable --

MR. KASTLER: Yes.

MR. NUTTER: -- and that gas were credited in some means the 40 acres were removed from Gulf's 160 acre proration unit and then the gas that was produced from the oil well were



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credited to Gulf's gas unit, would some arrangement along those lines be acceptable to Gulf Oil Corporation?

MR. KASTLER: Some arrangement, yes, but we seriously doubt that the completion of this well as a Blinbry Oil Well would be economical in view of the non-ownership of gas rights by Mr. Hanson, which necessitates paying out, completing, equipping, operating costs, and separating the gas and compensating Gulf for the loss of revenue on the gas that's sold as low pressure gas.

MR. NUTTER: It would be acceptable but you don't think it would be feasible, in other words?

MR. KASTLER: Well, yes, that's it.

MR. NUTTER: I think we know everybody's position pretty well; you want to proceed with your case, Mr. Kellahin?

MR. KELLAHIN: Yes, we have two witnesses to be sworn, please.

MR. KASTLER: We have two other witnesses.

MR. NUTTER: We might as well have the witnesses sworn simultaneously.

(Witnesses sworn).

HARRY F. SCHRAM, called as a witness herein, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A Harry F. Schram, S-c-h-r-a-m.

Q By whom are you employed, Mr. Schram?

A Ernest A. Hanson.

Q What is your position with Mr. Hanson?

A Exploration manager.

Q Have you been employed by Mr. Hanson for any length of time?

A Yes, I have been, since 1959 this time.

Q Have you testified before the Oil Conservation Commission and made your qualifications a matter of record?

A Yes, sir.

MR. KELLAHIN: Are the witness' qualifications acceptable?

MR. NUTTER: Yes, they are.

Q (By Mr. Kellahin) Mr. Schram, are you familiar with the Application of Ernest A. Hanson in Case 3451?

A Yes, I am.

Q Briefly stated, what is proposed by Mr. Hanson in this Application?

A That we be allowed to make an oil-oil dual completion from the Blinbry Oil Pool and undesignated

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Granite Wash pool; and that we be granted an allowable for the Blinebry Oil Reservoir that we would like to produce out of, and that we establish an administrative procedure for further duals on the tract from the San Andres Paddock, Blinebry Oil, Tubb Oil, Drinkard and Granite Wash formations.

Q Now, in that connection, are you familiar with the farm-out agreement that was received by Ernest A. Hanson from Gulf Oil Corporation?

A Yes, sir.

Q Did that agreement reserve any rights to Gulf?

A Yes, sir, it reserved the Blinebry gas rights and the Tubb gas rights.

Q And the proposed administrative procedure for future duals would include both the Tubb and the Blinebry zones as to oil?

A Yes. This is correct.

(Whereupon, Applicant's Exhibits A, A1, A2 & A3 marked for identification.)

Q (By Mr. Kellahin) Referring to what has been marked Applicant's Exhibit A, would you identify that Exhibit, please?

A This is an Application for multiple completion by Ernest A. Hanson for an oil-oil dual completion in the Blinebry Oil and the Granite Wash undesignated pool.

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Q Attached to that Exhibit, what information is shown on Exhibit Number 1?

A This is a diagramatic sketch of the multiple completion.

Q Would you just briefly describe the multiple completion?

A It is made up of two strings of tubing in eight and five/eighths inch casing with a production packer separating the two zones whereby they can be produced separately.

Q Could they be artifically lifted separately?

A Yes, they could.

Q Do you have any information on the gravities of the fluids in the two zones, Mr. Schram?

A Yes. In the Blinebry the gravity is 36.8 at 60 degrees corrected, and the Granite Wash gravity is 39.4 at 60 degrees corrected.

Q And you have a late Exhibit showing the pressures, do you not?

A Yes. The bottom hole pressure for the Blinebry is 2172 and for the Granite Wash is 2784.

Q Now, Mr. Schram, is this a type of dual completion that has been used successfully in Southeastern New Mexico before?

A Yes.

Q It is a type that has been approved by the Commission?

A Yes.

Q In your opinion, will it adequately protect the two zones against commingling?

A Yes, it will.

Q Is this an old well?

A No. We drilled this well ourselves within the last few months.

Q Now, referring to Exhibit 2 attached to Exhibit A, would you identify that exhibit, please?

A This is a plat of the Max Gutman Lease whereby we have the rights to drill under our agreement on that lease.

Q The area colored in yellow, is that the area covered by the farm-out agreement from Gulf?

A Yes, the west half of Section 19.

Q And referring to Exhibit Number 3 attached to Exhibit A, what does that show?

A These are the receipts that all of the offset owners of leases have been notified of this Hearing.

Q Other than Gulf Oil Corporation, did you hear from any other operator?

A No. We heard from none of the other owners.

Q Do you have a log of the subject well?

A Yes. Here are five copies of the log.

Q That would normally be attached as an Exhibit to your

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Application, is that correct?

A Yes, that is correct.

(Whereupon, Exhibit A4 marked for identification.)

MR. NUTTER: These attachments here to this Exhibit A will be number A1, 2, and 3?

MR. KELLAHIN: That's right. That's what I intended.

Q (By Mr. Kellahin) Mr. Schram, what information have you marked on the log which has been marked Exhibit A Number 4?

A In the detailed section of the log, the top of the Blinebry has been marked at 5423 to the surface, with the perforated interval from 5511 to 5619, and the top of the Tubb, which is the next formation, at 6011 feet. The top of the Granite Wash at 7263 feet, and the perforated zone in the Granite Wash at 7292 to 7306.

Q Now, you have a gas-oil ratio test on the well?

A Yes. This particular GOR test was run by an independent engineering company, Coleman Engineering out of Hobbs, this is the test on the Blinebry Oil.

(Whereupon, Exhibits B, C, D, and E marked for identification.)

Q (By Mr. Kellahin) Referring to what has been marked as Exhibit Number D, gas-oil ratio test for the Blinebry, do you have that exhibit?

A Yes. This was run by the Coleman Petroleum Engineering

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Company in Hobbs, which is one of several tests that we have run and the COR on the Blinebry Oil zone is 3271 to one.

Q 3271 to one?

A Yes.

Q Under the provisions, are you familiar with the Rules for the Blinebry Pool?

A Yes.

Q Under the provisions of that Rule, does that classify that well as an oil well?

A Yes, it does.

Q What is the GOR for the Granite Wash?

A 1405 to one.

Q And there are no pool rules for the Granite Wash, is that correct?

A That is correct.

Q Has that been designated as an oil pool or gas pool?

A We have an allowable on the Granite Wash as an oil pool but it has not been designated.

Q Are you presently producing the Granite Wash?

A Yes, we are.

Q Are you presently producing the Blinebry?

A No.

Q Now, referring to what has been marked as Exhibit B, would you identify that exhibit, please?

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A These are bottom hole pressure tests that were conducted on both the Blinebry Oil and the Granite Wash undesignated, these are identical.

MR. NUTTER: Exhibit C is the bottom hole pressure on the Granite Wash. D is the bottom hole pressure on the Blinebry?

A The Blinebry bottom hole pressure was 2172 and the Granite Wash bottom hole pressure was 2784.

Q (By Mr. Kellahin) With the pressure differential you have, there would be no problem with leakage across the packer in your dual completion?

A No.

Q Bearing in mind the definition of a gas well in the Blinebry Gas Pool as "A gas well producing from within the vertical and horizontal limits of the Blinebry Gas Pool which:  
1. produces liquid hydrocarbons possessing a gravity of 51 degrees API or greater, or, 2. produces liquid hydrocarbons possessing a gravity of less than 51 degrees API but with a producing gas-liquid ratio of 32,000 cubic feet of gas or more per barrel of liquid hydrocarbon", is the Hanson well a gas well or an oil well?

A It's an oil well.

Q Have you made a packer leakage test?

A Yes, we have.



(Whereupon, Exhibit F marked for identification.)

Q Does the packer leakage test show that you have effective separation?

A Yes, we do.

Q You have already mentioned the gravities of the fluids involved here; are you familiar with the sulphur content?

A Yes, we have --

Q Or of other information on the well?

A -- an independent analysis by Wolf Petroleum Lab, Incorporated from Odessa, Texas which has the gravity and the sulphur content of both oils, both in the Blinebry and the Granite Wash.

Q What does it indicate?

A The Blinebry zone, the oil has a gravity of 36.8 at 60 degrees, with a sulphur content of .34525 per cent by weight. The Granite Wash gravity is 39.4 at 60 degrees with a sulphur content of .37791 per cent by weight.

Q Would you characterize that then as a sweet oil?

A Yes.

Q Mr. Schram, on Exhibit Number 1 attached to the Exhibit A, which was the plat, you show two other wells located on the west half of the section, is that correct?

A That is correct.

Q What are those wells?

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A The two producing wells are the Number 1 Max Gutman and the Number 2 Max Gutman owned by Gulf Oil Corporation.

Q Do you have any information on those two wells?

A Very little except what has been made public. Well, outside of perforations and how they were completed and logs for those wells, yes.

Q Do you have any information on the pressures and the fluid production or fluid characteristics on the two wells?

A Yes. Well, during 1965 they produced 158.871 mcf of gas and 806 barrels of distillate. On the two, they produced 220.84 gas and 2759 barrels of distillate.

Q That was in 1965, wasn't it?

A Yes.

Q What are you taking that information from?

A This is the annual report of the New Mexico Oil and Gas Engineering Committee.

Q Did you check the records of the Oil Conservation Commission for information on these wells?

A Yes, but there was nothing available in the record.

Q Nothing to show the bottom hole pressures?

A Bottom hole pressures or GOR's.

Q Or gravity of the fluids?

A Gravity.

Q But to your knowledge are those oil wells or gas wells?

A Those would be gas wells.

Q Do they appear on the gas proration schedule?

A Yes, they do.

Q Were Exhibits A through F prepared by you or under your supervision, Mr. Schram?

A Yes.

MR. KELLAHIN: At this time I would like to offer in evidence Exhibits A through F.

MR. NUTTER: Applicant's Exhibits A, A1 through A4, and B through F will be admitted in evidence.

(Whereupon, Applicant's Exhibits A, A1 through A4, B through F offered and admitted in evidence.)

MR. KELLAHIN: That's all I have on direct examination, Mr. Nutter.

MR. NUTTER: Now, Mr. Schram, I'd like to get those figures here on my written notes regarding the production from the Gulf wells, the Gutman Number 1 in 1965 produced how much again?

A 158,871,000 gas, 1806 oil or distillate, 220,884,000 and 2759 oil.

MR. NUTTER: Thank you. Are there any questions of this witness?

MR. KASTLER: None.

MR. NUTTER: He may be excused.

(Witness excused.)

W I L L I A M G. M c C O Y, called as a witness herein,  
having been first duly sworn, was examined and testified as  
follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A William G. McCoy.

Q What business are you engaged in, Mr. McCoy?

A Consulting Geologist and Engineer.

Q Are you connected with any company or firm?

A I am not.

Q You operate as an independent?

A Right.

Q Where are you located?

A Roswell, New Mexico.

Q How long have you been working as an independent  
petroleum consultant?

A 1960 to '66.

Q Are you a petroleum engineer?

A Registered professional engineer.

Q Are you a geologist, also?

A Geologist.

Q Are you registered in the State of New Mexico?

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A I am, License Number 3410.

Q Mr. McCoy, have you ever testified before the Oil Conservation Commission of New Mexico?

A I have.

MR. KELLAHIN: Are the witness' qualifications acceptable?

MR. NUTTER: They are.

Q (By Mr. Kellahin) Mr. McCoy, what connection do you have with Ernest A. Hanson in connection with the Blinebry Oil Well located in Section 19, Township 22 South, Range 38 East?

A I originated the investigation of the area and made the preliminary negotiations with Gulf to obtain farm-out which I subsequently sold to Mr. Hanson.

Q You have been familiar with the actual provisions of the farm-out agreement obtained by Mr. Hanson?

A I am.

Q How did you become familiar with those provisions?

A My original negotiations were with Mr. Jack Cavanaugh, a representative of Gulf Oil Corporation. He informed me that the acreage was available for farm-out. Based on my knowledge of the area, I investigated various wells and determined in my opinion that there were possibly eleven different producing zones from the top of the Yates Formation to and including the

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Granite Wash, and within these zones, for example in the Blinebry, there was more than one producing zone. Therefore, in my negotiations with Gulf, I was specific to retain the oil rights, all the oil rights under the 320 acres, with the idea in mind that if we did encounter a Blinebry Oil zone we would be entitled to complete in it.

Q Was there any conversation about the Blinebry specifically, Mr. McCoy?

A There was in reference to Gulf's retention of the Blinebry and Tubb gas rights, period, without reserving the oil rights.

(Whereupon, Exhibit G marked for identification).

Q (By Mr. Kellahin) I hand you what has been marked as Exhibit G and ask you if that is the farm-out agreement to which you have been referring?

A It is.

Q Mr. McCoy, do you have any information on Gulf's two gas wells in this area?

A I have the current completion information as to their producing zones.

Q Would you state that for the record, please?

A The Number 1 Max Gutman located 1980 feet from the west line, 660 from the south line, Section 19, Township 22 South, Range 38 East, originally drilled to a total depth of

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7,010 plugged back to 6480, producing interval 8390 to 6474. This zone was in the Drinkard which was subsequently completed in June of '65.

Gulf plugged back to 6250 feet for completion, the Tubb and Blinebry zones. The Tubb zone was perforated from 6170 to 85, and 6080 to 6150. The Blinebry zone was perforated from 5575 to 5625, and 5490 to 5540. The Blinebry perforations flowed on potential 3,120 mcf with 680 pounds back pressure. Tubb zone flowed 1,910 mcf, 600 pounds back pressure.

Number 2 Max Gutman located 660 feet from the north line, 1980 feet from the west line, drilled to a total depth of 7150, plugged back to 6300, perforated in the Tubb zone at 6200 to 6060, afterward was 5,000, fractured with 15,000 gallons, flowed 2,700,000 with 250 pounds pressure.

Blinebry zone perforated from 5650 to 5600 and 5550 to 5490, afterward 250 gallons, fractured 6,000 gallons, flowed 2,470,000 cubic feet, 300 pounds of pressure. Those are the two current producing wells.

Q Are you able to make any comparison between the pressures in the two wells and the Blinebry zone in the Hanson well?

A I have not seen on record bottom hole pressure tests on the two wells of Gulf.

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Q In your opinion, are they completed in the same zones as the Hanson well?

A The two wells of Gulf are completed in the same zone.

Q Are they completed in the same zone as the Hanson?

A They are composed of two sets of perforations in the Blinebry, the lower portion of that set being in the zone perforated in the Hanson well.

Q You are not familiar with the producing characteristics of the two wells other than information you just gave, is that correct?

A Right.

Q Mr. McCoy, you stated that there are other zones in this particular area, which in your opinion -- or did you state that in your opinion these other zones are productive or potentially productive?

A Yes, I did.

Q Would you outline what zones you are referring to, briefly?

A Well, I have divided the Blinebry section into three major divisions. The upper division being restricted to the upper 70 feet of the Blinebry, which in my opinion, is gas productive; and the middle section primarily being oil productive. The lower section being oil and gas productive. I believe we have one well in the lowermost zone above the



Tubb zone that produces gas.

Q You do have a gas well producing from the lower zone in the Blinebry, do you not?

A Right.

Q Do you have any wells producing from the uppermost, the 70 foot zone?

A The uppermost Gulf wells, to the best of my knowledge, produce no oil.

Q Are there any other wells in the pool producing from the upper zone that produce oil?

A I believe in the Section 18, northeast quarter, there are two wells perforated and producing from the same zone of which Gulf is producing gas.

Q Now, on the basis of your experience, do you find the San Andres formation present?

A It is present.

Q The Paddock?

A Present.

Q The Blinebry and Tubb, of course, they are both present?

A Present.

Q Drinkard?

A Present.

Q And the Granite Wash, of course, is present?

A Present.

Q Do you consider all of those zones potentially productive of oil?

A I do.

Q Would it be your recommendation, in order to facilitate dedication of dual completions, that an administrative procedure be adopted to include these zones?

A I do.

MR. KELLAHIN: At this time, I would like to offer in evidence Exhibit G, which is the agreement testified to by the witness.

MR. NUTTER: Applicant's Exhibit G will be admitted in evidence.

(Whereupon, Exhibit G offered and admitted in evidence.)

MR. KELLAHIN: That's all I have on direct examination.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. McCoy, you said this Number 1 well had originally been drilled to a TD of 7010?

A Right.

Q And then it was plugged back to what depth?

A 6480, it was plugged back to 6250.

Q Well, that was the subsequent plug-back?

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A Right.

Q The original plug-back total depth when it was producing from the Drinkard?

A 6480.

Q Drinkard perforation?

A 6390 to 6374.

Q In what year was it plugged back to 6250?

A June of 1956.

Q And then perforations were opened in the Tubb from 6170 to 85?

A Correct.

Q And 6080 to 6150?

A Correct.

Q And in the Blinebry, perforations were open from 5775 to 5625?

A Right.

Q 5490 to 5540?

A Correct.

Q That's the producing interval from those two zones?

A That is correct.

Q As of today?

A Right.

Q Have you examined the log of the Gulf Gutman Number 1?

A Yes, I have it here.

Q Is there any structural difference, as far as the pays in the Blinbry is concerned between Hanson's -- What's the name of it? -- Gutman Number 1?

A Right. I believe there's approximately not in excess of 10 feet structural subsea difference.

Q And it was your statement, I believe, that you felt that the Gulf well, the upper perforations in the Gulf well are producing from the same interval that the perforations in the Hanson well are producing from?

A No. To correct that, the upper perforations in the Gulf well and the Number 1 Gutman are not perforated in the Hanson well because we knew it was a gas zone and we did not have those rights, therefore, we do not produce it.

Q Did you have a hand in the drilling of the Hanson Gutman Well?

A No, sir, other than in an advisory capacity.

Q Was any test made, to your knowledge, of the upper section where you think it's productive of gas?

A No, sir, because we knew it was gas, therefore, we did not intend to test it in any manner.

Q The perforations in the Hanson well would be the equivalent to what interval in the Gulf well?

A In the Number 1 Gutman, they would be approximately equivalent, not entirely, to the perforated interval of 5575,

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to 5625.

Q Which is the lower interval?

A The lower set.

Q In the Gulf well.

MR. NUTTER: Are there any other questions of Mr. McCoy?

MR. KASTLER: Yes.

MR. NUTTER: Mr. Kastler.

CROSS EXAMINATION

BY MR. KASTLER:

Q Mr. McCoy, have you established that there is a gas and oil contact in the Blinebry?

A I have not.

Q What is the producing energy that you believe is utilized in producing the gas or oil, as the case may be?

A Well, we would have to segregate -- Are you speaking of the Gulf oil?

A In either the Gulf wells as gas wells, or the proposed Hanson oil well.

A Well, it's speculative without proof, but I feel that Gulf's well is producing from gas cap of the upper Blinebry oil reservoir. The Hanson well is producing from the solution gas drive.

Q But you haven't yet established or haven't been able

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to 5625.

Q Which is the lower interval?

A The lower set.

Q In the Gulf well.

MR. NUTTER: Are there any other questions of Mr. McCoy?

MR. KASTLER: Yes.

MR. NUTTER: Mr. Kastler.

CROSS EXAMINATION

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to establish a gas-oil contact --

A I have not.

Q -- so there's a segregated gas cap?

A I have not.

Q Do you believe that the entire 320 acres covered by the farmed-out Gutman lease are productive in this so-called middle zone of oil?

A I would not state that as being a fact. That would depend on the development of local porosity, I believe, from well to well.

Q Are you in any way able to calculate how much oil is in place that can be produced?

A No, sir.

Q If the oil is being produced by a solution gas drive, what per cent of the oil is originally produced on primary recovery methods?

A Probably about 18 per cent as a rule of thumb.

Q 18 per cent as a rule?

A Yes.

Q Are you sure it's as high as 18 per cent, as a rule?

A I don't believe any of those facts can be exclusively proved.

Q Do you believe additional drilling on each 40 acres in this 320 acre farm-out is warranted for oil in the

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Blinebry; that is your purpose, is it not, to be able to continue drilling and completing your duals at random?

A At random, yes, sir; not necessarily the next well because there might be two other zones we might want to dual, but if we do run into Blinebry oil, we would like to complete a Blinebry oil well.

MR. KASTLER: That's all.

MR. NUTTER: Are there any other questions of Mr. McCoy? He may be excused.

(Witness excused.)

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

MR. KELLAHIN: No.

MR. NUTTER: Mr. Kastler?

MR. KASTLER: I would like to call Mr. John H. Hoover to the stand. Mr. Examiner, I calculate that the questions on direct that I intend to ask Mr. Hoover and the next witness Mr. Hutchison will take approximately 15 to 20 minutes.

MR. NUTTER: In that case, we won't finish before lunch. We'll take a recess until 1:15.

(Whereupon, a recess was taken.)

(Whereupon, the Hearing was continued at 1:15 o'clock P.M.)



AFTERNOON SESSION

MR. NUTTER: The Hearing will come to order, please.

Mr. Kastler?

\* \* \*

J O H N H O O V E R, called as a witness herein, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KASTLER:

Q Mr. Hoover, will you please state your name, your present position, and by whom you are employed, where you live?

A John Hoover, District Production Engineer with Gulf Oil Corporation in Roswell.

Q Have you previously appeared before the New Mexico Oil Conservation Commission and stated your qualifications, and testified as an expert petroleum engineer?

A Yes, I have.

Q Are you familiar with the pool rules under which the Blinbry and Tubb Oil and Gas wells are regulated?

A Yes, I am.

MR. KASTLER: Mr. Examiner, are Mr. Hoover's qualifications acceptable?

MR. NUTTER: Yes, they are.

(Whereupon, Gulf's Exhibits 1 marked for identification.)

Q (By Mr. Kastler) Are you also familiar with the producing wells on Gulf's Gutman Lease and do you have a plat?

A Yes, and the plat is marked Exhibit Number 1. The Gutman Lease is outlined in red, being the west half of Section 19, Township 22 South, Range 38 East, Lea County, New Mexico.

Q Is the Gutman Lease fully dedicated for Blinebry and Tubb gas production, and if so, for how long have they been so dedicated?

A Yes, it is. The Gutman Number 1, which is located in the southeast quarter, southwest quarter of Section 19 of Township 22 South, Range 38 East, was originally completed in the Drinkard Oil Zone and recompleted as a dual gas well in the Tubb-Blinebry Pools, gas pools. The Gutman Number 2 which is located in the northeast quarter, northwest quarter of Section 19 was completed as a dual gas well in the Blinebry and Tubb pools.

The Gutman Number 2 has 160 acres dedicated, being the northwest quarter, and this unit was effective in April, 1955. The Gutman Number 1 has 160 acres dedicated by the southwest quarter and this unit was effective in July, 1956.

Q Then the Gutman Lease has been producing Blinebry and Tubb gas for at least ten years?

A Yes, that is correct.

Q Has the Gutman Number 1 and Number 2, have they always had 160 acres dedicated to them?

A Well, Number 1 has; however, the Number 2 originally had 160 acres but we had 120 acres dedicated during the time that our Gutman Number 3 was completed as a Blinebry Oil Well. This well was located in the southeast quarter, northwest quarter. We asked by application to have this 40 acres removed from the standard gas unit, which was applicable to Well Number 2 and reduced that acreage to 120.

This Well Number 3 was completed in October of 1962, and it produced only 2421 barrels of oil and when the Commission reclassified it as a gas well effective July 1, 1963, due to the gas-oil ratio being excessive, we closed the well in at that time, because it was more economical to produce the 160 acres of gas from the Well Number 2, rather than operate two wells, and Well Number 3 has been subsequently abandoned.

Q Plugged and abandoned?

A Plugged and abandoned, yes.

Q Then Well Number 3 only produced for approximately eight and a half months before it had to be reclassified as a gas well?

A Yes, that's right.

Q Now, during the time Number 3 was producing as an oil well and the acreage was removed from dedication to

Well Number 2, do you consider that Gulf was still producing gas with the oil that would normally have been produced from Number 2 gas well?

A Yes, and that is why the Commission has a Rule against double dedication. The gas produced with the Blinebry Oil is the same gas produced from a gas well. In fact, when Well Number 3 was reclassified as a Blinebry Gas Well, we could have secured a 40 acre gas allowable for that well and continued to operate it as a gas well. We did nothing to the well. It was a matter of the Rules applying, and the well being reclassified.

Q What rule applies to the proration and operation of the Blinebry and Tubb Gas pools?

A Order Number R-1670 dated May 20, 1960 sets out the present operating rules.

Q What determines the Blinebry Gas well under Order R-1670?

A It's Rule 27 A of Order R-1670 and 27 B, which were previously reported.

Q In effect, therefore, an operator may have a well that changes from a gas well to an oil well and back to a gas well and still be producing the same gas?

A Yes, that's right.

Q Under that Order, that seems to be a compatible way

of production?

A That's true.

Q It apparently seems that it necessitates a Rule against dual dedication of acreage?

A Yes.

Q Are you familiar with a farm-out agreement between Gulf and Mr. Hanson which was introduced this morning as Exhibit G?

A Yes, I am.

Q What specific exceptions were provided in that instance that are pertinent to this Case?

A We specifically reserve the Blinebry and Tubb Gas rights.

Q Being familiar with the New Mexico Oil Conservation Commission Rules and having operated under them for many years, do you have an opinion and knowledge of what this exception and reservation meant?

A Yes.

MR. KELLAHIN: I object to the question on the grounds that the instrument will speak for itself and it's not subject to interpretation by this witness as to what it means. The instrument is in evidence and whatever it says is what governs and not what this witness says that it says. I object to the question.

MR. KASTLER: I withdraw the question.

Q (By Mr. Kastler) What acreage was assigned to Hanson with the Tubb and Blinebry Gas rights excluded?

A All of the Gutman Lease being the west half of Section 19.

Q And they also have the 40 acre tracts on which the Gutman Number 1 and Number 2 Blinebry and Tubb Gas Wells are located, is that correct?

A Yes, that's correct, which further proves our intention that the Blinebry and Tubb rights were excluded.

Q It proves that in the event they should, or Mr. Hanson should complete a Blinebry Oil Well on the same 40 acres as Well Number 1, or on the same 40 Acres as well Number 2, in such a case you would contemplate that well Number 1 or 2 would have to be temporarily abandoned, is that correct?

A For me to get an allowable, that's the only way it would be. We would be out of business.

Q You have previously stated that gas produced with oil is gas that would be produced from a gas well to which the acreage was dedicated. Who would own the gas if Hanson were to receive permission to produce his Number 1 Well as a Blinebry or a Tubb Oil well?

A Well, since Gulf specifically reserved gas rights, the gas produced would belong to Gulf and the marketing of

this gas would be Gulf's right.

Q What is the price of Blinebry Gas Well gas when sold to the existing high pressure purchasers?

A It's approximately 13 cents.

Q What is the approximate sales price of Blinebry Gas produced with oil?

A For Blinebry it's approximately nine and a half cents and this is considering approximately eight cents being approved price, and approximately one and a half cents being corporate undertaking, which, until such time as the area pricing is settled, why, that is not a definite price.

Q So the legal differential today is the difference between 13 cents, or nearly 13 cents, and eight cents, is that correct?

A Yes, that's correct.

Q So, the same gas that Gulf now sells for nearly 13 cents per mcf would be reduced possibly five cents mcf if Mr. Hanson were allowed to sell the oil in the Blinebry?

A Yes, that's right.

Q Since Gulf owns all the gas rights then, we would have to sell it for less money per mcf than we now receive if this application were granted?

A Yes, that's correct.

Q If the gas is not produced with the oil, would Gulf

still eventually sell? In other words, if this Application is denied, will Gulf eventually sell the same gas that Mr. Hanson is attempting to use to produce his oil? Would that same gas be eventually sold at the higher price?

A Yes, it would because a gas well will drain that, our gas well will drain that 40 acres on which Mr. Hanson's well is located.

Q What portions of this Application of Mr. Hanson does Gulf object to?

A We object to being so-called forced, unpooled, by having to remove acreage from our Blinebry and Tubb Gas Wells when we specifically reserve these gas rights. Mr. Hanson, in my opinion, is asking this Commission to deprive Gulf of its right to produce Blinebry and Tubb Gas, which we own.

We also feel that the Rules now provide for administrative procedure for dedication and rededication of acreage. We have no objection to the portion of the Application where they're asking for a dual, insofar as it applies to the San Andres, Paddock, Drinkard and Granite Wash Formations, as he has all rights in everything to 7300 feet, except the Blinebry and Tubb gas rights.

Q Basically, is Gulf opposed to the production of oil in the Blinebry or Tubb by Mr. Hanson?

A No. We are not opposed to the production of oil



in the Blinebry and Tubb by Mr. Hanson.

Q Then, the opposition of Gulf is really directed at the consequences which result from Mr. Hanson's production of this oil, is that correct?

A Yes, without having any offers of any settlement from Mr. Hanson, we are expected to acquiese in this plans to curtail our Blinebry Gas production at a monetary loss.

Q Do you have anything further to add?

A No, sir, I believe not.

Q Was Exhibit Number 1, was it prepared by you or at your direction and under your supervision?

A It was.

MR. KASTLER: I would like to move that Exhibit 1, the location plat, be admitted into evidence at this time.

MR. NUTTER: Gulf's Exhibit Number 1 will be admitted into evidence.

(Whereupon, Gulf's Exhibit 1 offered and admitted in evidence.)

MR. KASTLER: This concludes the direct examination of Mr. Hoover.

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

MR. KELLAHIN: Yes, sir.

MR. NUTTER: Mr. Kellahin.

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CROSS EXAMINATION

BY MR. KELLAMIN:

Q Mr. Hoover, you made reference to the Number 3 Well; can you give us the zone that that well was completed in as compared to the Number 1 Well?

A We have a geological testimony that will be given.

Q That will be covered in the geological testimony?

A Yes, that will be.

Q Do you have any information on the gravity of the oil that was produced from that well, the Number 3 Well?

A Yes, sir.

Q Would you give us that, please?

A That well produced on the completion report, potential test 36.4 degrees API gravity.

Q 36.4?

A Correct.

Q And what was the gas-oil ratio on the well?

A That well was completed 30 barrels of oil, 535 mcf of gas for a gas-oil ratio of 17,833. That was on November the 17th, 1962.

Q And how long did you produce it?

A It was reclassified on July 1, 1963. That would be approximately eight and a half months.

Q And you say it's 17,000 to one, 17,833 to one?

A Yes, that's right.

Q What's the Rules for a gas well in the --

A 32,000.

Q 32,000?

A Yes, sir -- or gravity also is --

Q But you were below the gravity required by the rule, is that correct?

A Yes. In fact, the gas-oil ratio was below 32,000 which made it an oil well and the gravity was also below 51 so it was definitely an oil well, high ratio oil well.

Q By the same token, you will admit that the Hanson well is an oil well under the present classification, is that correct?

A Yes, sir.

Q Do you have the original bottom hole pressure on that well, the Number 3 Well?

A No, sir, I do not.

Q Do you have any bottom hole pressures on it?

A I do not believe any were taken.

Q Do you have your bottom hole pressures on your other two wells or will that be covered by the other witness?

A No, sir, we have no bottom hole pressures because those are dual completed wells, and bottom hole pressures are not required. Now, the only way you can take a bottom

hole pressure in the upper zone of a dual completed well is take a sonic fluid level test and a shut-in tubing pressure and calculate.

Q Has that been done?

A No, it has not. Now, we do have a test which was taken in August of this year, in fact, on August 8, 1966 a 24 hour shut-in was taken in conjunction with packer leakage test and that test is taken only to get a build up and then to run your test. Now, that shut in pressure not -- I don't know whether it was a maximum, if it was still building up or if it had built up higher and it dropped back down due to fluid. We know we had fluid but it was 1332 pounds.

Q Which well is this?

A This is Number 1 Gutman. This is the only one that I had this test on. Just going on a straight calculation of a straight old dry gas well, where you have no liquids for that depth, that would calculate an estimated bottom hole pressure of about 1700 pounds, but that would not be considered a true bottom hole pressure because there's too many variables and assumptions.

Q That would be a reasonable estimate, though, wouldn't it, Mr. Hoover?

A I think it would be reasonable. It ought to be within a couple of hundred pounds.

Q What is your fluid production from these two wells as compared to your gas production?

A The rules provide that you take tests every six months on the Blinebry and Tubb Gas wells and you report it to the Commission on form C-116. This test which was filed with the Commission was dated May the 27th, 1966, and it is on file with the Commission. On that test, the Gutman Number 1, the date of the test was May 9th, 1966 flowing through casing at a pressure of 500 pounds, produced one barrel of water, 50.7 API gravity, 51 barrels of condensate.

Q One barrel of water, 50.7 API?

A One barrel of water, condensate 55.5, 51 barrels of condensate, 1,180 mcf of gas, GOR of 38,537.

Q 38,537?

A 37. The Number 2 Gutman, the test was on April 21, 1966; it was flowing 540 pounds of pressure --

MR. NUTTER: Is that casing flow also?

A Yes, sir, casing. -- trace of water, the gravity of the condensate 55.5. It produced six barrels, 729 mcf, for a gas-oil ratio of 121,500.

Q 50.7, 55.5 condensate, as compared to 36 degree gravity for the oil produced from the Number 3, is that correct?

A Yes, that's correct.

Q Do you recognize that this condensate is coming from some different source than the oil that was produced from the Number 3, Mr. Hoover?

A I don't know. I just don't understand this. The difference in gravity, the only thing, it's strictly a guess, that the gas is going to be probably the more less permeable, least prosity zone, and that the fluid that's produced with it is some condensate out of the gas, maybe mixing with some oil, which raises it above the oil which would be trapped in the more permeable section.

Q You do recognize then, that there are areas productive of oil in the Blinebry?

A Yes, sir.

Q No question?

A No.

Q In fact, you recognized it yourself when you dedicated 40 acres to your Number 3 Well, didn't you?

A Yes, sir.

Q In the same area?

A Yes, sir. We were complying with the Rules on this.

Q Yes, but you object to Hanson complying with the Rules and dedicating 40 acres to their oil well?

A We're objecting, not to his producing his oil, we are objecting to our monetary loss of our gas well.

Q You stated that no effort had been made to work out any negotiation, any arrangement with you; do you know this for a fact, Mr. Hoover?

A Well, of course, I can not say as having been the personal contact, but it was my understanding that no --

Q Didn't you make any proposal to Mr. Hanson?

A No, I didn't, because this did not fall in my category.

Q Negotiating with Mr. Hanson or his representatives does not fall in your category, either, does it?

A That's right.

Q So you didn't negotiate with him one way or another, either, as opposed to that or receiving a proposal from him?

A No.

Q Do you know if anybody else did?

A Oh, I am sure they did, yes, sir.

Q There were negotiations, then?

A On the farm-out.

Q I mean subsequent to the farm-out.

A I think there was, some sort of negotiations, I don't know.

Q I think the inference of your testimony is that no effort had been made to negotiate anything, and I wanted to clarify that. There was an effort made, was there not?

A Well, as far as I know, what we're speaking about in this Hearing, that Gulf's loss of this gas and what Mr. Hanson is trying to do; as far as I know, there was no approach made to work out a settlement of how he could produce his oil and we'd be protected on our gas.

MR. KASTLER: Correct it to say as far as you know, there was no settlement. I mean, obviously --

MR. KELLAHIN: I think.

MR. KASTLER: -- obviously Mr. Kellahin's testimony is there may or may not have been an approach made without your knowledge or without your knowledge of exactly what was said, but to your knowledge, and you can testify to the fact there was no settlement negotiated prior to this Hearing, is that correct?

A Yes, sir, that's right.

MR. KELLAHIN: We'll submit that this is the case, or we wouldn't be here.

Q (By Mr. Kellahin) Actually, the gas that you are producing from your -- I mean the oil or condensate that's being produced from your two gas wells is not comparable to the oil being produced from Hanson's oil well, is this true?

A It's higher.

Q It's higher?

A Yes, sir.



Q And as to the gas, have you made any analysis of the gas from these three wells?

A No, sir.

Q Actually, the gas from the Hanson well would be classified at least by the purchaser as casing head gas, would it not?

A It would be, yes, from a --produced with the oil, it technically, according to the Commission, it would probably be called casing head gas.

Q Mr. Hoover, who is purchasing your gas from your gas wells?

A Northern Natural.

Q Do they purchase casing head gas in this area?

A They purchase gas-oil gas.

Q They do purchase gas-oil gas?

A They don't purchase any casing head gas.

Q Who is purchasing the condensate?

A The condensate --

MR. KASTLER: When you had Number 3 Well connected, who purchased it?

A Oh, the gas?

Q (By Mr. Kellahin) No, the oil I am talking about now. Who purchases the oil or condensate?

A I don't know.

Q Who purchases the oil from your Number 3 Well?

A I don't know.

Q Was there any analysis of those fluids made as to sulphur content?

A I don't know, probably was. I think that the purchaser may have made some. I just don't know on that.

MR. KELLAHIN: I believe that's all, Mr. Hoover.  
Thank you.

MR. KASTLER: I have no recross. Do you have any further questions, Mr. Nutter?

MR. NUTTER: I don't believe I have any questions.  
If no further questions of Mr. Hoover, he may be excused.

(Witness excused).

MR. KASTLER: I would like Mr. Hutchison to take the stand next, and he has an Exhibit which might well be put on the wall.

\* \* \*

J. L. HUTCHISON, called as a witness herein, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KASTLER:

Q Will you please state your name, your present position, and how long you have been in that position?

A My name is J. L. Hutchison, I am a District

Production Geologist for Gulf Oil Corporation in Roswell, New Mexico, and I have been in the present position for, well, nearly three years, as far as District Production Geologist.

Q Are you familiar with the various geological aspects in this case?

A Yes, I am.

Q Have you, since learning of the application by Mr. Hanson, prepared any geological data which might show the relationship of certain formations which are material to this case?

A Yes, I have.

Q Before introducing this, have you previously been qualified as an expert witness to testify before the New Mexico Oil Conservation Commission?

A Yes, I have.

MR. KASTLER: Are Mr. Hutchison's credentials satisfactory?

MR. NUTTER: They are.

Q (By Mr. Kastler) Will you please show and explain to the Examiner the significance of your studies as reflected by this Exhibit Number 2 on the wall?

A Well, actually this is more or less a pictorial view of a lot of the testimony that has been presented here today. Actually, what I have prepared here is a cross section, a

north-south cross section, extending from our Well Number 2 through the old Well Number 3, through our Number 1 over to the Hanson Number 1 Gutman and down to our 5 Vivian.

Q You are referring to the inset on Exhibit 2?

A Yes. This is the inset on Number 2, and you can see our other location plat, the well locations. These wells are hung on a datum of a minus 2,000 feet, so you can see the structural aspect of the Blinebry and Tubb formations in this particular area. Some of these wells, the data below this is not all complete in that one of these wells was originally a Drinkard completion, and the data only in the Blinebry and Tubb formations is complete.

Is this area, as described for the Oil Conservation Commission, here is the top of the Blinebry marker. Here is the top of the Tubb marker, here is the top of the Drinkard formation. On the insets here, these are drill stem tests on the left, here are the present perforations, within these wells. This is the Blinebry perforations, here are the Tubb perforations.

Q In which well?

A This is the Number 2 Gutman Well here. This is the Number 3 Gutman, the oil well. These are the perforations that they were asking about, if they would be on the cross section a while ago. This well was not deepened to the Tubb.

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This is the Gutman Number 1, these are the perforations in the Blinebry zone, these are the perforations in the Tubb zone; this is the Hanson Number 1 Gutman, here are his perforations in the Blinebry zone. This is the south offset to his well, here are the perforations, and this is in the Blinebry zone.

As you can see, and I think as Mr. McCoy testified, that a portion of the perforations, Exhibit D here in the Number 1 Gutman, are open also in the upper portion of his well. They did perforate some additional sections below where it is but there is some equivalent section that is also perforated. I think that's about all.

Q From observing this cross section, how do you explain that the Hanson Number 1 Gutman is structurally high to the Gulf Number 1 Gutman, and yet it produces oil and the low well produces gas?

A Well, in my opinion, looking at the Blinebry Field in general, of which there is some 270 oil wells and 147 wells classified as gas wells, I feel like that what controls the oil and gas production in the Blinebry formation is a variation in permeabilities and porosities. I think that a person can find areas where almost the entire section is perforated from top to bottom, and in the equivalent wells nearby the situation will be the same, where you will have an

oil well as opposed to a gas well.

Q And yet have you been able to establish a definite oil-gas contact in the Blinebry Reservoir?

A No, sir, I have not.

Q Is there any common rule of thumb, in your opinion, that you can go by to complete an oil well or to complete a gas well at will?

A Well, of course, I think in general you would say to complete a well in the Blinebry Formation, you would try to get as low in the formation as you could. I mean, when we have wells that become high GOR's, we attempt to squeeze the upper part of the perforations, and go lower in the formation. Now, sometimes this is successful, other times it isn't, and here again, I feel that is due to variations in the permeability and porosity.

Q In your cross section exhibit, is a comparative analysis of all the wells on the west half of Section 19, which is what we are concerned with in the Gutman Lease here?

A Yes. Well, actually, those are logs on, well, all the wells that penetrate the Blinebry Formation in the west half of Section 19.

Q Then, it seems to present about the most positive study that can be made under the present circumstances of the Blinebry and Tubb pools in this particular area, does it not?

A Yes, I would say it does.

Q Isn't it your conclusion that there are wells perforated at high levels in that formation that are oil wells and lower levels that are gas wells?

A Yes. Well, I think the base of the perforations on the Number 1 Gutman and our Number 1 Well, I think the datum of the base, I think the elevation is only about two feet different, and I would think the datum of the perforations are almost equivalent in our well, with the Hanson well.

Q What does your exhibit show in connection with the Tubb formation?

A Well, it shows just more or less where the zones are completed in the well. The Hanson well, to my knowledge, was not tested in the Tubb formation and in this general area, I mean within, say, two miles, I do not know of any Tubb oil production. It is all gas, I know of, in this particular area.

Q So if any tubb wells were to be found under the Gutman lease by the present rules and the other characteristics of the reservoir, wouldn't the same situation exist that exists in the Blinbry, namely that the wells would be draining the same pool, a gas well and an oil well?

A Yes.

Q And they would prohibit any double dedication of

acreage?

A Yes.

Q Was Exhibit Number 2 prepared by you or at your direction and under your supervision?

A Yes, it was.

MR. KASTLER: I would like that Exhibit to be introduced at this time and I'm through with the examination.

MR. NUTTER: Gulf's Exhibit Number 2 will be admitted in evidence.

(Whereupon, Gulf's Exhibit 2 marked for identification, offered and admitted in evidence.)

MR. NUTTER: Are there any questions of the witness?

MR. KELLAHIN: Yes, sir.

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Hutchison, could you give us the perforation on that Number 1 Well, again?

A Number 1 Well?

Q Yes.

A From here I show the perforation being from 5570 to 5625.

Q Do you have any perforation in 5490 to 5540?

A Not to my knowledge.



Q If the Commission files showed that perforations were from 5490 to 5540, would you disagree with that information?

A I wouldn't necessarily. I mean, it might be an oversight, putting it on the cross section, but if it was it was strictly an oversight.

Q But you wouldn't disagree with it if the Commission files did show that, would you?

A Well, I would think that our files should show it also.

MR. KELLAHIN: I'll ask the Commission to take notice of the Gulf Oil Corporation Number 1 Gutman Well file which, according to our information, reflects perforations between the depth of 5490 to 5540.

MR. NUTTER: The commission will take notice of its files with respect to these wells.

Q (By Mr. Kellahin) What's the nature of the oil drive in this area, Mr. Hutchison?

A Of the oil drive?

Q Yes. Would you agree it was a solution gas drive?

A I would think solution gas.

Q Would the production of gas from the area have any adverse affect on the future production of oil from the Blinebry?

A Well, I am really not a reservoir engineer. I probably shouldn't answer that question on that grounds, I don't believe.

Q You'd rather not answer the question?

A I don't think I am qualified as a reservoir engineer to answer the question.

Q You did testify on reservoir information that there's no gas-oil contact, for example, did you not?

A Well, I think that falls more or less under the geological end.

Q How many oil wells did you say there were in the pool?

A According to my information there were 272 and 147 gas wells as of June.

Q Actually, that would characterize this pool as an oil pool rather than a gas pool, would it not?

A It's -- According to the Oil Conservation Commission, it's both, depending on the GOR's.

Q There is a tendency of wells to go from gas to oil and back to gas again?

A I would say there's more tendency for wells to go to gas and stay gas until some remedial work is performed.

Q What would be the nature of the remedial work?

A It is a matter of squeezing up perforations and

going lower.

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

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Hutchison, I believe that your exhibit shows the set of perforations --

A Yes.

Q -- being from 5575 to 5625?

A Yes, sir. I may have stated it wrong.

Q Then the witness for Mr. Hanson had testified there was a set of perforations from 5490 to 5540 --

A Let me look on my log. Let me check it.

MR. KASTLER: Do you have a log here?

A Yes, let me check that. My log doesn't show it, I am not saying that it is not, but from my data --

MR. KASTLER: Is the log sworn to?

A No.

MR. KASTLER: Is that the original log?

A No, this is just a log that we plot data on. I was just checking to see about the other sets of perforations. This log does not indicate that they're there.

Q (By Mr. Nutter) Mr. Hutchison, on your cross section here, where the Gutman Number 1 Well belongs to Gulf, you show the symbol for perforations as being a rectangular area

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with little circles inscribed?

A Yes.

Q On the Hanson well?

A In plane perforation at particular depth.

Q In other words, the perforation on this is indicated by the little arrows?

A Yes, that is correct.

Q In your opinion, is the perforated interval in the Gutman Number 1 well the same interval that is perforated in the Hanson Gutman Number 1?

A Yes, I think this point here and this point here are the same.

Q In other words, on the Gulf well, that would be a point at approximately --

A 5570, approximately.

Q -- 5570 would correspond with the point --

A To approximately 5510 to twelve.

Q -- in the Hanson Well?

A In the Hanson. See, their perforation would be equivalent down to approximately here, plus additional perforations below that's not perforated.

Q I see. So, regardless of whether the Gulf oil has another set of perforations open or not, the perforations in the two wells, as indicated on your exhibit --

A There are some perforations in common in the two well bores, yes.

Q And the Hanson well is shown to be structurally higher than the Gulf Well?

A Yes, sir, by some 60 feet. I haven't figured exactly but about 60 feet high.

Q Are there any further questions of Mr. Hutchison?

MR. KASTLER: No.

MR. NUTTER: He may be excused.

(Witness excused).

MR. KELLAHIN: If the Examiner please, Mr. McCoy is picking up that well file. We will have it here in just a moment.

MR. NUTTER: You going to recall Mr. McCoy to testify as to the well file?

MR. KELLAHIN: If you wish.

MR. NUTTER: Will you recall Mr. McCoy, please?

MR. KELLAHIN: Are you through?

MR. KASTLER: Yes.

MR. KELLAHIN: Mr. McCoy, would you take the stand again, please?

W I L L I A M J. M c C O Y, recalled as a witness, having been previously sworn, was examined and testified further as follows:

REDIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name?

A William J. McCoy.

Q Are you the same Mr. McCoy who previously testified in this case?

A I did.

Q I hand you a folder and ask you what that is?

A This is the well file folder from the Commission Office right down the hall, regarding the Gulf Number 1 Gutman.

Q Referring to the instrument you are now looking at, would you identify that instrument?

A This is a form C 1040 request for oil and gas allowable.

Q Who was that filed by?

A Gulf Oil Corporation.

Q Can you tell what the signature is, too?

A The signature is J. R. Sherman, Division Gas Engineer, Gulf Oil Corporation.

Q Is it sworn to?

A It is.

Q What does it show in regard to the perforations in that well?

A Casing perforations, 5490 to 5540, 5575 to 5625.

Q In your opinion, would perforations located as

indicated on that form have any effect on whether that particular well was productive of gas or oil?

A It does.

Q What would your conclusion be?

A It's still my opinion that in that particular area, the upper set of perforations in the Gulf Number 1 Gutman and the last well shown on the right of the cross section, are one and the same gas reservoir separated from the oil zone.

MR. KELLAHIN: That's all.

MR. NUTTER: Are there any other questions of Mr. McCoy?

MR. KASTLER: No.

MR. NUTTER: He may be excused.

(Witness excused).

MR. NUTTER: Does anyone have anything further they wish to offer in Case 3451?

MR. KELLAHIN: I want to make a statement.

MR. HATCH: I have a telegram addressed to New Mexico Oil Conservation Commission from Phillips Petroleum Company, "In reference to Case 3451, Blinebry Pool Application of Ernest A. Hanson, Phillips Petroleum Company, as an owner in the Blinebry Pool, joins Gulf Oil Corporation in its opposition to rededication of acreage and administrative procedure for rededication of acreage as requested by Applicant. Copies to

Al Porter, Junior, New Mexico Oil Conservation Commission, Santa Fe, and William Kastler, Gulf Oil Corporation, Roswell, New Mexico, dated September 6, 1966."

MR. NUTTER: Thank you, Mr. Hatch. I presume both of you have closing statements to make. As Applicant, you may go last Mr. Kellahin, if you desire.

MR. KELLAHIN: I do.

MR. KASTLER: My statement can be reduced to a very few words, namely that we, as Mr. Hoover has indicated, have strongest opposition; and our only opposition to this is that we don't think we have been treated fairly, and the first notice we have is that there is an application for a dual completion, and we are given registered mail notice of it to object or concur as we see fit, or be quiet and have it granted administratively. We couldn't abide by having it granted administratively, without raising a protest because we felt that it had never been our intention, and is not now our intention, to forsake acreage that's dedicated to gas and for gas production so a farm-out operator could, at his own pleasure, conduct his oil recovery.

It's true and perhaps it might be an oversight, but the matter has to speak for itself. I mean, the best evidence is the contract. It's true that Mr. Hanson did obtain the oil rights and we had no intention of giving him the oil rights

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without also allowing that he has a right to produce those, and there's where the oversight comes in, in my opinion. Nevertheless, we feel that some kind of reasonable settlement should be offered to Gulf so that there would be no loss on Gulf's part while these oil rights are being produced.

We think that in very, very short time, that the oil will revert to gas and that in spite of any further attempts to plug up or down the hole, that it will revert to a gas well and the same gas will be produced in the end.

MR. NUTTER: Before you make your statement, Mr. Kellahin, in order that I can have a little bit clearer record to take to the Commission on this case -- I suppose it may not be necessary because we have a copy of the farm-out agreement as an exhibit in the case file.

MR. KELLAHIN: That's right.

MR. NUTTER: Would it be agreeable to each of you to make the following stipulation, that there is a farm-out agreement, that the farm-out agreement conveys all of the oil and gas rights from the San Andres down to 7300 feet from Gulf to E. A. Hanson, that it specifically exempts the Blinebry and the Tubb gas rights?

MR. KELLAHIN: We will so stipulate, yes, sir.

MR. KASTLER: Yes.

MR. NUTTER: Very good.

MR. KELLAHIN: I think that clearly states the situation.

MR. KASTLER: The way you said it, it conveys all the rights, but you later said excluding the gas rights. It does, with the exception of those gas rights, it grants the rights to all depths, providing he drills to earn, to all depths.

MR. NUTTER: There's no definition as to what a gas right is, whether it is a gas right in an oil zone?

MR. KASTLER: There's no such definition.

MR. NUTTER: It simply says "gas rights in the Blinebry and the Tubb formations"?

MR. KASTLER: There's the further condition that Mr. Hanson must continue to drill, continuous drilling 120 days, but that need not be a material part of the stipulation.

MR. NUTTER: Those are details that I didn't intend to go into.

MR. KELLAHIN: In connection with this latter part, Mr. Kastler, you are not saying that the contract is not presently in existence or has not been violated, has it, in any sense of the word --

MR. KASTLER: Well, you haven't produced your Blinebry oil well yet. In that sense, of course, it hasn't been violated.

MR. KELLAHIN: What I'm saying is, you pointed out the qualifications as to obligations to drill --

MR. KASTLER: Oh, yes, and those rights have been earned and the right to continue drilling and continue earning.

MR. KELLAHIN: They are still in existence, is this correct?

MR. KASTLER: Yes, it's a bona fide contract. We intend it to be so.

MR. KELLAHIN: If the Examiner please, there was a statement made by counsel which is based in part on Mr. Hoover's testimony, which I attempted to clarify, leaving an inference that no effort has been made to negotiate. Mr. Schram is present here in the hearing room, and if so desired, I'll put him back on the stand, and he will testify as to efforts made to negotiate with Gulf. It was fruitless. I don't think it has any meaning to the case, but we don't like the inference that there was no effort made to negotiate. Mr. Hoover's testimony was that there were no successful efforts to negotiate.

MR. NUTTER: I think Mr. Kastler cleared that up with the witness.

MR. KELLAHIN: In his statement, he said that there was no effort made to negotiate; the first they knew of the

case is when the application was filed.

MR. KASTLER: I'm not as clear on it as I would like to be. I would appreciate Mr. Schram taking the stand.

MR. NUTTER: Mr. Schram?

H A R R Y F. S C H R A M, having been previously sworn, was recalled and testified further as follows:

REDIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A Harry F. Schram.

Q Are you the same Mr. Schram that previously testified in this case?

A Yes.

Q Mr. Schram, subsequent to your completion of your well in the Blinebry, was any effort made to negotiate some agreement with Gulf Oil Corporation for the production of this well?

A Yes. I had talked to the Oil Commission in Hobbs and -- which is the first I had known about this dual dedication, the first time I had heard about it, so --

Q Could you give an approximate date on that?

A It was, oh, within a week after the well was completed. So, when I came up to Roswell, I talked to John Hoover and I talked to Jack Cavanaugh, who is a land man for

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Gulf, both, and I called Jack on the phone. First I said, "Jack, this dual dedication thing has come up and I didn't know anything about it. Can I get up there and talk with you and anybody else?" because I didn't think that they knew about it at the time, or just didn't know, at least Jack I don't think did. So I came up and I talked to Jack and I talked to John Hoover about it, and we discussed it and the possibilities of which would be the best way to get out, either the possibility of maybe Hanson buying Gulf's two wells in there, or making some kind of an arrangement on the gas, and I just didn't know at the time, and I didn't know which way to go on it.

So, Jack Cavanaugh and John Hoover said, well, they'd get together with their management, talk it over and they would call me later. Well, that same afternoon, Jack Cavanaugh called me and told me that the answer was no to any type of negotiations and I asked him direct, I said, "Jack, do you mean to tell me that Gulf has absolutely closed the door to any negotiations?" and he said, "Well, put it this way, that we can't talk about it now." And that was the last time I had anything to do with it directly, and later Mr. Hanson went up and talked to some of the other management and I forget who he said he had talked to up there, but he definitely made an attempt within two or three days to

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work out some negotiations with Gulf.

Q Was your conversation with Gulf prior to the date of the filing of your application for a dual completion?

A Yes.

MR. KELLAHIN: That's all.

MR. NUTTER: Any questions of Mr. Schram?

MR. KASTLER: I would like to confer with Mr. Hoover for a moment. I have no other questions to ask of Mr. Schram. I do have a question or two I would like to ask Mr. Kellahin as to his understanding of Mr. Hanson's rights.

MR. NUTTER: We'll dismiss Mr. Schram then, if there are no further questions.

(Witness excused.)

MR. KASTLER: Discussing with you and you not being under oath, Mr. Kellahin --

MR. KELLAHIN: We take the position definitely, or we would not be here in this hearing, that under the terms of the farm-out agreement, Gulf Oil Corporation undertook by contract to convey to Mr. Hanson the right to produce oil and gas underlying this tract of land, except Blinbry gas and Tubb gas. Now, this certainly, in a pool which is known to have the characteristics of being an oil reservoir and a gas reservoir and by their own witness shown to have a 272 oil wells as against 147 gas wells, it was certainly contemplated

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by the parties, that there was a conveyance of the oil rights in the Blinebry to Mr. Hanson, and he has a right to produce them and Gulf would have to either delete this acreage from their unit, or in the alternative take a penalized allowable under 506, this is our position.

MR. KASTLER: In regard to that, of course, the number of gas wells is not the only factor because there's a number of acres that's dedicated to oil or gas and at that ratio it comes out about 500 to 200 or something. Insofar as the alternate that you intend to pursue under Rule 506, I would like to say that this is a case covered by a special rule and that such specific rules are to the exclusion of the general rules as written on page nine, which I have looked up before the Hearing, during the recess.

Now then I would like to ask you Jason if, in your understanding of the contract in its present situation, if Mr. Hanson is granted the right to produce the oil in the Blinebry, that he has to do that at his own expense, put it in a separator and the separated gas is marketed by Gulf, do you understand that?

MR. KELLAHIN: I haven't gone into that. I have reached no conclusion on that point.

MR. KASTLER: It's one point that bothers Gulf very much, as to what --

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MR. KELLAHIN: Mr. Kastler, I think that would be a subject for negotiation between the parties and not for this Commission to pass on because this deals with the title to the product.

MR. KASTLER: I agree wholeheartedly and you have admitted here that Mr. Hanson owns the oil rights.

MR. KELLAHIN: So there's no dispute over the ownership of the oil, the only dispute is how is he going to produce it?

MR. KASTLER: Yes. Well, I want to say only now, that I believe that if an offer, I am quite certain that if the proper offer were made there is a way out of this, that negotiations could be made with Gulf, and --

MR. KELLAHIN: I'll assure you Mr. Hanson will listen to any reasonable offer.

MR. KASTLER: Yes. I think that some negotiations should follow this.

MR. KELLAHIN: I agree and the thing should be negotiated and it can be done compatibly and I would hope so.

MR. NUTTER: If there is sufficient prospect in your minds that this can be accomplished within a period of, oh say 30 days, then we would withhold entering any order until such time as you have attempted to solve the problem.



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MR. KASTLER: I think within a period of five days it could be done, Mr. Nutter, because I think if it should be done at all, it should be a matter of immediate attempt.

MR. KELLAHIN: It would have to be done this week because Mr. Hanson is leaving for Europe the end of the week.

MR. NUTTER: This well presently has an allowable in the Granite Wash?

MR. KELLAHIN: If the Examiner please, I think my closing argument has been pretty much covered and the dialogue between Mr. Kastler and myself, I think our position is clear enough. I do realize that this is a very difficult case from the Commission's point of view because we do skirt very closely on the question of determination of ownership, but I believe that the evidence and the stipulations that have been made here today very clearly indicate that the oil rights are owned by Mr. Hanson, insofar as it pertains to this particular case.

That being so, the ownership of each interest in a pool under our statutes, has the right to produce his hydrocarbons underlying the tract belonging to him.

An owner in 65-3-29 is defined as "the person who has the right to drill into and to produce from any pool, and to appropriate the production either for himself or for himself and another."

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The Commission is required by Statute and by its own Rule, Rule Number Five, to determine whether or not a particular well in a pool is a gas well or an oil well or a gas pool or an oil pool, as the case may be. We here are asking you to determine, and I think the evidence is uncontroverted, that the Hanson well is an oil well located in the Blinebry, completed in the Blinebry, that it is producing crude petroleum oil as defined by the Commission and as defined by the Blinebry Pool rules.

It is an oil well as defined by the Blinebry Pool rules and I think the Commission would have no choice but to determine this, that it is an oil well. If this be so, the correlative rights of the owner must be protected; admittedly he is an owner; admittedly he has discovered oil underlying this tract of land and to protect the correlative rights means to afford to Mr. Hanson the opportunity insofar as it is practical to do so, to produce without waste his just or equitable share of oil or gas or both in the pool.

Our real problem is that a farm-out agreement was made; incidentally, I noticed it was dated April 1st, if that has any significance. The farm-out agreement conveyed oil rights and this, incidentally, was dated April 1st, 1966, according to the testimony that was offered here today by Gulf Oil Corporation. They had the same identical situation

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and the same identical half section in 1963. They were aware that oil wells could be completed in the Blinebry Pool and had completed one and had produced one and certainly if they wanted to <sup>except</sup> accept the oil rights in the Blinebry or in the Tubb or in both, by their own agreement, they could have done so. They didn't see fit to do so.

It isn't for the Commission to pass on the merits of this contract. The only problem we have here now is, how is Mr. Hanson going to be permitted to produce his well under our Rules? He is required to dedicate acreage to that well, the only way I can see he can dedicate acreage to the well is to delete the 40 acres from the 160 acre unit, and leave the 120 acres to the Gulf well and 40 acres to Mr. Hanson's oil well, or in the alternative, to assign a unit allowable to the unit to be produced from both wells as provided by Rule 506.

Now, Mr. Kastler says that in his opinion Rule 506 has been superceded by the Blinebry Rules. This will be the case only in the event the two were inconsistent. There's no inconsistency involved here, all the Blinebry Pool Rules do is set the GOR and determine which is a gas well and which is an oil well, but the 506 determines how the two would be produced. If I am not mistaken, this has been done in another well in this same pool.

MR. NUTTER: Any rebuttal?

MR. KASTLER: My only comment is that by rights, Mr. Hanson was indeed given oil rights, but we did not expect, nor did we have reason to expect, that his production of these oil rights would be at the sacrifice or even partial sacrifice of our gas rights without being negotiated with.

MR. NUTTER: Thank you. Does anyone have anything further in this case? We will take the case under advisement and the Hearing is adjourned.

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STATE OF NEW MEXICO )  
 ) ss  
COUNTY OF BERNALILLO )

I, ADA DEARNLEY, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me; that the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

Witness my hand and seal this 18th day of November, 1966.

*Ada Dearnley*  
NOTARY PUBLIC

My Commission Expires  
June 19, 1967.

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. ....  
heard by me on ..... 19.....

....., Examiner  
New Mexico Oil Conservation Commission

NEW MEXICO OIL CONSERVATION COMMISSION  
SANTA FE, NEW MEXICO  
APPLICATION FOR MULTIPLE COMPLETION

Form C-107  
5-1-61

Operator <b>Ernest A. Hanson</b>		County <b>Lea</b>		Date <b>August 12, 1966</b>
Address <b>P. O. Box 1515, Roswell, New Mexico</b>		Lease <b>Max Gutman</b>		Well No. <b>1</b>
Location of Well	Unit <b>M</b>	Section <b>19</b>	Township <b>22-South</b>	Range <b>38-East</b>

1. Has the New Mexico Oil Conservation Commission heretofore authorized the multiple completion of a well in these same pools or in the same zones within one mile of the subject well? YES \_\_\_\_\_ NO ☒ **X**
2. If answer is yes, identify one such instance: Order No. \_\_\_\_\_ ; Operator Lease, and Well No.: \_\_\_\_\_

3. The following facts are submitted:	Upper Zone	Intermediate Zone	Lower Zone
a. Name of Pool and Formation	<b>Blinbry - Blinbry</b>		<b>Granite Wash - Wildcat</b>
b. Top and Bottom of Pay Section (Perforations)	<b>5511 - 5619</b>		<b>7292 - 7306</b>
c. Type of production (Oil or Gas)	<b>Oil</b>		<b>Oil</b>
d. Method of Production (Flowing or Artificial Lift)	<b>Flowing</b>		<b>Flowing</b>

4. The following are attached. (Please check YES or NO)

Yes	No	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	a. Diagrammatic Sketch of the Multiple Completion, showing all casing strings, including diameters and setting depths, centralizers and/or turbolizers and location thereof, quantities used and top of cement, perforated intervals, tubing strings, including diameters and setting depth, location and type of packers and side door chokes, and such other information as may be pertinent.
<input checked="" type="checkbox"/>	<input type="checkbox"/>	b. Plat showing the location of all wells on applicant's lease, all offset wells on offset leases, and the names and addresses of operators of all leases offsetting applicant's lease.
<input type="checkbox"/>	<input checked="" type="checkbox"/>	c. Waivers consenting to such multiple completion from each offset operator, or in lieu thereof, evidence that said offset operators have been furnished copies of the application.*
<input checked="" type="checkbox"/>	<input type="checkbox"/>	d. Electrical log of the well or other acceptable log with tops and bottoms of producing zones and intervals of perforation indicated thereon. (If such log is not available at the time application is filed it shall be submitted as provided by Rule 112-A.)

5. List all offset operators to the lease on which this well is located together with their correct mailing address.

<b>Marathon Oil Co., P. O. Drawer 617, Roswell, New Mexico</b>	<b>BEFORE EXAMINER NUTTER</b> <b>OIL CONSERVATION COMMISSION</b> <b>Appel EXHIBIT NO. <u>A</u></b> <b>CASE NO. <u>3451</u></b>
<b>Gulf Oil Corp., P. O. Box 1938, Roswell, New Mexico</b>	
<b>Texaco, Inc., P. O. Box 2248, Roswell, New Mexico</b>	
<b>American Petrofina Co., P. O. Box 1311, Big Spring, Texas</b>	
<b>Texas Pacific Oil Co., P. O. Box 747, Midland, Texas</b>	
<b>Wolfson Oil Co., 3206 Republic National Bank Tower, Dallas 2, Texas</b>	

6. Were all operators listed in Item 5 above notified and furnished a copy of this application? YES ☒ NO \_\_\_\_\_. If answer is yes, give date of such notification **August 13, 1966**.

CERTIFICATE: I, the undersigned, state that I am the **Exploration Manager** of the **Ernest A. Hanson** (company), and that I am authorized by said company to make this report; and that this report was prepared under my supervision and direction and that the facts stated therein are true, correct and complete to the best of my knowledge.

  
Signature

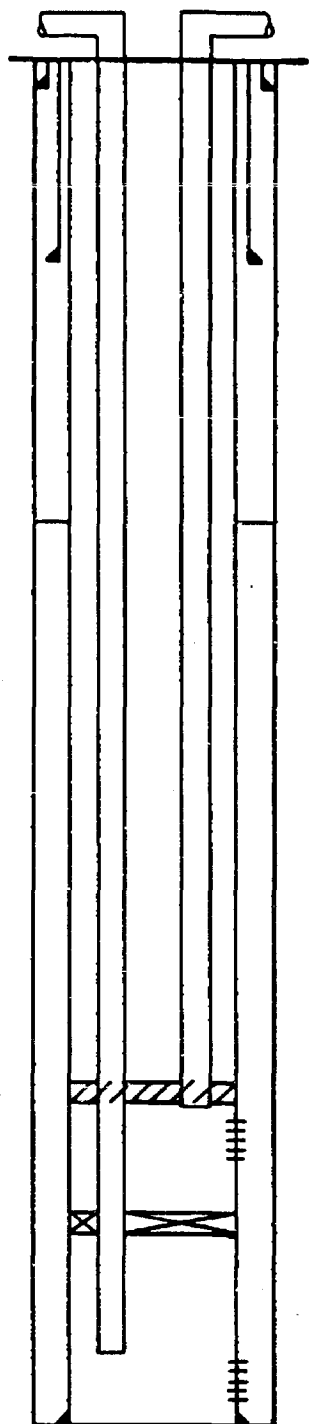
\*Should waivers from all offset operators not accompany an application for administrative approval, the New Mexico Oil Conservation Commission will hold the application for a period of twenty (20) days from date of receipt by the Commission's Santa Fe office. If, after said twenty-day period, no protest nor request for hearing is received by the Santa Fe office, the application will then be processed.

NOTE: If the proposed multiple completion will result in an unorthodox well location and/or a non-standard proration unit in one or more of the producing zones, then separate application for approval of the same should be filed simultaneously with this application.

# DIAGRAMMATIC SKETCH OF THE MULTIPLE COMPLETION

Ernest A. Hanson - #1 Max Gutman

Granite Wash      Blinbry



13-3/8" casing @ 112' w/100 sz. (Cmt. circ. to surf.)

8-5/8" casing @ 1170' w/450 sz. (Cmt. circ. to surf.)

5-1/2" casing @ 7328' w/750 sz. (Top of cmt. @ 2490')

Top of cement @ 2490'

2-1/6" tubing set @ 5476' (Blinbry)

Baker Tubing Anchor set @ 5476'

Blinbry perms. @ 5511-5619'

Baker Lok-Set Casing Packer set @ 5669'

2-1/16" tubing set @ 7255' (Granite Wash)

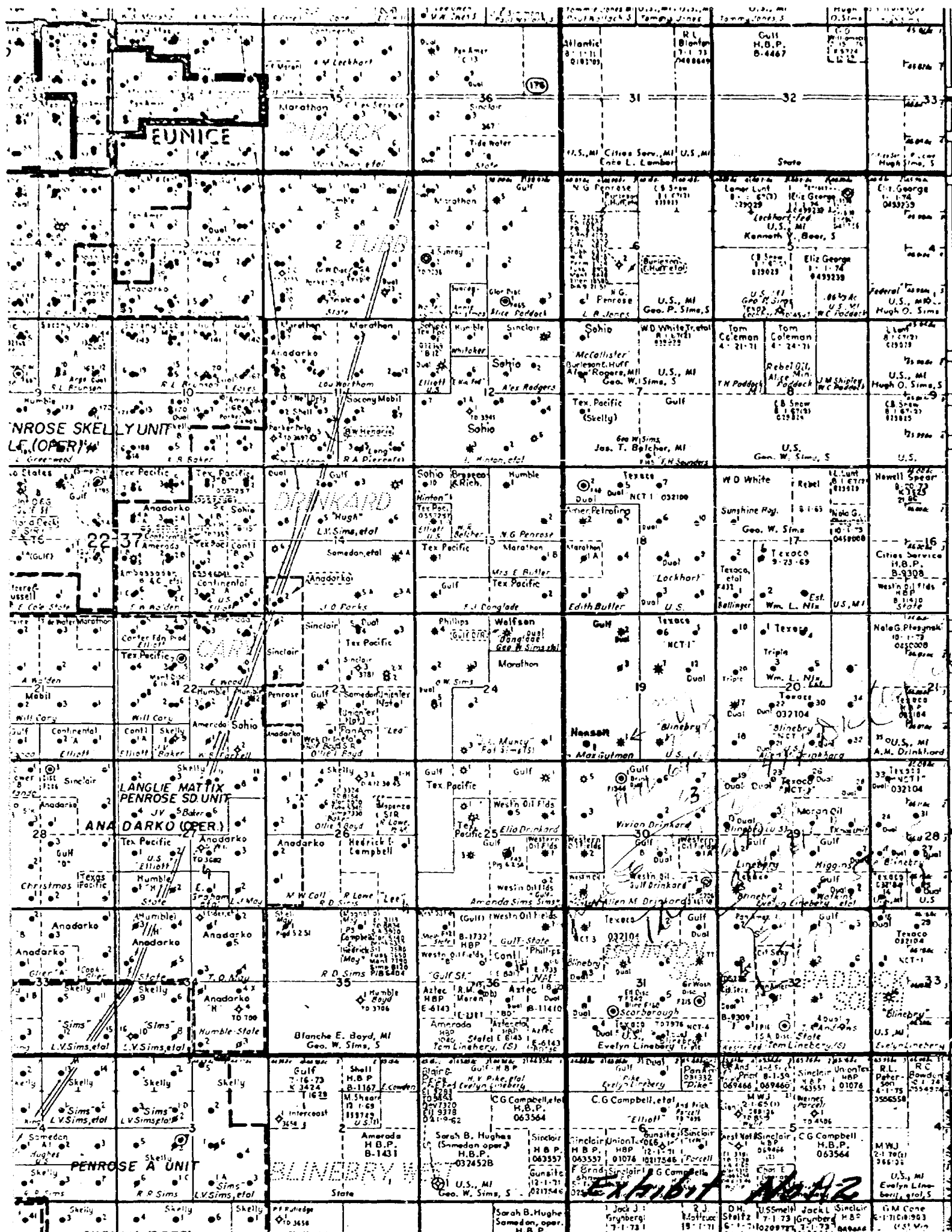
Granite Wash perms. @ 7292-7306'

PBTD @ 7319'

TD @ 7328' Granite Wash

Note: Centralizers were set on 60' spacing @ 7322-6375' & 5633-5466'; and on 80' spacing from 5733-6165 & 5462-5494'.  
Scratchers were set on 10' spacing @ 7322-6595, 6475-6275 & 5679-5404'.

A-1  
EXHIBIT NO. 4





AUG 10 1966

<b>INSTRUCTIONS TO DELIVERING EMPLOYEE</b>		
<input type="checkbox"/> Show to whom and when delivered	<input type="checkbox"/> Show to whom, when, and address where delivered	<input type="checkbox"/> Deliver ONLY to addressee
(Additional charges required for these services)		

**RECEIPT**

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INSURED NO.	SIGNATURE OF ADDRESSEE'S AGENT, IF ANY <i>W. H. P. Co.</i>
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9961  
Wd  
AUG 10 1966

655-16-71548-7 GPO

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AUG 16 1966

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AUG 15 1966	

655-16-71548-7 GPO

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INSURED NO.	SIGNATURE OF ADDRESSEE'S AGENT, IF ANY <i>W. H. P. Co.</i>
DATE DELIVERED	SHOW WHERE DELIVERED (only if requested)
8/15/66	

655-16-71548-7 GPO

Exhibit No. A-3

## NEW MEXICO OIL CONSERVATION COMMISSION

FORM C-124  
(Rev. 9-53)COMPANY ERNEST A. HANSON

BOTTOM HOLE PRESSURES

BLINEBRY OIL

POOL

POOL DATUM (-3947)NOMINAL SHUT-IN TIME 4 DAYSHRS: AVERAGE POOL TEMPERATURE 98

F°

LEASE	WELL			DATE	TIME	K.B.	GAUGE	GRADIENT	B.H.P. @		PREVIOUS TEST	
	NO.	UNIT	S-T-R	PRESS. RUN	S.I. HRS./MINS.	D.FY ELEV.			B.H.P. @ GAUGE DEPTH	B.H.P. @ POOL DATUM	@ DATUM PRESS.	DATE
MAX GUTMAN	1	M	19-22-38	8-1-66	4 DAYS	3352'	5465'	.297	2142	2172	-	-

BEFORE EXAMINER NUTTER  
OIL CONSERVATION COMMISSION  
EXHIBIT NO. 13  
CASE NO. 3451

SIGNED

Joe W. Hanna

## NEW MEXICO OIL CONSERVATION COMMISSION

FORM C-124  
(Rev. 9-53)COMPANY ERNEST A. HANSON BOTTOM HOLE PRESSURES UNDESIGNATED GRANITE WASH POOL  
POOL DATUM (-2213) NOMINAL SHUT-IN TIME 4 DAYS HRS: AVERAGE POOL TEMPERATURE 115 °F

LEASE	WELL			DATE PRESS. RUN	TIME S.I. HRS./MINS.	K.B. D&K. ELEV.	GAUGE DEPTH	GRADIENT TBG.	B.H.P. @ GAUGE DEPTH	B.H.P. @ POOL DATUM	PREVIOUS TEST	
	NO.	UNIT	S-T-R								@ DATUM PRESS.	DATE
MAX GUTMAN	1	M	19-22-38	8-1-66	4 DAYS	3352'	7240'	.321	2765	2784	-	-

BEFORE EXAMINER NUTTER

OIL CONSERVATION COMMISSION

EXHIBIT NO. 3451CASE NO. 3451

SIGNED

*John A. Clement*

NEW MEXICO OIL CONSERVATION COMMISSION  
GAS-OIL RATIO TESTS

C-116  
Revised 1-1-65

Operator ERNEST A. HANSON		Pool BLINEBRY OIL				County LEA										
Address P.O. Box 1515-PETRO. BLDG, ROSWELL, NEW MEXICO						TYPE OF TEST -- (X)		Scheduled <input type="checkbox"/>		Completion <input checked="" type="checkbox"/>		Special <input type="checkbox"/>				
LEASE NAME	WELL NO.	LOCATION				DATE OF TEST	STATUS	CHOKE SIZE	TBG. PRESS.	DAILY ALLOW-ABLE	LENGTH OF TEST HOURS	PROD. DURING TEST				GAS - OIL RATIO CU.FT./BBL
		U	S	T	R							WATER BBLs.	GRAV. OIL	OIL BBLs.	GAS M.C.F.	
MAX GUTMAN	1	M	19	22	38	8-5-66	F	10/64	610	60.0	24	2.0	38.7	59.0	193.0	3271

BEFORE EXAMINER NUTTER  
OIL CONSERVATION COMMISSION  
*Accepted* EXHIBIT NO. P  
CASE NO. 3431

No well will be assigned an allowable greater than the amount of oil produced on the official test.

During gas-oil ratio test, each well shall be produced at a rate not exceeding the top unit allowable for the pool in which well is located by more than 25 percent. Operator is encouraged to take advantage of this 25 percent tolerance in order that well can be assigned increased allowables when authorized by the Commission.

Gas volumes must be reported in MCF measured at a pressure base of 15,025 psia and a temperature of 60° F. Specific gravity base will be 0.60.

Report casing pressure in lieu of tubing pressure for any well producing through casing.

Mail original and one copy of this report to the district office of the New Mexico Oil Conservation Commission in accordance with Rule 301 and appropriate pool rules.

I hereby certify that the above information is true and complete to the best of my knowledge and belief.

COLEMAN PETROLEUM ENG. CO.

*Joe A. Coleman*  
(Signature)

AGENT

(Title)

8-8-66

(Date)

**NEW MEXICO OIL CONSERVATION COMMISSION  
GAS-OIL RATIO TESTS**

C-116  
Revised 1-1-65

Operator <b>ERNEST A. HANSON</b>		Pool <b>UNDESIGNATED GRANITE WASH OIL</b>				County <b>LEA</b>										
Address <b>P.O.Box 1515-PETRO.BLDG., ROSWELL, NEW MEXICO</b>						TYPE OF TEST - (X) <input checked="" type="checkbox"/> Scheduled <input type="checkbox"/> Completion <input checked="" type="checkbox"/> Special <input type="checkbox"/>										
LEASE NAME	WELL NO.	LOCATION				DATE OF TEST	STATUS	CHOKE SIZE	TBG. PRESS.	DAILY ALLOW-ABLE	LENGTH OF TEST HOURS	PROD. DURING TEST				GAS - OIL RATIO CU.FT/BBL
		U	S	T	R							WATER BBLs.	GRAV. OIL	OIL BBLs.	GAS M.C.F.	
MAX GUTMAN	1	M	19	22	38	8-5-66	F	3/64	290	-	24	TR	40.1	40.0	56.2	1405
<div style="border: 1px solid black; padding: 5px; display: inline-block;"> <b>BEFORE EXAMINER NUTTER</b>  OIL CONSERVATION COMMISSION  <i>Chapman</i> EXHIBIT NO. <u>    F    </u>  CASE NO. <u>    3451    </u> </div>																

No well will be assigned an allowable greater than the amount of oil produced on the official test.

During gas-oil ratio test, each well shall be produced at a rate not exceeding the top unit allowable for the pool in which well is located by more than 25 percent. Operator is encouraged to take advantage of this 25 percent tolerance in order that well can be assigned increased allowables when authorized by the Commission.

Gas volumes must be reported in MCF measured at a pressure base of 15.025 psia and a temperature of 60° F. Specific gravity base will be 0.60.

Report casing pressure in lieu of tubing pressure for any well producing through casing.

Mail original and one copy of this report to the district office of the New Mexico Oil Conservation Commission in accordance with Rule 301 and appropriate pool rules.

I hereby certify that the above information is true and complete to the best of my knowledge and belief.

COLEMAN PETROLEUM ENG. CO.

AGENT

*John A. Coleman*  
(Signature)

8-8-66

(Title)

(Date)

NEW MEXICO OIL CONSERVATION COMMISSION

SOUTHEAST NEW MEXICO PACKER LEAKAGE TEST

Operator ERNEST A. HANSON			Lease MAX GUTMAN			Well No. 1	
Location of Well	Unit II	Sec 19	Twp 22 S	Rge 38 E	County LEA		
Name of Reservoir or Pool		Type of Prod (Oil or Gas)	Method of Prod Flow, Art Lift	Prod. Medium (Tbg or Csg)	Choke Size		
Upper Compl	BLINEBRY OIL		OIL	FLOW	Tbg	14/64"	
Lower Compl	UND. GRANITE WASH		OIL	FLOW	Tbg	5/64"	

FLOW TEST NO. 1

Both zones shut-in at (hour, date): 8:00 AM (7-28-66)

Well opened at (hour, date): 11:30 AM (8-1-66)

	Upper Completion (RECORDER)	Lower Completion
Indicate by ( X ) the zone producing.....	X	
Pressure at beginning of test.....	1625	745
Stabilized? (Yes or No).....	YES	YES
Maximum pressure during test.....	1625	800
Minimum pressure during test.....	325	745
Pressure at conclusion of test.....	325	800
Pressure change during test (Maximum minus Minimum).....	1300	55
Was pressure change an increase or a decrease?.....	DECREASE	INCREASE
Well closed at (hour, date): 11:30 AM (8-2-66)	Total Time On Production 24.0 HRS	
Oil Production	Gas Production	
During Test: 46.5 bbls; Grav. 38.7	During Test: 155.5 MCF; GOR 3344	

Remarks \_\_\_\_\_

FLOW TEST NO. 2

Well opened at (hour, date): 11:30 AM (8-3-66)

	Upper Completion	Lower Completion
Indicate by ( X ) the zone producing.....		X
Pressure at beginning of test.....	1550	785
Stabilized? (Yes or No).....	No	YES
Maximum pressure during test.....	1700	785
Minimum pressure during test.....	1550	250
Pressure at conclusion of test.....	1700	390
Pressure change during test (Maximum minus Minimum).....	150	535
Was pressure change an increase or a decrease?.....	INCREASE	DECREASE
Well closed at (hour, date): 11:30 AM (8-4-66)	Total time on Production 24.0 HRS	
Oil Production	Gas Production	
During Test: 66.0 bbls; Grav. 40.1	During Test: 44.9 MCF; GOR 680	

Remarks \_\_\_\_\_

I hereby certify that the information herein contained is true and complete to the best of my knowledge.

Approved \_\_\_\_\_ 19\_\_\_\_\_  
New Mexico Oil Conservation Commission

By \_\_\_\_\_  
Title \_\_\_\_\_

Operator ERNEST A. HANSON

By COLEMAN PETROLEUM ENGINEERING CO.

Title AGENT

Date 8-7-66

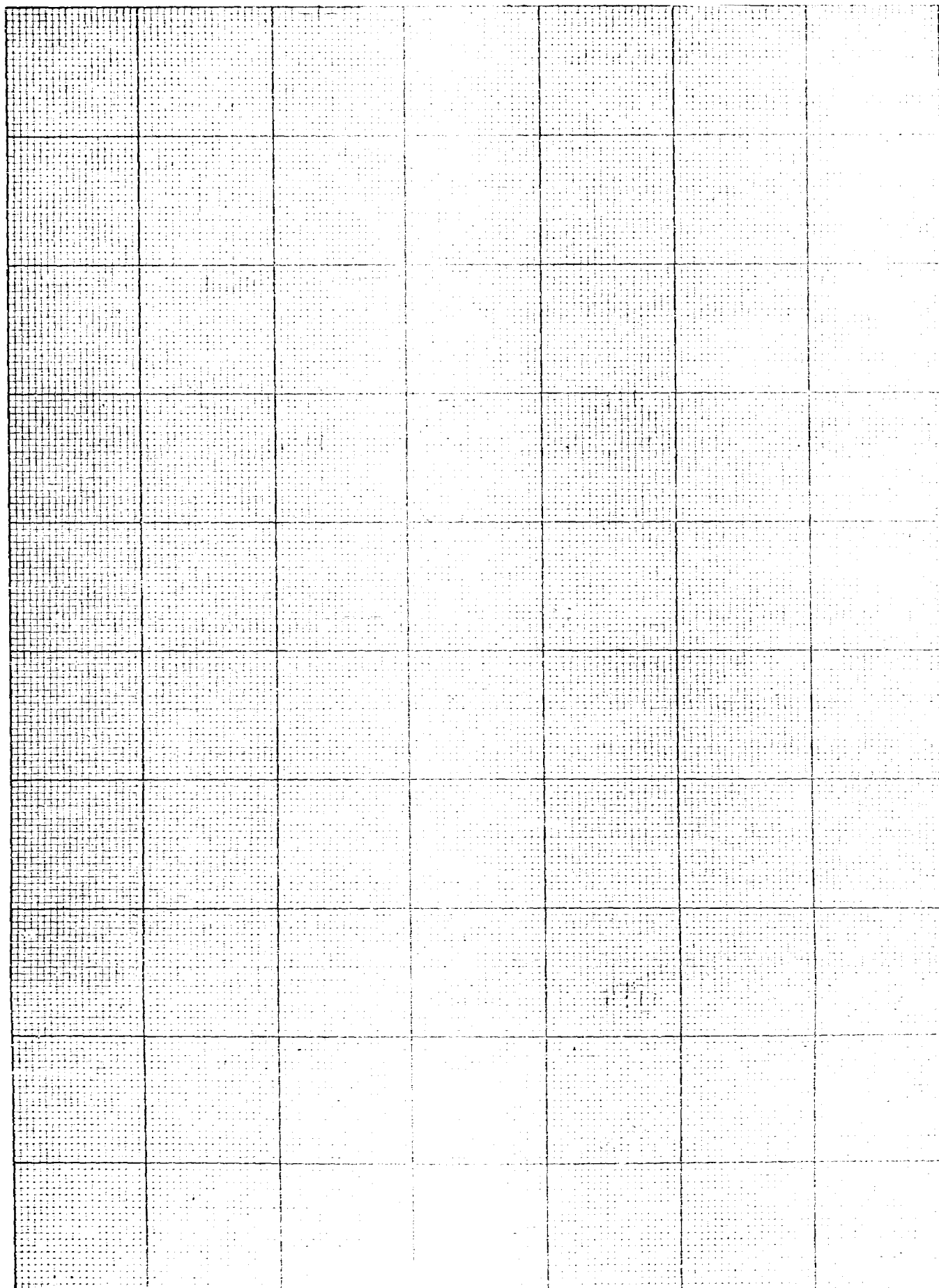
Journal of the American Society of Plant Biologists  
Volume 10, Number 1, 1994

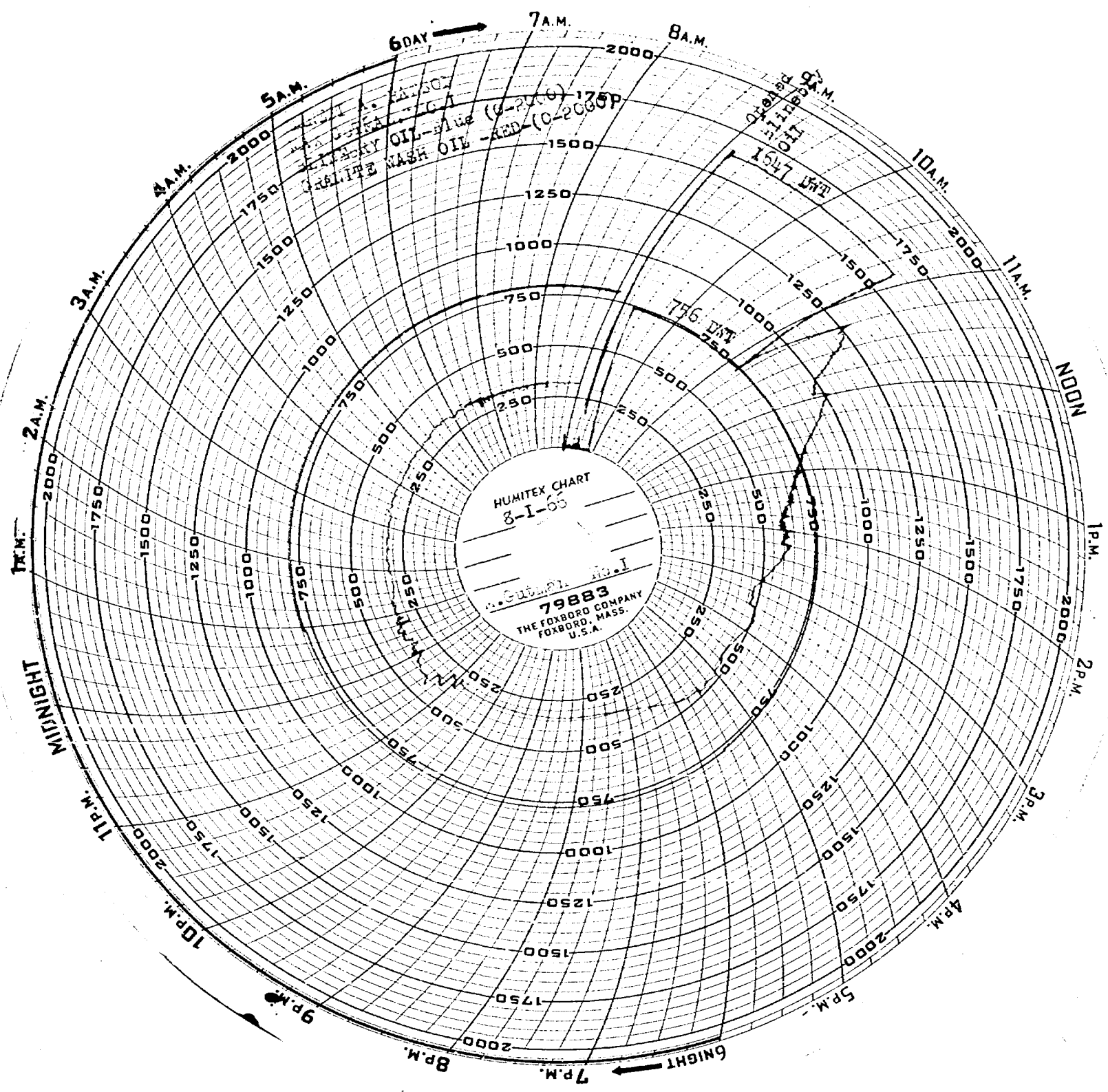
1. A packer leakage test shall be commenced on each multiple completion well within seven days after initial completion of the well. The test shall thereafter as prescribed by the order authorizing the multiple completion. Such tests shall also be commenced on all multiple completion wells within 72 days following recompletion and on electrical fracture treatments. If any casing or remedial work has been done on a well during which the packer or tubing have been disturbed, tests shall also be taken at any time such communication is suspected or when requested by the Commission.
2. At least 72 hours prior to the commencement of any packer leakage test the operator shall notify the Commission in writing of the exact time the test is to be commenced. Offset operators shall also be so notified.
3. The packer leakage test shall commence when both zones of the dual completion are shut-in for pressure stabilization. Both zones shall remain shut-in until the well-head pressure in each has stabilized and for a minimum of two hours thereafter, provided however, that they need not remain shut-in more than 24 hours.
4. For Flow Test No. 1, one zone of the dual completion shall be produced at the normal rate of production while the other zone remains shut-in. The test shall be continued until the flowing well-head pressure has been stabilized and for a minimum of two hours thereafter, provided however, that the flow test need not continue for more than 24 hours.

1. That Test No. 1 shall be used to determine the presence or absence of  
2. the alkali test No. 1. No claim for a patent shall be made for the use of  
3. the alkali test No. 1 except that the present invention is a method of  
4. determining the presence or absence of alkali in a sample of material  
5. while the previously known method is a method of determining the  
6. presence or absence of alkali in a sample of material.

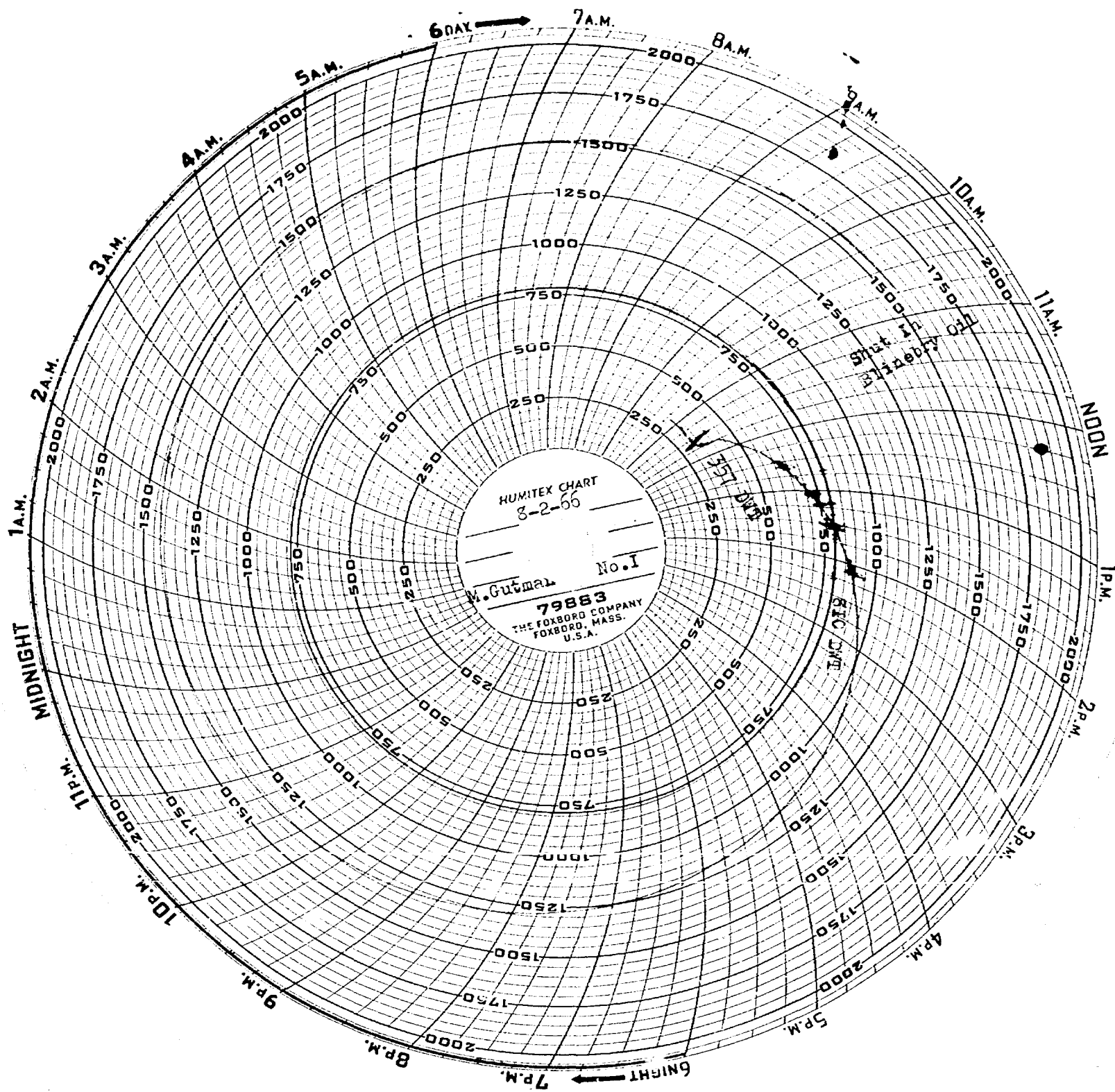
At low pressures, the about 100 entries were obtained by measuring and recorded with recording pen on a chart. At high pressures, the liquid was collected with a weighing bottle for 10 min. and then a weighing balance at the end of each 10 min.

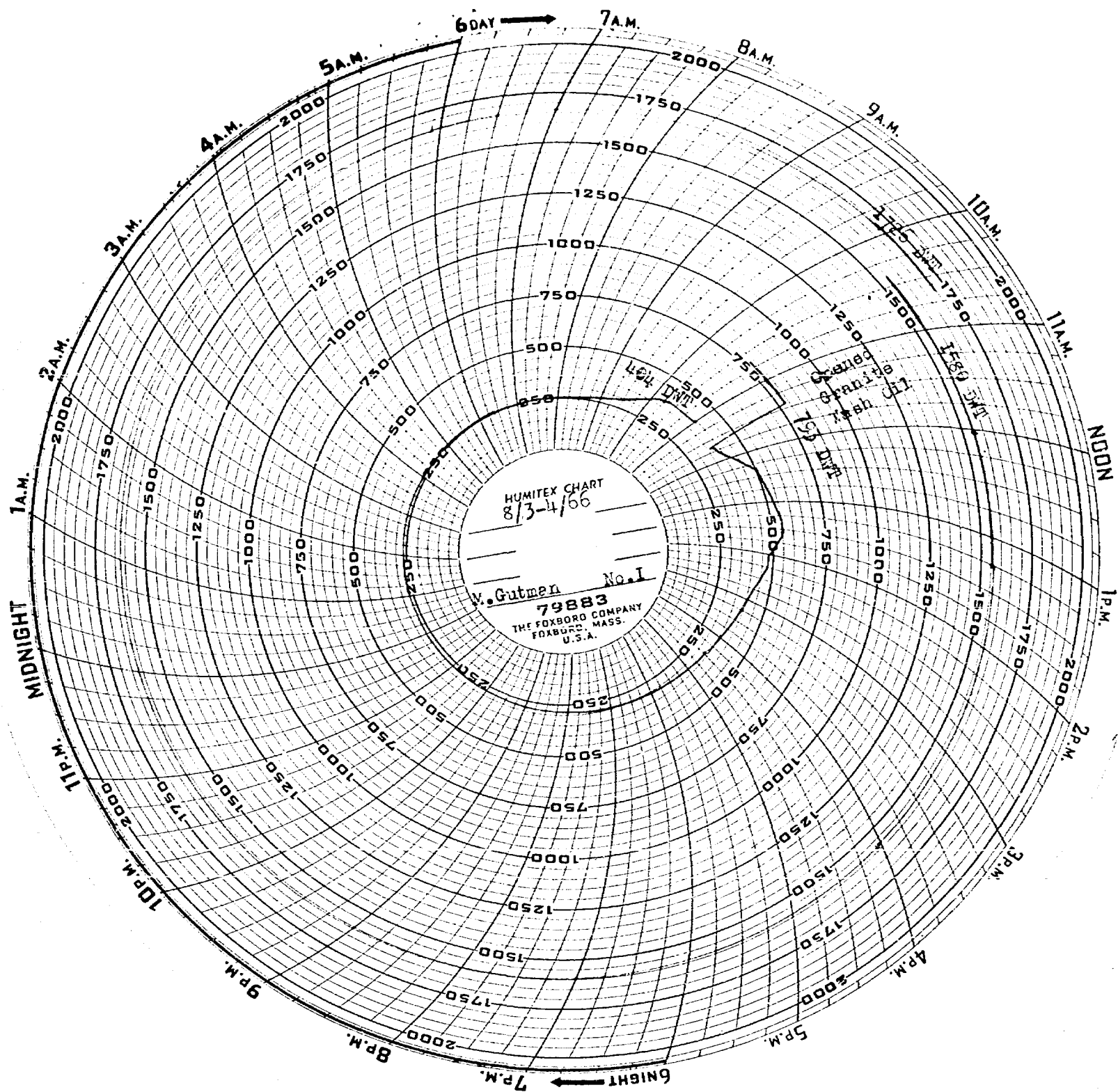
58. The results of the above-described tests shall be filed and indicate within 15 days after completion of the test, in duplicate, to the appropriate District Office of the SRA & Environmental Protection Agency on Southeast New Mexico. Each test report must be filed with the original pressure recording gauge charts and the duplicate pressure readings which were taken from the charts of taking the above-said charts, the operator must also file a copy of the same for each zone of each test, indicating therein all pressure readings which may be reflected by the gauge charts as well as all duplicate pressure readings which were taken. If the pressure gauge is not attached to the original chart, it must be permanently attached to the test report. Form 0-136 shall also accompany the duplicate test report. Form 0-136 shall also accompany the duplicate test report when the test period coincides with a gas-oil ratio test period.











ASSIGNMENT OF OIL AND GAS RIGHTS

THE STATE OF NEW MEXICO

COUNTY OF LEA

This assignment and agreement made and entered into by and between GULF OIL CORPORATION, P. O. Box 1938, Roswell, New Mexico, 88201, hereinafter referred to as "Assignor" or as "Gulf", and ERNEST A. HANSON, P. O. Box 1515, Roswell, New Mexico, 88201, hereinafter referred to as "Assignee", upon the following terms and conditions:

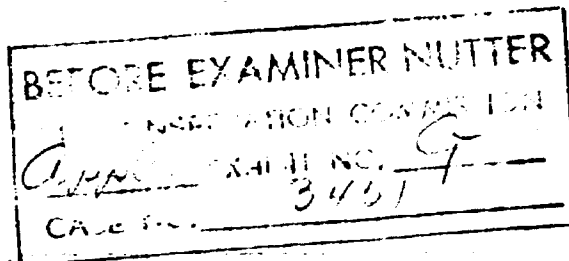
W I T N E S S E T H :

Leasehold Estate Assigned. Gulf Oil Corporation, the owner of the following oil and gas leases:

- (1) Oil and Gas Lease dated May 6, 1944, from C. R. Gilmore, et ux, as Lessor, to Gulf Oil Corporation, as Lessee, covering the W/2 of Section 19, Township 22 South, Range 38 East, Lea County, New Mexico, Gulf's Gutman Lease No. 52973-00, recorded in Book 53, Page 39 of the Records of Lea County, New Mexico;
- (2) Oil and Gas Lease dated June 14, 1944, from C. H. Kyte, et ux, as Lessor, to Gulf Oil Corporation, as Lessee, covering the W/2 of Section 19, Township 22 South, Range 38 East, Lea County, New Mexico, Gulf's Gutman Lease No. 52973-01, recorded in Book 53, Page 40 of the Records of Lea County, New Mexico;
- (3) Oil and Gas Lease dated May 17, 1944, from Louis Gutman, et al, as Lessor, to Gulf Oil Corporation, as Lessee, covering the W/2 of Section 19, Township 22 South, Range 38 East, Lea County, New Mexico, Gulf's Gutman Lease No. 52973-02, recorded in Book 52, Page 112 of the Records of Lea County, New Mexico;

does by these presents assign and transfer unto ERNEST A. HANSON all of its leasehold estate rights except as hereinafter provided in and to all of the oil and gas in and underlying the following described land to the depths hereinafter specified, the same to constitute "the premises covered by this assignment":

The W/2 of Section 19, Township 22 South, Range 38 East, N.M.P.M., Lea County, New Mexico, insofar and only insofar as said rights include oil and gas rights (except Blinbry-Tubb Gas Rights) from the surface to a depth 100 feet below the total depth drilled in the initial test well hereafter provided and such deeper



rights as may be earned by Assignee in the event he exercises the option within one year to drill to granite, all as more fully provided herein.

The rights herein assigned are subject to and Assignor reserves unto itself, its successors and assigns in addition to the overriding royalties hereinafter provided, the right to use as much of the surface of the leasehold estate herein assigned as it deems necessary to explore for, develop, produce, save, process and market oil and gas from any portion of the leasehold estate covered by the above described leases owned by Assignor and not herein assigned.

This assignment is expressly made subject to the following conditions and covenants, to-wit:

1.

Compliance with Lease Obligations. Assignee agrees to perform all obligations, express or implied, of Assignor under the above-described leases, insofar as such obligations are applicable to the rights herein assigned, as well as all of the obligations hereof.

2.

Initial Test Well and Effect of Failure to Drill. On or before May 1, 1966, Assignee shall commence the actual drilling of a test well at a lawful location of his choice in the SW/4 SW/4 of Section 19, Township 22 South, Range 38 East, and thereafter shall drill said well with due diligence and in a good and workmanlike manner to a depth of 7,300 feet beneath the surface, or to a depth sufficient, in the opinion of Gulf, to adequately test the Wichita-Albany formation, whichever first occurs.

Should Assignee fail to comply with the obligation to drill the above mentioned test well within the time, in the manner and to the depth specified, all of his rights under the terms and provisions of this assignment shall ipso facto terminate and said leasehold estate and rights herein assigned shall revert to and revest in Assignor, and Assignee expressly agrees that upon demand he will execute and deliver to Assignor a recordable instrument to evidence such termination of rights hereunder.

3.

Continucus Drilling Obligation and Effect of Failure to Comply. On or before one hundred-twenty (120) days from the date of reaching total

depth in the initial test well, Assignee shall commence the actual drilling of a second well at a lawful location on the premises covered by this assignment. Thereafter Assignee shall continue to drill said well in the same manner and to the same objective depth as the initial test well was drilled.

Assignee further agrees to protect the premises covered by this assignment against drainage, meeting all offset obligations and otherwise operating the premises covered by this assignment as a reasonable prudent operator would under the same or similar circumstances.

Failure of Assignee to commence and drill any wells as specified above shall ipso facto result in a termination of all of Assignee's rights covered by this assignment except to the producing horizon or horizons and the spacing unit or units upon which Assignee has completed a producing well and has furnished Gulf a recordable instrument as hereinafter provided.

4.

Option To Earn Deeper Rights. By drilling the initial test well and thereafter fulfilling the continuous drilling obligation as hereinabove provided, Assignee shall be deemed to have earned oil and gas rights (excluding the Blinebry-Tubb Gas Rights) not to exceed 7,300 feet beneath the surface. It is further provided that Assignee may by drilling or deepening any well to granite, completing such drilling of deepening operations within one (1) year from the date hereof, be deemed to have earned oil and gas rights under the entire W/2 of Section 19, above described, from the surface to all depths beneath the surface, save and except the Blinebry-Tubb Gas Rights.

5.

Furnishing Description of Spacing Units and Reversion of Dry Hole Unit. Upon completion of any well as a producer of oil or gas in commercial quantities, Assignee shall furnish to Assignor at its Roswell, New Mexico, office a recordable instrument containing a sufficient legal description of the spacing unit upon which the well was drilled, as authorized by the New Mexico Oil Conservation Commission, said spacing unit not to contain more than forty (40) acres in the absence of field rules. Notwithstanding anything to the contrary herein, the spacing unit or acreage, as set forth herein, surrounding a well plugged and abandoned

by Assignee as a dry hole, and all rights thereunder shall ipso facto revert to and revest in Assignor upon such plugging and abandoning. In such event and upon Assignor's request, Assignee will furnish to Assignor at its Roswell, New Mexico office a recordable assignment containing a sufficient legal description of the said spacing unit or acreage surrounding a well plugged and abandoned as a dry hole, and assigning all of Assignee's right, title and interest in the leasehold estate acquired by Assignee under this agreement in and to said spacing unit or acreage described.

6.

Payment of Costs and General Indemnity by Assignee. All costs, expenses and liabilities incident to the drilling, equipping, completing, operating and plugging and abandoning of all wells shall be borne by the Assignee; and neither Assignor nor any leasehold interest owned or retained by it shall be liable for any part of the cost, expenses or liabilities of drilling, completing, equipping, operating and plugging and abandoning of such wells, or for producing oil or gas therefrom, or for any injury to any person or for any other damages resulting from such operations. Further, Assignee shall protect, indemnify and hold Assignor harmless from any and all claims, demands and causes of action of every kind and character arising out of, incident to, or resulting directly or indirectly from the operations herein described, as well as from any other operations or activities conducted by Assignee hereunder. It is understood, however, that Assignee shall not be liable to Assignor in damages for failure to drill any well above provided for, such failure resulting only in termination of all of Assignee's rights under this assignment to the extent above provided.

7.

Overriding Royalties Herein Reserved. Assignor expressly reserves unto itself the following overriding royalties:

- (a)  $\frac{3}{32}$ nds of  $\frac{8}{8}$ ths of all the oil produced and saved from the premises herein assigned, the oil to be delivered to Gulf's credit in the pipeline to which the well or wells may be connected, free of cost to Gulf, except for school, ad valorem, severance or other tax that may be attributed to Gulf's interest; and

- (b)  $\frac{3}{32}$ nds of  $\frac{8}{8}$ ths of the value of all gas, casinghead gas, distillate and condensate produced and saved from the premises herein assigned, free of all cost and expense to Gulf, except for school, ad valorem, severance or other tax that may be attributed to Gulf's interest. The value of such gas, casinghead gas, distillate and condensate so sold shall be deemed to be the total proceeds received by Assignee from such sale, and, if used off the premises, the value shall be based upon the existing market price at the time in the area for gas sold for the same purpose.

8.

Existing Royalties and Other Burdens. The overriding royalties on oil and gas to be delivered or paid to Assignor, as above provided, shall be in addition to the royalties due the lessor as provided for in the original lease covering the leasehold estate herein assigned, and shall be in addition to all other interests, burdens and charges, including but not limited to excess royalties, overriding royalties and production payments, to which the leasehold estate herein assigned may be subject; the Assignee expressly assumes the payment of the said royalties in accordance with the terms of such lease and the payment of the said interests, burdens and charges, including but not limited to excess royalties, overriding royalties and production payments, in accordance with the terms of the instruments creating them insofar as the same are applicable to the leasehold estate and the rights therein which are assigned herein. The payment accruing hereunder to Assignor shall be paid to it at P. O. Drawer 2100, Houston, Texas, 77001.

9.

Reports and Information. Immediately after location has been staked off for the drilling of the above mentioned test well, Assignee agrees to furnish to Gulf at its Roswell, New Mexico, office a report giving the number of feet from an established corner where said well is to be drilled; and thereafter, not later than Friday of each week, subsequent to the making of such location until said well is completed to mail to Gulf at its Roswell, New Mexico, office a report giving the progress of the well. Likewise, similar information and reports shall be given with respect to all other wells drilled by Assignee under the provisions of this agreement. In the event any well drilled upon the premises covered hereby results in the production of oil or gas, Assignee agrees to mail to Gulf at its Roswell, New Mexico, office a monthly

production report thereof not later than the tenth day of each month. Assignee further agrees to furnish Gulf at its Roswell, New Mexico office with copies of its monthly production reports to regulatory bodies.

10.

Right of Access and Information. Assignee agrees that representatives of Gulf shall at all times have access to the premises and to the derrick floor of the wells drilled by it under the provisions of this assignment for the purpose of observing the progress of drilling operations and of obtaining information concerning such wells, and that such representatives shall be furnished with full information pertaining to the wells or formations encountered therein.

11.

Drilling Samples and Cores. Assignee shall save samples at intervals of ten (10) feet during the drilling of the above mentioned test well and any other wells drilled by it on the assigned premises, and deliver same to Gulf at Roswell, New Mexico, unless Gulf elects to accept said samples at the well. Assignee further agrees to furnish Gulf samples of all cores taken during the drilling of all wells drilled by it under the provisions hereof.

12.

Logs and Tests and Failure to Perform. Assignee agrees to make, at its expense, an appropriate electrical survey and gamma ray-neutron or gamma ray acoustic logs of each well drilled by it hereunder after reaching the objective depth, and to make microlog surveys of the potential pay zones; and, as soon as practicable thereafter, to deliver a copy of said logs and micrologs to Gulf's District Production Geologist in person at Roswell, New Mexico, or to his authorized representative in person, not in any event less than twenty-four (24) hours prior to plugging the well. If, in the opinion of Gulf, it appears from the data obtained from such survey, when considered alone or in conjunction with other indications from cuttings or cores, that any formation within the lease premises herein assigned encountered during the drilling of said well is a prospective oil or gas horizon, Assignee agrees to properly test such horizon to the satisfaction of Gulf if it was not adequately tested at the time it was penetrated. Assignee shall notify Gulf prior to any test to be made in order that Gulf may have a representative present to witness such test should it desire to do so.



In the event Assignee fails or refuses to perform such reasonable tests as Gulf shall require, it is stipulated and agreed that the leasehold rights assigned hereunder in the spacing unit being drilled and in all other non-producing spacing units left in the premises covered hereby shall ipso facto revert to and re-vest in Gulf, and Gulf shall be entitled to take over said well from Assignee upon the payment of the net salvage value of any casing left in the hole, and Assignee shall thereafter be relieved from the duty of plugging said well. In the event said well shall thereafter be completed as a producer of oil or gas at any depth, Gulf shall be entitled to receive all of the proceeds of production obtained thereby, notwithstanding anything to the contrary herein appearing.

13.

Right of Gulf to Conduct Geophysical Surveys and Liability Therefor. Irrespective of whether any well drilled hereunder is completed as a producer or as a dry hole, Gulf shall have and is hereby granted the right to lower geophones and other instruments in such well or wells drilled by Assignee for the purpose of conducting any geophysical survey it may desire. It is specifically understood, however, in the event Gulf exercises the right herein granted, that all actual expense and risk in connection therewith shall be borne by Gulf and Gulf agrees to indemnify and hold Assignee harmless from any and all damages to property, injuries to, or death of, any person or persons occasioned by or arising from such operations in this paragraph mentioned.

14.

Notice Before Final Measurement of Dry Hole. In the event any well is completed as a dry hole, Assignee agrees that he will notify Gulf's Roswell, New Mexico, office at least twenty-four (24) hours prior to the final measurement of the well so that Gulf may have a representative present to witness such measurement if it so desires; and Assignee agrees that he will, as soon as practicable, furnish to Gulf at its Roswell, New Mexico office a certified copy of the log of each well drilled by it on the assigned premises, irrespective of whether such well is completed as a dry hole or as a producer.

Call on Oil and Gas.

(a) Option to Purchase Oil. Assignee grants to Gulf an option, which Gulf may exercise from time to time and as often as Gulf desires, to purchase Assignee's share of the oil (including casinghead gas, distillate, condensate and natural gasoline) whether produced from the assigned leasehold estate or allocated thereto. Gulf shall exercise such option by giving thirty days' written notice thereof and shall be required to continue the purchase of oil for a six months' period upon each exercise of its option, but shall have the right to terminate such purchase of oil at the expiration of such six months' period or at any subsequent time by giving thirty days' written notice of its election to do so.

(b) Option to Designate Purchaser of Oil. Should Gulf fail to exercise its option to purchase Assignee's share of the oil produced as hereinabove provided, Assignee grants to Gulf an option, which Gulf may exercise from time to time and as often as Gulf desires, to designate the person, firm or corporation to which Assignee's share of such oil shall be sold.

(c) Price of Oil. The price to be paid to Assignee for its share of the oil purchased by Gulf shall be the price in the field for oil of like grade and quality on the day such oil is run, as posted by Gulf, or in the event of sale of such oil to a purchaser designated by Gulf, the price therefor shall be the same price received by Gulf.

(d) Obligations of Assignee. During the time Gulf does not purchase or designate the purchaser of Assignee's interest in the oil as herein provided, Assignee shall sell and dispose of all oil produced from the assigned leasehold estate, including Gulf's override, in such manner and on such terms and conditions as it may elect, subject to the terms and provisions of this agreement.

(e) Option to Purchase Gas or Designate Purchaser. Within thirty days after completion of a well on the assigned leasehold estate capable of producing gas in paying quantities, Assignee shall give Gulf written notice whether or not it has a purchaser for such gas.

If Assignee has a purchaser for the gas, Gulf shall have the right within thirty days after receipt of such notice of the intended sale,

at its option, to purchase such gas, for use in either intrastate or interstate commerce, upon equivalent or better terms than those under which Assignee proposes to make such sale, or Gulf may designate the purchaser of such gas upon the same conditions. Gulf shall exercise its option by giving written notice thereof to Assignee within the time specified.

If Gulf fails to exercise its option within the time required or notifies Assignee that it does not desire to do so, Assignee shall have the right and obligation to proceed with the sale of the gas as proposed in the original notice.

If Assignee notifies Gulf within thirty days after the completion of a gas well, as set forth above, that he does not have a purchaser for the gas, Gulf shall have the option, within thirty days after the receipt of such notice, to purchase such gas for use in either intrastate or interstate commerce, or to designate a purchaser thereof at a price equivalent to the prevailing price for gas in the area, taking into consideration such factors as reserves, daily average quantity required, deliverability, pressure, the terms of the contract, and other pertinent factors, or, if there is no such prevailing price in the vicinity, Gulf shall have the right to purchase or to designate a purchaser for such gas upon such terms and conditions as are fair and reasonable under the circumstances.

If neither party obtains a purchaser within the time specified above, but if Assignee subsequently obtains a purchaser, then before the Assignee contracts for the sale of such gas, it agrees to give Gulf written notice of the intended sale and Gulf shall have the right within thirty days after the receipt of such notice of the intended sale, at its option, to purchase such gas, for use in either intrastate or interstate commerce, upon equivalent or better terms than those under which Assignee proposes to make such sale, or Gulf may designate the purchaser of such gas upon the same conditions. Gulf shall exercise its option by giving written notice thereof to Assignee within the time specified.

If Gulf exercises its option to purchase or to designate a purchaser for gas produced from the assigned leasehold estate within the time and in the manner specified above, Assignee agrees that, upon

request, he will execute an appropriate gas sales contract, and, if the sale is in interstate commerce, Assignee further agrees to take all necessary action required before the Federal Power Commission and any other regulatory body having jurisdiction.

16.

Notice Prior to Abandonment and Right of Assignment. After production has been procured, should Assignee conclude to abandon any well which has been completed as a producer on the premises herein assigned or any part thereof, it agrees to notify Assignor at Roswell, New Mexico, in writing, of its intention to abandon at least sixty (60) days before production of oil or gas is ceased; and in the event such abandonment is made, Assignee agrees at the election of Assignor, to assign said well, together with the leasehold rights in and under the spacing unit upon which said well is located, to Assignor; Assignor, however, to pay Assignee the reasonable net salvage value of any equipment in or on such well.

17.

Compliance with Laws. All lease operations conducted by Assignee hereunder shall be subject to all laws, rules, and regulations, both federal and state, applicable thereto.

18.

Taxes. All taxes covering leasehold equipment and any other personal property owned by Assignee and used in connection with or in developing the premises covered by this assignment shall be rendered and paid by Assignee. In addition, Assignee shall bear all school, ad valorem, severance and other such taxes imposed upon or attributable to Assignee's interest in oil or gas produced hereunder.

19.

Delay Rentals and Shut-In Gas Royalties. Assignor shall pay, or cause to be paid, all delay rentals and shut-in gas royalties which may become due or which are necessary to keep in effect the lease covering the acreage hereby assigned, but Assignee agrees to reimburse Assignor for such delay rentals as are applicable to the acreage hereby assigned or for such shut-in gas royalty payments made, upon proof of payment thereof. Assignee agrees to advise the Assignor of the date upon which any gas well drilled upon the acreage hereby assigned is to be

shut-in or placed on production in order to facilitate the payment of shut-in gas royalties, and such notice shall be given in sufficient time prior to the shutting in of such well to allow payment of shut-in gas royalties before such well is shut-in. It is specifically understood that Assignor shall not be liable for failure to make proper or timely payment of either delay rentals or shut-in gas royalties.

20.

Preferential Right of Purchase. After the commencement of the above described test well, should Assignee desire to sell all or any part of the leasehold estate herein assigned to it, Assignor shall have a preferential right to purchase. In such event, Assignee shall notify Assignor, in writing, at its Roswell, New Mexico office giving the complete terms of any bona fide offer acceptable to Assignee made by a prospective purchaser, ready, able and willing to purchase, together with the name and address of such prospective purchaser. In the event the purchase offer submitted covers properties in addition to the assigned leasehold estate, Assignee shall specifically advise Assignor as to that portion of the price offered by the prospective purchaser which is fairly allocated to any portion or portions of the assigned leasehold estate to which said offer extends. Assignor shall have an option for a period of thirty (30) days after the receipt of the notice in which to purchase the leasehold estate which Assignee desires to sell at the price and upon the terms offered by the prospective purchaser. Any assignment made by the Assignee covering any of his rights under this agreement shall specifically provide that such assignment is subject to all of the terms and conditions of this agreement, and the Assignee agrees to furnish to Gulf at its Roswell, New Mexico office either an executed or a certified copy of such assignment.

21.

Assignability. This assignment and the terms hereof shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors in title and assigns, but no assignment or transfer by Assignee of any interest acquired hereunder shall release it of any liability herein assumed except with written consent of Assignor, its successors or assigns.

Prudent Operation and Cancellation. Upon the failure or default of Assignee to comply with any of the provisions or covenants hereof or with the terms and conditions of the original lease insofar as they affect the leasehold estate herein assigned, Assignor is hereby authorized to cancel this assignment and such cancellation shall extend to and include all rights hereunder as to the whole of the premises covered hereby; provided, however, that before any such cancellation shall be made, Gulf shall mail to Assignee by registered mail a notice of intention of cancellation specifying the default for which cancellation is to be made, and if within fifteen (15) days from the date of mailing said notice Assignee shall remedy the default specified in said notice, cancellation shall not be made.

No Warranty of Title. This agreement is made without warranty of any kind on the part of Assignor, express or implied, except that Assignor warrants that it has not heretofore transferred or encumbered the leasehold rights and privileges herein assigned other than committing the lands herein to that certain Casinghead Gas Contract with Warren Petroleum Corporation dated August 21, 1961 and to that certain Gas Sale Contract with Northern Natural Gas Company dated February 18, 1952.

TO HAVE AND TO HOLD unto the said ERNEST A HANSON, his heirs, successors, legal representatives and assigns, for the term or terms herein provided and so long thereafter as oil or gas in paying quantities is produced from the leasehold estate herein assigned.

All references made herein to the respective parties shall, where applicable, include the singular or the plural, as the case may be, and the use of any pronoun herein shall, where applicable, cover the masculine, feminine and neuter, as the case may be. It is further understood and agreed that the headings used in this agreement are inserted for convenience only and shall be disregarded in construing

this agreement.

EXECUTED in duplicate this the 1<sup>st</sup> day of April,  
1966.

GULF OIL CORPORATION

ATTEST:

[Signature]  
Assistant Secretary

By W. B. Hopkins  
Attorney-in-Fact

Law	<u>W. B. Hopkins</u>
Secy.	
Exp.	
Prod.	

[Signature]  
ERNEST A. HANSON

STATE OF NEW MEXICO

COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this 1<sup>st</sup>  
day of April, 1966, by W. B. HOPKINS  
Attorney-in-Fact for GULF OIL CORPORATION, a Pennsylvania corporation,  
on behalf of said corporation.

[Signature]  
Notary Public

My Commission Expires:  
My Commission Expires August 15, 1966

STATE OF NEW MEXICO

COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this 1<sup>st</sup>  
day of April, 1966, by ERNEST A. HANSON.

[Signature]  
Notary Public

My Commission Expires:  
3-29-67