

BEFORE THE

Oil Conservation Commission

SANTA FE, NEW MEXICO
March 16, 1955

IN THE MATTER OF:

CASE NO. 858 - Regular Hearing

TRANSCRIPT OF PROCEEDINGS

ADA DEARNLEY AND ASSOCIATES

COURT REPORTERS

ROOMS 105, 106, 107 EL CORTEZ BUILDING

TELEPHONE 7-9546

ALBUQUERQUE, NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
March 16, 1955

IN THE MATTER OF:

The application of Wood River Oil and Refining Company, Inc., and the Eldorado Refining Company for compulsory communitization of the SW/4 of Section 16, Township 26 North, Range 9 West, San Juan County, New Mexico; or, in the alternative, for approval of a non-standard gas proration unit.

Applicants, in the above-styled cause, seek an order directing and compelling the following named companies, to whom particular notice is hereby given, namely:

New Mexico Western Oil and Gas Company
Mercantile National Bank Bldg.,
Dallas, Texas;

Stanolind Oil and Gas Company
Box 1410
Ft. Worth, Texas;

Slick Oil and Gas Company, Ltd.
Milam Building,
San Antonio, Texas;

El Paso Natural Gas Company
P. O. Box 1492
El Paso, Texas

to communitize or pool their royalty interests, or any interest which may exist by virtue of sales agreement or unitization agreement, in the SE/4 SW/4 of Section 16, Township 26 North, Range 9 West, San Juan County, New Mexico, consisting of 40 acres, more or less, pursuant to the terms of a certain communitization agreement on file in the office of the Oil Conservation Commission at Santa Fe, New Mexico, to form a communitized unit consisting of SW/4 of Section 16, Township 26 North, Range 9 West, containing approximately 160 acres, more or less, for the purpose and intention of developing and producing dry gas and liquid hydrocarbons from the

Case No. 858

Pictured Cliff's formation; or in the alter-
native, for the approval of a non-standard
drilling and proration unit consisting of
N/2 SW/4 and SW/4 SW/4 Section 16, Township
26 North, Range 9 West, a total of 120 acres

BEFORE:

Honorable John F. Simms
Mr. E. S. (Johnny) Walker
Mr. William B. Macey

TRANSCRIPT OF HEARING

MR. MACEY: The next case on the docket is Case 858.

C. C. CHAPIN,

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

DIRECT EXAMINATION

By MR. McKENNA:

Q Will you state your name, please?

A C. C. Chapin.

Q What is your position with the Wood River Oil and Refining Company, whom I understand you work for?

A Manager of the Production Department.

Q Are you also here representing the Eldorado Refining Company in this matter?

A Yes, sir.

Q Is it true that Wood River Oil and Refining and Eldorado hold the working rights on the north half of the wouthwest quarter and the southwest quarter southwest quarter of Section 16 in Township 26 North, Range 9 West?

A Yes, they do.

Q That is under a State lease?

A Yes, sir.

Q It is your desire, or is it not your desire to drill a Pictured Cliffs Well in that southwest quarter of Section 16?

A Yes.

Q It is true that you own the 120 acres in the south, said southwest quarter, but you are lacking the 40 acres, namely the southeast quarter of the southeast quarter?

A That is right.

Q Is it your information and belief that the said southeast quarter of the southeast quarter is owned by the New Mexico Oil and Gas Company?

A We understand it is.

Q It is your information that these 40 acres are in the Huerfano Unit?

A Yes.

Q Whereas your 120 acres are not?

A They are not.

Q It is your purpose today to proceed in conformity with the unusual rules and to have an orthodox pooling of 160 acres, is that your purpose here today?

A Yes.

Q You would like to ask this Commission for compulsory communitization of the southwest quarter, is that correct?

A Yes, sir.

Q Or in the alternative, that if such is not allowed, that you be allowed an unorthodox pooling or proration unit of 120 acres, comprising the 120 acres that you own, is that correct?

A Yes, sir.

Q Have you attached to your application a form, communiti-

zation agreement and operating agreement?

A Yes, sir.

Q It is your purpose here today to ask the Commission for compulsory communitization of the southwest quarter, or in the alternative an unorthodox location of 120 acres?

A Yes, one of the two.

MR. McKENNA: That is all.

MR. MACEY: Any questions of the witness?

MR. WEBB: William G. Webb, representing New Mexico Western.

CROSS EXAMINATION

By MR. WEBB:

Q Mr. Chapin, I believe you stated that you were familiar with the Huerfano Unit?

A Yes, sir.

Q And that your acreage is not committed to that unit?

A No, it is not.

Q The acreage of New Mexico Western is committed?

A I don't know.

Q Assuming for the purpose of the record that New Mexico Western's interest is committed to the Huerfano Unit, was Wood River or El Dorado ever requested to join the Huerfano Unit?

A Yes.

Q You saw fit not to do so?

A Yes, we didn't want to join it.

Q Do you have any particular reason for not joining the Huerfano Unit?

A We just think we can operate the properties better ourselves. We would like to operate our own properties.

Q Aren't you requesting the New Mexico Western do the same thing here?

A Well, they haven't done anything, Huerfano Unit hasn't done anything in here. We want to drill a well, nobody else has drilled any. We don't care how it is done. There is 120 acres we would like to develop.

Q If you want to drill a well, wouldn't it be simpler to commit your acreage to the Unit?

A No.

Q Isn't Stanolind Oil and Gas Company a competent operator?

A I would say so.

Q Assuming for the purposes of the record that Stanolind is a competent operator, it seems to us that it would be much easier for all parties concerned, for Wood River to commit it 120 acres to the Huerfano Unit and thereby have a 160 acre location in the southwest quarter of Section 16 upon which to drill a well.

A We just don't think so.

Q Are you familiar with all the terms and provisions of the Huerfano Unit?

A We have them in our records at Wichita. I am not familiar with them. I don't have them here.

Q Are you in general familiar with the terms of Federal type of units?

A Yes.

Q Do you, of your own knowledge, know whether or not there is any provision in the unit agreement itself, or the unit operating agreement whereby acreage which is once committed to a unit may be removed for causes other than proved to be non-productive?

A I don't know.

Q If the Commission saw fit to grant your application for compulsory pooling in the southwest quarter, would Wood River assume the obligation and duty of securing all necessary parties to the communitization?

A No.

Q Who would perform that duty?

A The owners of the 40 acres.

Q Don't you think that is rather burdensome?

A It is your property, you benefit, we don't.

Q Haven't I stated previously that the ready remedy was available?

A Well, maybe all ready remedies aren't the best.

Q As an alternative to your application to this Commission you have stated that you be granted a 120-acre spacing unit comprising the north half of the southwest quarter, and the southwest quarter of the southwest quarter of Section 16, is that correct?

A State it again. I lost track of it there.

Q I believe as an alternative of your application to this Commission, you requested that if the forced pooling was not granted, that you be given the opportunity to drill on an unorthodox 120 acres in the southwest quarter?

A Yes.

Q Are you familiar with the Statutes of the State of New Mexico, and the regulation of this Commission upon which such unorthodox spacing units are to be granted?

A No.

Q Are you familiar, or have you seen a copy of the notice

issued by the Oil Conservation Commission to New Mexico Western Oil and Gas Company, Stanolind Oil and Gas Company, Slick Oil and Gas Company and El Paso Natural Gas Company in this matter?

A No.

Q Were not those same four parties the parties named in your application to the Commission?

A Yes, I believe so.

Q Wouldn't it appear to you that all working interest owners in the Huerfano Unit would be necessary parties to this hearing?

A I don't know.

MR. MACEY: Anyone else?

MR. McKENNA: I have a couple of questions.

RE-DIRECT EXAMINATION

By MR. McKENNA:

Q Isn't it true that, have you not, before coming to this Commission, asked the record title owner of the working 40 acres to communitize and pool?

A Yes.

Q Isn't it also true that you have asked to work out a trade for that 40 acres with your 40 acres over in the southeast quarter? Is that correct?

A Yes.

Q They have refused to do that?

A Yes.

Q It is your purpose here to come in, after making every effort that you can by virtue of those lines, come here and ask the Commission for compulsory communitization, or unorthodox location?

A That is right.

Q Isn't it true that your only purpose is the desire to drill a well?

A Yes, we want to drill a well on the southwest quarter of Section 16, Pictured Cliffs Well.

MR. MCKENNA: I would like to make a statement to the Commission that I believe anything concerning this unit agreement is not applicable to this hearing. We are interested only in trying to drill a well. Wood River and Eldorado have not committed their acreage to the unit and it is a past matter.

Q Is it not true, Mr. Witness, that you have a well in the northeast quarter of the same section?

A Yes, we have one up there.

Q That is not in the unit either?

A No.

MR. WEBB: If I could ask one further question.

RE-CROSS EXAMINATION

By MR. WEBB:

Q The well in the northeast quarter, is that on 160 acres, do you own the entire 160 acres?

A Eldorado and Wood River own it.

Q The same facts that are applicable to that well are applicable in this case?

A Yes.

Q Are you familiar with the terms and provisions of the Huerfano Unit Operating Agreement?

A We have it at the office. I read it, but I don't remember

all the terms of it.

Q Do you know the provisions of that agreement with reference to the assignment by the parties to it to any outside party?

A No.

MR. WEBB: That is all.

By MR. RHODES:

Q Do I understand you to say that you have 40 acres down in the southeast quarter?

A Yes, we have 40 in the southeast, southeast of 16.

Q Is that committed to the unit?

A No, sir.

Q What is the status of this land?

A Beg pardon?

Q Is it State land?

A Yes, it is State acreage. New Mexico is the royalty owner. The State of New Mexico is a royalty owner under Section 16.

MR. RHODES: That is all I have.

MR. MACEY: Anyone else? If this Commission saw fit to grant you 120-acre proration unit, you would be limited in allowable in this particular instance to 120, 160, either. That creates an odd-shaped proration unit in the other portion of the south half of Section 16. In order to protect the unit, the Huerfano Unit from drainage, it would probably be necessary for the unit operator to drill a well offsetting your proposed well. Would you have any objection to the dedication of 200 acres to the offset well to the east?

A Well, they would get five-fourths of allowable, wouldn't they?

MR. MACEY: Including your 40?

A Our 40 would be in there.

MR. MACEY: Yes, sir.

A Well, now, our 40 would get one-fifth of the allowable then, wouldn't it?

MR. MACEY: Your 40 would get one-fifth of the income from the well?

A Yes.

MR. MACEY: I don't know what the operating agreement states, or how the income from that particular well drilled within the unit would be spread out. What I am trying to get at is, would it be agreeable to the unit operator and to you to allow your well to have 160 acres dedicated to it, and an offset well have 160 acres dedicated to it? You both own 160 acres in the south half of the section.

A Yes, it would be all right with us.

MR. MACEY: That way one well wouldn't be getting three-fourths of an allowable and the other well getting five-fourths.

A That would be a very good solution. We would be happy to do that.

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

(Witness excused.)

MR. MACEY: Mr. Howell?

MR. HOWELL: Ben Howell, representing El Paso Natural Gas Company. Our interest in this particular case is that we have a contract with New Mexico Western under which New Mexico Western would have the option at a later date, to deliver this acreage to

us and we are also one of the working interest owners in the Huerfano Unit. It seems to us that there are probably two or more alternatives, because this is a problem that we don't know the answer to, frankly. We would have no objection to the Commission entering an order communitizing the entire southwest quarter, if the Commission feels it has the authority to do so, where that 40 acres is committed to a Federal unit. We would object to the unorthodox location which would leave the 40 acres without the immediate possibility of obtaining an allowable.

If the Commission feels that it does not have the authority to issue an order of compulsory communitization, we suggest that possibly the applicant could obtain the concurrence of all of the working interest owners in the Huerfano Unit because as an individual working interest owner, we are sure that New Mexico Western doesn't have the power either to make a change or to agree to the communitization; that it does require the concurrence of all the working interest owners. As one of them, we would be perfectly willing to do either, but we would not be willing to assume the responsibility of getting the 30 working interest owners into an agreement. So, that another alternative suggests itself that the applicant might possibly join the Huerfano Unit and solve the problem. We would have, too, no objection to the order of compulsory communitization if the Commission believes it has that power.

MR. MACEY: Mr. Webb?

MR. WEBB: If the Commission please, in addition to concurring with everything that Mr. Howell stated, I want to point out the provisions of the unit operating agreement which made a trade of the acreage, which offhand appears to be the most logical

thing to do. The two 40 acre tracts, as far as New Mexico Western are concerned, cannot be exchanged in view of Sections 20 and 21 of the Unit Operating Agreement, which is on file with the Commission. Section 20 provides that any assignment of acreage committed to the unit must be made subject to the unit, so that would leave Wood River right back to where they started.

Section 21 provides that if a working interest owner seeks to withdraw any acreage from the unit, the only way it can be withdrawn, or any way any party can withdraw, is by assigning the acreage to the remaining working interest owners. In other words, if somebody wants to get out of the unit they can't pull the acreage out, they have to give the acreage to the other working interest owners. So, the trade of acreage, for all practical purposes, as far as New Mexico Western is concerned, is an impossibility.

As Mr. Howell has stated, we do not know, and we are unwilling to accept the responsibility of determining whether or not this Commission, without the concurrence of the Commissioner of Public Lands, the United States Geological Survey and all other working interest owners, has the authority to grant this communitization. It is not provided for specifically in the unit agreement, we do not know whether the power is inherent in the Commission or not. If Wood River would assume the responsibility of getting all the other working interest owners to execute a suitable communitization agreement, we would be willing to go along. As far as attempting to commit all the unit ourselves, we cannot do so.

Further in connection with the forced pooling of the 120 acres and 40 acres, we would like to direct the Commission's attention to its Order No. 836, issued in Case No. 195 which was the order

approving the Huerfano Unit. In that order the Commission found that the Huerfano Unit plan of development was necessary and advisable for the prevention of waste, protection of correlative rights and et cetera, all of which is shown by the Commission's Order. It is our interpretation of the Statutes of the State of New Mexico, and this Commission's regulations, that the only way forced pooling can be granted is to find the same things to be true which it has already found under its Order No. 836. We believe that an order at this time finding the same thing to be true would indeed be an inconsistent order with a prior order of the Commission.

MR. MCKENNA: I would like to make a brief answer to that. I would like to point out we are not in the unit. We are not subject to the terms of the unit. We have rights in the matter, too, and the applicants are here before the Commission for the purpose of seeking authority in conjunction and in conformity with its rules for drilling a well.

If the Commission feels as if, according to its rules, that 160 acres is necessary, we are here for the compulsory communitization. If it doesn't think it is necessary, we would like to have the unorthodox location. As I previously mentioned, I don't believe that the question of the unit is directly involved here. We are not members of the unit and it is purely a question of getting sufficient authority in order to drill our well.

MR. MACEY: Anyone have anything further in this case? We will take the case under advisement.

