

BEFORE THE
Oil Conservation Commission
SANTA FE, NEW MEXICO
April 18, 1956

IN THE MATTER OF:

CASE NO. 1051

TRANSCRIPT OF PROCEEDINGS

ADA DEARNLEY AND ASSOCIATES

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BEFORE THE
OIL CONSERVATION COMMISSION
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IN THE MATTER OF:

CASE NO. 1051: Application of Skelly Oil Company for an order granting an exception to Rules 2 and 3 of the Special Rules and Regulations for the Fulcher Kutz-Pictured Cliffs Gas Pool and Rules 2 and 3 of the Special Rules and Regulations for the South Blanco-Pictured Cliffs Pool, as set forth in Order R-565-C in the establishment of two 160 non-standard gas proration units and the approval of two unorthodox well locations thereon in Section 15, Township 27 North, Range 9 West, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order granting the approval of two 160 acre non-standard gas proration units, one to consist of the N/2 S/2 Section 15, the second to consist of the S/2 S/2 of Section 15, Township 27 North, Range 9 West, San Juan County, New Mexico, and in addition applicant seeks the approval of two unorthodox well locations for the above-described units, one to be located 1320 feet west of the east line and 1650 feet from the south line of said Section 15, the second well to be located 1320 feet east of the west line and 990 feet from the south line of said Section 15.

BEFORE:

Honorable John F. Simms, Jr.,
Mr. E. S. (Johnny) Walker,
Mr. A. L. Porter, Jr.

TRANSCRIPT OF PROCEEDINGS

MR. PORTER: The next case on the Docket is 1051.

MR. GURLEY: 1051, Application of Skelly Oil Company for an order granting an exception to Rules 2 and 3 of the Special Rules and Regulations for the Fulcher Kutz-Pictured Cliffs Gas Pool and Rules 2 and 3 of the Special Rules and Regulations for the South Blanco-Pictured Cliffs Gas Pool, as set forth in Order R-565-C in the

establishment of two 160 acre non-standard gas proration units and the approval of two unorthodox well locations thereon in Section 15, Township 27 North, Range 9 West, San Juan County, New Mexico.

MR. SELINGER: We have one witness, W. J. Stewart, who we would like to have sworn in at this time.

(Witness sworn.)

W. J. STEWART,

a witness, called on behalf of Skelly Oil Company, having been first duly sworn on oath, testified as follows:

DIRECT EXAMINATION,

BY MR. SELINGER:

Q State your name. A W. J. Stewart.

Q You are associated with what company?

A Skelly Oil Company.

Q In what capacity?

A Supervisor of Units and Contracts in the Land Department of Skelly.

Q Are you at the present time familiar with the status of leases owned by Skelly Oil Company in or about Section 15, Township 27 North, Range 9 West, San Juan County, New Mexico?

A Yes, sir.

Q Are you familiar with the status of the leases that Skelly Oil Company has and owns in the S/2 of this Section 15?

A Yes, sir.

Q I hand you what has been marked Skelly Exhibit No. 1; is that a map of the area in or about this Section 15?

A Yes, sir.

Q Are the two proposed units outlined in colors on the S/2

of this section?

A Yes, sir.

Q And are the locations of the wells indicated by small red circles?

A Yes, sir, they are.

Q Now, you are familiar in a general way with the requirements of the two fields in this area, the exact boundaries of which is unknown in or about this Section, which requires the 160 acre Governmental Quarter Sections as the normal gas unit for gas from the Pictured Cliffs?

A I am familiar with them, yes, sir.

Q Will you state to the Commission the reasons for deviating from the normal Governmental Quarter Section and requesting the two proposed units as outlined on Skelly Exhibit No. 1?

A Skelly has two Federal Leases in the S/2 of Section 15; one covering the N/2 S/2 of the Section, and a separate Federal Lease covering the S/2 of the S/2 of Section 15. In the event we followed the normal spacing as now set up, it would be necessary for us to form two Federal Gas Units covering the Pictured Cliffs Formation, one on the SE/4 and one on the SW/4. There are several reasons why we have made application for an exception; basically, they are economically and to eliminate the time element necessary to secure approval of these two units by the Government. It has been our experience in the past that it would take several months, and much paper work, to get each of the units approved by the Government, and we would be forced to withhold development until such time as we got this approval, and, from an accounting standpoint, it would be burdensome to handle these wells as separate unit wells, rather than additional wells on each Federal Lease.

Q I ask you, Mr. Stewart, on the north unit, the lessee is James Q. Marshall, is that correct? A Yes, sir.

Q And on the south unit, the lessee is Glenn R. Gentle? A Yes, sir.

Q These wells will be located 1320 feet from the east and west lines of their respective units, the nearest outside boundaries, is that correct? A Yes, sir.

Q And from the north and south, they will be located at least 990 from the south, with respect to the south unit, and 990 from the north line of the north unit? A That is true.

Q And the only deviation from the normal location of the well would be on the inside where these two units join, they will be 330 feet from the respective boundaries? A Yes, sir.

Q Does Skelly own the entire leasehold of Section 15? A Yes, they do.

Q Now, with respect to development surrounding, completely surrounding these two proposed units, are there any producing wells from this reservoir in the S/2 of Section 10, to the north?

A Yes, sir, there is, Nellie Platero No. 1.

Q Are there any producing wells in the S/2 of Section 9 to the northwest?

A Yes, sir, in the SE/4, Section 9.

Q Are there any producing wells in the S/2 of Section 16, to the west of these proposed units?

A Yes, in the SW/4, Section 16.

Q Are there any producing wells to the southwest in Section 21?

A Yes, sir, there is several.

Q Are there any producing wells to the south of these proposed units in Section 22? A There are.

Q Are there any producing wells from this formation to the east of these two proposed units in the SW/4 of Section 14?

A Skelly has a well there.

Q From the facts indicated by you, these two proposed units are completely surrounded by producing wells in the Pictured Cliffs?

A That's right.

MR. SELINGER: We now offer in evidence Skelly's Exhibit No. 1, and that is all we have.

MR. PORTER: Is there any objection to the introduction of this exhibit? Hearing no objection, it will be received.

MR. SELINGER: We have one more thing I would like to ask Mr. Stewart. Have you been advised as to the attitude of the Geological Survey with respect to the proposed two units?

A The United States Geological Surevy has given its tentative approval to our application.

MR. SELINGER: That's all.

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

EXAMINATION BY MR. UTZ:

Q Mr. Stewart, if either of these two wells should turn out to be a dry hde, then what would be your intentions as to communi-tization?

A If either was a dry hole?

Q Yes.

A You mean in the event we do not get the exception to spac-ing we are asking for?

Q No, I mean if you do get it, and -- well. as a matter of

fact, if you do get it, I guess there is nothing you can do about it, but the question I had in mind is if either of these wells is a dry hole, what would be your intention, would you be willing to change and try to dedicate the quarter section in which the well was located --

MR. SELINGER: Mr. Utz, these wells are located within 330 feet of the center of the 160 acres, of the Governmental 160 acres. I don't know whether we would be permitted to drill another well on that 160 acres.

MR. UTZ: You won't have to drill another well. The point I am making is this, if the well in the SW/4, we'll say, should happen to be a dry hole, then the N/2 of the SW/4 would be dry acreage, and you would be dedicating 80 acres of dry acreage to that well in the SW/4.

MR. SELINGER: I think with respect to the productiveness of any acreage of any units would depend upon the action of the Commission. I think that would have to come up as a result of a hearing by the Commission; if the Staff felt there wasn't 160 acres productive of this gas, then it could reduce the allowance accordingly, in which event Skelly would either accept it or take exception to it.

Q Mr. Stewart, can you tell me what the reason for locating these wells on the quarter quarter section line is, 1320 location?

A Well, I'm not qualified to answer that, sir.

MR. SELINGER: That is as close as we could get. If you desire for us to drill in the center of the 160 acres we will be glad to do that, too, in each unit. There is no magic in the location of the well, except to get as close to the center of the 160 acres

as possible and stay at least 3,000 feet apart.

MR. UTZ: Then you have no topographic reason for putting it on a quarter quarter section line?

MR. SELINGER: No, except that the two units, the north line of the south unit and the south line of the north unit, if you drilled a well on that, we would have the same thing right back where we started from. We can locate the well on each of the respective leases; if you want us to drill 50 feet from the line, we will be perfectly willing to do that.

MR. UTZ: I think it is common practice to try to stay off the quarter quarter section lines by a reasonable amount.

MR. SELINGER: You are referring to the east and west?

MR. NUTTER: He is referring to the location east and west.

MR. SELINGER: We will be glad to make it 1230 feet, or any other point. We figured we would stay back 1320 feet in order not to crowd anybody.

MR. UTZ: You will be agreeable to move it off?

MR. SELINGER: Yes, sir.

MR. UTZ: Is royalty and working interests common in the N/2 S/2 and S/2 S/2 of this section?

A They are both Federal Leases, yes, sir.

Q (By Mr. Utz) And the royalty interests are common?

A Yes, sir.

Q Are you familiar with our scheme of prorationing in the San Juan Basin area?

A Generally, yes, sir.

Q Then you do know that deliverability plays a great part in allowables in the area?

A Well, as I say, very vaguely and generally, sir.

Q I am kind of lost as to how to bring this out, but perhaps the best thing to do is just make a statement. I believe it is something that should be brought out in a case of this nature, and I may ask you whether or not you agree with it. At any rate I want to get it into the record. If one of these wells is considerably larger than the other well, we'll say, as an example, the well in the SE/4 would have a deliverability of 1-million, and the well in the SW/4 have a deliverability of 5-hundred; under our scheme of prorationing and based on March allocation factors, the well with a million would have an allowable of something like 7,913 MCF for the month; the well in the SW/4, with 5-hundred MCF deliverability would only have an allowable of 4,360 MCF. That is a difference of 3553 allowable. Then, it looks to me as though the operator, or the interestholder, which had the interest in the S/2 of the SE/4 would be losing his interest in 1776 MCF of gas, simply because he was unfortunate enough to have the small well on his tract, which extends, of course within the drainage area of a large well.

MR. SELINGER: Mr. Utz, you are basing your question on the thought that the S/2 of 15 is in a prorated area. Can you tell us what field the S/2 of 15 is in?

MR. UTZ: Well, that is a very pertinent question. As far as I am concerned, it is in one pool.

MR. SELINGER: It may be in the unallocated, as it exists right now. All the wells to the south --

MR. UTZ: It is within one mile of both pools, so it can be allocated under both.

MR. SELINGER: Why aren't the remaining Ballard-Pictured

Cliffs wells allocated within a mile of the allocated wells? They are undesignated pools. You have got forty-five wells in this area on undesignated pools, within a mile of prorated wells.

MR. UTZ: Well, I grant you that, but that will probably be taken care of next month, too.

MR. SELINGER: I think so, too.

MR. GRENIER: I think so, too.

MR. SELINGER: Thank you again for your cooperation.

MR. UTZ: I just wanted to point out that under an oblong unit such as this, it is possible for an operator to be hurt so far as receiving income from his interest, simply because the larger well has more allowable and he would be within the drainage radius of a large well. Still, he would only receive an allowable based on the smaller well.

MR. SELINGER: That would apparently be true of any unit, Mr. Utz.

MR. UTZ: In the form of a square, I doubt that it would be true.

MR. SELINGER: Wells located 660 feet from the outside boundaries have drainage, and you have some drilled 660 from the outside unit lines of the Governmental quarter section, and we are trying to stay back 1320 and 990.

MR. NUTTER: But you are crowding the other line 330.

MR. SELINGER: Mr. Nutter, Skelly Oil Company owns the leases, all the interested parties are agreeable to it. I can't see where there is any objection on the part of the Commission Staff.

MR. NUTTER: I certainly don't object to it. I think Mr. Utz is bringing out that you have got overriding royalty owners in

the two tracts that are different.

MR. SELINGER: That's right, and I don't think anybody can say which well is going to be the largest of the two or even, as he suggests, a dry hole.

MR. NUTTER: They may have identical deliverabilities.

MR. UTZ: If they do, nobody is going to be hurt.

MR. SELINGER: Let's wait until we do that.

MR. UTZ: This is a study I made, and I wanted to get it into the record so that these royalty owners can be informed if they want to read the record.

MR. PORTER: Is there any further questions of the witness?

EXAMINATION BY MR. MANKIN:

Q Mr. Stewart, --

A Yes, sir.

Q -- I cannot foresee why it is any great hardship for Skelly to form standard units here, it is both Federal acreage. I understand there is overriding royalty owners, which might further complicate the problem, but as far as actual drilling of these two wells, I still do not see why they couldn't be drilled as standard locations, wells completed and shut in until such time as proper agreements could be worked up with the Federal authorities and other overriding interests in this case.

A Well, your statement is correct, it is not impossible. It is simply a matter of the time element involved.

Q Are these leases expiring?

A No, it takes several months, it has been our experience, as I testified, to get approval of these units. As you know, there is a lot of paperwork, and a lot of time in between the commission of your communitization agreements in this case, and the date of the

final approval by the government, and we would like to get the wells drilled.

Q Do you feel this will set a precedent?

A I cannot testify as to that, sir.

MR. SELINGER: You mean in this field? We have obtained two similiar exceptions in the oil over toward the east there in the southeast part of the State; we have received two exceptions for elongated 160 acres, similiar matter.

MR. MANKIN: That is true in the southeast; that is more of the ordinary thing rather than an exception. This would be a precedent in the San Juan Basin Pictured Cliffs.

MR. SELINGER: You might ask the witness if he is familiar with that.

A Let's state that again.

Q Might it set a precedent by elongated 160-acre units?

A It may do so, sir, but we found, in our experience, that most of the companies will try to avoid Federal units where possible, if no damage is done.

Q Have you requested approval from the Federal Government for such unit?

A Not as yet, no, sir. We discussed it with the U.S.G.S., and they indicated verbal approval.

Q I'm speaking of standard units.

A Have we ever done it before?

Q In this particular case.

A Not in the particular case, no, sir.

MR. MANKIN: That's all.

EXAMINATION BY MR. GURLEY:

Q Is your only reason, then, for requesting this oblong unit, Mr. Stewart, based upon the fact that it would take such a lengthy period of time to get approval from the U.S.G.S?

A That is a part of it, and then, of course, there is a lot of extra paper work and the accounting and recordkeeping problems which arise by virtue of the formation of the two units here.

Q Do you feel, Mr. Stewart, -- in any case, where you have all of the lease, or leases under which you wish to form a unit, do you feel you would be justified in asking for an exception to the rules purely because of the paperwork and length of time it takes to get the approval of the U.S.G.S.?

A I would not make a general statement; I would say in the instant situation we are justified, I believe.

Q Why in the instant situation?

A We own practically all the acreage surrounding this, we have production offsetting it in every direction, that is the reason.

Q Have you, before, received approval of your units from the New Mexico Oil Conservation Commission while you were still in the process of getting approval from the U.S.G.S., unitization?

A You mean Federal units?

Q Yes.

A The only other one we have had in this area was the SW/4 of Section 14, and I personally didn't handle that, so I cannot say.

MR. SELINGER: I can tell you we have not, we have always waited for approval.

MR. GURLEY: Before you asked for a proration unit?

MR. SELINGER: Yes, sir.

MR. GURLEY: That's all.

MR. PORTER: Any further questions of the witness?

MR. UTZ: Yes, sir. I would like to clarify one thing. Mr. Stewart, if proration formula in the area involved in this non-standard unit application were straight acreage, then the shape of the unit would not make any difference, is that correct?

A What do you mean by "straight acreage," sir, 160?

MR. UTZ: I mean every 160 received the same allowable whether the 160 acres was oblong or square would not make any difference as far as the --

MR. SELINGER: Mr. Utz, I want to caution you that this man is a land man, he is not familiar with proration. As a matter of fact, this is the first time he has been to Santa Fe.

MR. UTZ: The reason I was asking this question, Mr. Selinger, was the interjection that you had done this in the southeast.

MR. SELINGER: That's right.

MR. UTZ: I want to call the Commission's attention to the type of formula in the northwest is deliverability-type formula and not straight acreage, as it is in the southeast. Therefore, on the straight-acreage formula, it wouldn't make any difference what size or shape your acreage is, it gets the same allowable.

MR. SELINGER: Except the capability of the wells, yes. One may have better ability to produce than the other, regardless of its allowable, --

MR. UTZ: Well, yes.

MR. SELINGER: -- under any formula.

MR. UTZ: Well, that's true. Where you have deliverability type formula, if I were the owner of the eighty acres, I would put

it this way, if I were the owner of the eighty acres offsetting that eighty acres, I would object.

MR. SELINGER: You are assuming that there is a good well and a bad well?

MR. UTZ: Well, yes, I would have to make that assumption in order to bring this in. That's all.

MR. PORTER: Are there any other questions of the witness? If not, the witness may be excused.

(Witness excused.)

MR. PORTER: Does anyone have anything further in this case? We will take the case under advisement.

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STATE OF NEW MEXICO)
: ss
COUNTY OF BERNALILLO)

I, THURMAN J. MOODY, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me in stenotype and reduced to typewritten transcript by me, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal, this, the 4th day of May, 1956, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

Thurman J. Moody
Notary Public.

My Commission Expires:
April 3, 1960.