

BEFORE THE
Oil Conservation Commission
SANTA FE, NEW MEXICO

July 18, 1956

IN THE MATTER OF:

CASE NO. 1104

TRANSCRIPT OF PROCEEDINGS

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

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
July 19, 1956

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IN THE MATTER OF: :

Application of the Oil Conservation Commission :
upon its own motion for an order amending Rule :
104 of the Statewide Rules and Regulations :
Applicant, in the above-styled cause, seeks an :
order amending Paragraphs (a), (b), (d) and (f) : Case
of Rule 104 of the Statewide Rules and Regulat- : 1104
ions of the New Mexico Oil Conservation Commission; :
applicant desires more flexibility in well spacing :
and administrative approval. :

-----:
BEFORE:

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

TRANSCRIPT OF HEARING

(Mr. John Gurley, Attorney for the
Oil Conservation Commission, read
the title of the within case.)

E L V I S A. U T Z,

having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. GURLEY:

Q Would you state your name, please?

A Elvis A. Utz.

Q What is your official position?

A Engineer with the Oil Conservation Commission.

Q Have you qualified as an expert witness before this

Commission before, Mr. Utz?

A Yes, I have.

Q Have you had, in your official capacity, an opportunity to study the factors involved in the amendments to Rule 104 of the Statewide Rules and Regulations of the New Mexico Oil Conservation Commission?

A Yes, I have.

Q Would you state your recommendations and reasons therefor?

A I presume everyone in the audience has the proposed revisions to Rule 104, but I'm wondering if the Commission desires me to read these rules as they are printed.

Q Why don't you read into the record, Mr. Utz, the rule with the proposed changes?

A I would be glad to read them, but it may be kind of a waste of time in that everyone has a copy of them and I am sure has read them, but I would be happy to read into the record the changes that are included to save time, if you want them read I will certainly read them.

MR. WALKER: Do you have a copy that you can furnish the reporter so that she can write it into the record later?

A Yes, I do.

MR. WALKER: If that is agreeable with the audience.

MR. PORTER: I think all that is necessary is that Mr. Utz go through the proposed rules and changes and explain the reason behind them.

MR. GURLEY: I would like to have a copy of the rules designated as Exhibit 1.

A I have an exhibit prepared as Exhibit 4.

MR. GURLEY: Very well, would you continue, please?

A Rule 104, Paragraph (a) -- this paragraph defines a wildcat well. The present rule doesn't take into consideration the producing formations of the well, and the proposed definition is more in keeping with what we believe the industry's conception is of the meaning of a wildcat well. Other than that, there are no changes in 104 Paragraph (a). Those changes that I made are underlined on the proposed revision. 104 (b), sub-paragraph (1), this paragraph establishes the spacing for a wildcat well in Southeast New Mexico, and establishes the location of a standard oil well location in the State of New Mexico. The proposed revision would allow an operator to have the privilege of drilling a wildcat well on a 330 foot location. Under the present rules he is limited to a location within 100 feet of the center of a 40-acre tract. We believe a wildcat well should be allowed to be drilled in accordance with the pool spacing rules, that is the main change in that particular rule. To allow a wildcat well to drill on a 330 foot location instead of the center of a 40-acre tract. Paragraph 2 of the same rule: this paragraph establishes the spacing for a wildcat well in San Juan, Rio Arriba and Sandoval Counties in Northwest New Mexico. The first part of the paragraph re-states the present rule slightly for the purposes of clarification. The changes that are included in this rule are as follows, and some of these changes are different than the printed copies which you people have. In the sixth line down of paragraph 2 the words "at least" have been stricken. In the same line the word "boundary" is changed to "boundary's". In line seven of the same paragraph, which now states that a tolerance of plus or minus two hundred

feet is permissible, the "or minus" is being added. The second part of this paragraph is in addition to the old rule. It sets up a procedure for allowing drilling of a wildcat oil well in the San Juan Basin. We have never had a rule in the San Juan Basin which allowed for an oil well location. Under this rule it is possible that our practice to locate a well which will conform to an oil or gas location, it would tend to preclude the crowding of tract boundaries for gas well locations in wildcat areas and set up the procedure through hearing, which will enable an operator to correct an error in judgment as to whether he obtains oil or gas production. In the tenth line down in paragraph 2, there is a change from the printed matter by striking out the word "secretary" and substituting the words "the district supervisor". In the fourth line from the bottom of the page of paragraph 2, after the words "according to the" insert the words "above described". Other than those changes paragraph 2 is recommended as printed. Rule 104 (d) (1), this paragraph establishes the spacing for wells in defined gas pools of Southeastern New Mexico. It re-states the old rule with minor changes in wording for clarification. There's one slight change in (d), sub-paragraph (1), the sixth line down after the words "outer boundaries" insert the word "line". Other than that, it is recommended as written. In paragraph 2 of Rule 104 (d), this paragraph establishes a spacing for wells and defines these pools in San Juan, Rio Arriba and Sandoval Counties. All of this paragraph is in addition to the old rule, but the same as the rule now used in special pool orders which are proration orders for the prorated pools of the San Juan Basin. In rule 2 there are slight changes in paragraph 2 of 104 (d). In line six the words

"at least" are stricken. The word "boundary" is changed to "boundary's", and in line seven after the word "plus" insert "or minus". Other than that, the rule is recommended as printed. In our Rule 104 (f), this rule establishes the procedure for granting non-standard locations for topographical reasons. Paragraph 2 (a) is not changed, except to cover spacing in the San Juan Basin, where the radius shall be 990 feet from the proposed location, not having this provision in the special pool rules. There is no change in that paragraph over the printed matter. In 104 (f), paragraph 2 (c): this paragraph is a new proposal and establishes the procedure for approving non-standard locations for topographical reasons for wildcat wells and wells in pools not having this provision in special pool rules. This will allow the secretary of the Commission to allow a non-standard location after twenty days of waiting if approval of all the owners of oil and gas leases within such radius consent in writing to the proposed location as set out in paragraph (f) 2 (a) of this rule, which radius is 660 feet in Southeast New Mexico and 990 feet in Northwest New Mexico. The other parts of Rule 104 have no recommended changes.

MR. PORTER: Mr. Utz, I believe we should mention one thing here, and that is, under paragraph (f) the misprint discovered in the present rules and regulations.

A Oh, yes.

Q Would you put that into the record, please?

A In the first paragraph of (f) in the second line where it now reads "the requirements of (a) (b) and (c)" the "(a)" should be stricken and the line should read now as follows "to the requirements of (b) (c) and (d) without notice and hearing." The "(a)"

was a carry-over from the old 1950 rules and is no longer applicable since paragraph (a) of the rules merely defines a wildcat well.

Q One question, you were reading from Exhibit 4, Mr. Utz?

A Yes, I was.

Q Does your Exhibit 4 show the changes that you have just read into the record?

A It shows all those changes.

Q Fine.

A I have prepared three little exhibits which set out spacing patterns as defined in the proposed rules. Exhibit 1 is a standard wildcat location in Southeast New Mexico, this whole square being forty acres, and is the standard oil well location in the state. In other words, you can drill 330 feet inside the 40-acre boundaries. Exhibit 2 shows the standard gas-oil location in San Juan Basin, New Mexico under the proposed rules, this entire square being a section, the rule allows you to drill from the quarter section boundary from 790 feet to 1190 feet from any two sides of the boundary, which gives you a 400-foot square target area in each 40-acre tract, keeping you 330 feet from the quarter-quarter section boundaries. The third exhibit shows the location of the standard gas well in Southeast New Mexico. This gives you a 330-foot target area in each 40-acre tract of a quarter section. In other words, you may drill 660 feet to 990 feet from the outer boundary of the quarter section. This keeps you 330 feet from the quarter-quarter section of the boundaries.

Q Have you anything further to offer, Mr. Utz?

A That is all I have, except the four exhibits.

Q I would like to move the admittance into evidence of Exhibits 1 to 4, if the Commission please.

MR. PORTER: Without objection they will be admitted.

MR. GURLEY: We have no further questions.

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

BY MR. E. C. ARNOLD:

Q Mr. Utz, in paragraph (f), sub-section 2, in the next to the last line, I think you said that radius should be 990 feet as printed, and due to the fact that you're allowed to get within 790 of the quarter section line, don't you think that should be changed to 790?

A Mr. Arnold, I'm inclined to agree with you, however, I lost that argument and the reason that it was decided to leave it at 990 feet was because it is 660 feet in Southeast New Mexico, which is a standard location. Therefore, it was decided that since 990 is the standard location, the operators should be notified within 990 feet.

Q By the same token 790 is also a standard location.

A Yes, I agree with you, are you recommending it be changed to 790 feet?

Q I am recommending it.

A I wouldn't take exception to your opinion on that.

BY MR. FOSTER MORRELL:

Q Mr. Utz, you were reading from Exhibit 4 which referred to changes by lines, those lines do not conform to the lines of the copies of the proposed rule that we have in the audience. For assurance of correct interpretation of your suggestions and recommendations, would you mind reading the latter part of the first

sentence of sub-paragraph 2 under 104 (b)?

A I'm sorry, ^{right} Fred, I neglected to consider that this was re-printed and the copies you have do not conform exactly with the ones that I have. That's paragraph 2 of 104 (b)?

Q That's right.

A The last sentence?

Q The letter part of the first sentence from "and shall be located 990 feet" -- where you delete the words "at least".

A I will read from that portion through the paragraph: "And shall be located 990 feet from any outer ' -- any is the change from 'the' -- outer boundary's " --

Q (Interrupting) Is boundaries plural?

A That's b o u n d a r y apostrophe s, possessive, it belongs to the tract, but you can make it plural, I don't care.

Q I think it should be plural.

A Is that what you had in mind?

Q That's right.

A By the same token --

Q (Interrupting) And then it does continue, does it not "provided, however, that a tolerance of plus or minus two hundred feet is permissible", is that correct?

A That is correct. As a matter of record 104 (d), paragraph 2, should also read exactly the same.

Q That answers the question.

BY MR. McGRATH:

Q On this 990 feet he said 790 is a standard location, 790 is merely a topographical location but is not standard.

MR. ARNOLD: I would like to disagree with Mr. McGrath.

MR. PORTER: You have that permission.

MR. ARNOLD: Anything which might be approved without administrative approval or hearing is standard.

MR. McGRATH: He said the two hundred foot tolerance --

MR. ARNOLD: (Interrupting) The two hundred foot tolerance is recognized as being allowed as needed by anybody.

MR. NUTTER: I agree with you, Phil.

MR. PORTER: You have a supporter, Mr. McGrath.

MR. UTZ: Actually, I believe either one is a standard location, the way I look at it, however, the reason we stated this rule as we did on the 990 location is that we would desire everyone who possibly can to locate on 990 location, but we have given them the tolerance which they may take for the asking.

MR. McGRATH: It doesn't say that it is dependent on the topography.

MR. UTZ: That's right, it's the same for anything, the way the rule is written, you can take it as applying to it.

BY MR. MANKIN:

Q To clarify this position which has arisen, first again, in the southeast area, a standard location would be normally 660, is that correct?

A That's right.

Q Even though a tolerance of 330 feet is permitted, that's not necessarily a standard location, is that correct?

A For gas wells?

Q For oil wells.

A 330 is not a standard location?

Q It is allowed in the rule, is it not - "May drill" 330?

A Is that an oil or a gas well?

Q That's for oil wells.

A For a wildcat?

Q For pool wells.

A I believe 330 for an oil well is a standard location, therefore, as a matter of fact, any location drilled 330 or more from the 40-acre boundary is, in my opinion, a standard location.

Q And 330 is a standard location on 104 (b), 1, as proposed?

A Yes, sir.

Q To clarify the position of Mr. Nutter, Mr. Arnold, and Mr. McGrath, what they are arguing about, would you be agreeable to changing the tolerance and adding the words "for reasons of topography", if that would satisfy them?

A I would be agreeable to anything you want to do with it.

Q Apparently it is a question of whether a standard location is 790 or 1190 or 990 and the condition would be 990 for gas wells, should that be for --

A (Interrupting) I don't think it was the intention of the rule when it was written several years ago, I think the intent was to give the person that much latitude in locating his well, whether for a topographical or any other reason, therefore, any well drilled in that area is a standard location.

Q So you wouldn't add "topography" as far as the tolerance is concerned?

A No, I wouldn't recommend it because we have 104 (f) which gives you further latitude for topographical reasons if that is why you need the non-standard location.

Q That is beyond the 790 and 1190, is that correct?

A That is correct.

MR. MANKIN: That's all.

MR. PORTER: Does anyone else have any questions?

BY MR. ARNOLD:

Q I would like to ask Mr. Utz how he interprets paragraph (d) section 2 insofar as acreage dedication of wildcat gas wells is concerned. Do you think that the rule specifies that you dedicate a quarter section only under a wildcat -- I mean to -- a well in a defined gas pool which is not covered by special pool rules. In other words, we've had trouble in the past with people interpreting the rule to mean, I think before it was written you dedicated not less than 160 as far as the contiguous acres, and they therefore interpreted the rule that you could dedicate more if you wanted to, up to half a section. I would like to get your idea on that in the record.

A In the matter of the dedication of more than 160 acres, I think that is covered in the special pool rules.

Q I'm speaking of those gas pools which are not covered.

A I think the 160 acres is also covered in that instance in the special pool rules.

Q We do have some pools which don't specify the number to be dedicated.

A We have pools without special pool rules, is that what you were saying?

Q That's right, in other words do you think this rule anticipates 160-acre proration unit in a defined gas pool?

A No, I think this rule merely states that the location of the wells shall be in relation to the quarter section in which it

is drilled.

Q You don't think it has anything to do with what the acreage dedication must be?

A No, I don't believe it does, I think the acreage dedication is taken care of in the special pool rules and proration orders.

Q Well, it should be, I don't know if it is.

MR. NUTTER: You don't have any proration in pools that don't have pool rules?

MR. ARNOLD: No, sir, however, we anticipate prorationing. We have arguments that have come up as to whether you could dedicate 320 acres to a gas well because of the fact that there wasn't a special pool rule covering acreage in that case.

MR. UTZ: I would like to read the first sentence of this rule: "In San Juan, Rio Arriba and Sandoval Counties a wildcat well which is projected to a known gas-producing horizon shall be located on a designated drilling tract consisting of 160 surface contiguous acres, more or less". It doesn't say anything about a proration unit consisting of 160 acres more or less. The "more or less" was entered in there and it's a change over the previous wording in the old rule for the reason that they didn't require an exception when a legal quarter section subdivision was slightly less than a hundred and sixty acres.

MR. ARNOLD: Do you think they could dedicate three hundred and twenty?

A For the Pictured Cliffs well?

Q For any kind of well not covered by a particular rule.

A Yes, I think they could dedicate whatever they want to until the pool was prorated, and are doing it.

MR. ARNOLD: No, they aren't.

A They are submitting three hundred and twenty acre plats and drilling on three hundred twenty acre spacing.

Q They are submitting three hundred twenty acre plats because we have insisted on them. That is why I asked the question.

A Well, they have submitted three hundred and twenty acre plats but you haven't accepted them.

Q The reason I haven't is that I understood that it was the policy.

MR. MORRELL: For the record, it is my impression under subparagraph 2 of 104 (b) that the notice of intention to drill, when it is submitted to the district supervisor, shall show not only the surface location but also as to whether it is a gas or oil well objective and if the spacing follows a gas well spacing, the objective has to be a gas objective, otherwise the notice will not be approved by the district supervisor.

MR. PORTER: Is that your interpretation of it?

A No, I believe it is up to the district supervisor to make a determination of whether you have projected the well correctly or not.

MR. MORRELL: That is what I mean, it's up to him to judge whether the objective follows the spacing.

A That's right.

MR. MORRELL: So, actually, if on your notice the objective is oil, but you have a gas well spacing, he could refuse to approve it.

A That's right, however, there is a two hundred square foot target area in each quarter-quarter section which you can drill

and conform to both oil and gas well locations.

MR. MORRELL: Thank you.

MR. PORTER: Any other questions? Does anyone wish to make a statement?

MR. OLIVER SETH: On behalf of Stanolind Oil Company, Stanolind believes that the present rules work satisfactorily, but if the Commission feels there should be a change, we would like to recommend that the tolerance be either plus or minus two hundred feet. That was covered or recommended by Mr. Utz, however.

MR. PORTER: By his changes in the printed copy?

MR. SETH: Yes, plus or minus two hundred feet, that is all we have.

MR. MORRELL: I would like to make one statement to assist in clarification. In case it is the policy of the Commission that a dedication of a hundred and sixty should be made for a gas well, in those areas where there are approved units agreements that the dedication of more than a hundred and sixty acres could be shown on the notice of intention to drill and state on the form that it is pursuant to the location on such and such an agreement, in other words, you would have it tied to a specific instance.

MR. ARNOLD: I'm a little confused on that point. Compare it, for instance, with oil well locations, do you allow more than forty acres dedication of the wildcat oil wells in southeast New Mexico?

MR. PORTER: No, all of southeastern New Mexico is prorated and limited to forty acres dedication unless it comes under the special eighty acres spacing rules.

MR. ARNOLD: Thank you.

MR. PORTER: Does anyone else have a statement?

MR. MANKIN: I wanted to clarify that the approval of a unit agreement is not necessarily approval of a proration agreement and has no significance whatsoever.

A I would like to side in with Emery a little bit. So far as accepting plats of dedicated acreage on Pictured wells, I don't believe he has any authority to accept it for three hundred and twenty acres, the way the rules are now set up, because he in so doing is accepting a three hundred and twenty acre proration unit. That is what the plat is, and so far we don't have three hundred and twenty acre proration units, only in the Mesa Verde.

MR. PORTER: Does anyone else have anything to add? If not, the case will be taken under advisement.

STATE OF NEW MEXICO)
COUNTY OF SANTA FE) ss.

I, Dorothy B. Myers, a Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the Oil Conservation Commission for the State of New Mexico, was reported by me in shorthand and reduced to typewritten transcript by me, or under my supervision, and that the same is a true and complete record of said proceedings, to the best of my knowledge, skill and ability.

WITNESS my hand and seal this 16th day of August, 1956.

Dorothy B. Myers
COURT REPORTER