

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
JUNE 28, 1961

EXAMINER HEARING

IN THE MATTER OF:

CASE 2318

Application of El Paso Natural Gas
Products Company for an order force-
pooling a non-standard oil proration
unit in the Cha Cha-Gallup Oil Pool,
San Juan County, New Mexico.

TRANSCRIPT OF HEARING

DEARNLEY-MEIERS REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO



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IN THE MATTER OF :

CASE 2318: Application of El Paso Natural Gas Products Company for an order force-pooling a non-standard oil proration unit in the Cha Cha-Gallup Oil Pool, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order force-pooling all mineral interests in the Cha Cha-Gallup Oil Pool lying North of the mid-channel of the San Juan River in the SE/4 of Section 17, Township 29 North, Range 14 West, San Juan County, New Mexico. Interested parties include Humble Oil & Refining Company, Pan American Petroleum Corporation, and A. L. Duff.

BEFORE:

Mr. Elvis A. Utz, Examiner.

T R A N S C R I P T O F P R O C E E D I N G S

MR. UTZ: Case 2318.

MR. MORRIS: Case 2318. Application of El Paso Natural Gas Products Company for an order force-pooling a non-standard oil proration unit in the Cha Cha-Gallup Oil Pool, San Juan County, New Mexico.

MR. SPANN: Charles C. Spann of Grantham, Spann & San-



chez, 914 Bank of New Mexico Building, Albuquerque, appearing for the applicant.

MR. UTZ: Any other appearances?

MR. HINKLE: Mr. Examiner, Clarence Hinkle, Hervey, Dowd & Hinkle, Roswell, on behalf of Humble.

MR. BUELL: For Pan American, Guy Buell, and if all the appearances are in, Mr. Examiner, I would like to make a brief oral motion.

MR. UTZ: Any other appearances in this case? You may proceed.

MR. BUELL: As the Examiner probably recalls, Case 2297 which was heard June 7th of this year, was the application of Pan American for two non-standard units and two unorthodox well locations. As the Examiner also recalls, El Paso Natural Gas Products Company case, which is being heard here today, was also discussed during Case 2297. Their application, of course, is to force-pool and form a unit for all acreage north of the mid-channel of the San Juan River in the southeast quarter of Section 17. One of our non-standard units that was a portion of Case 2297 is in that southeast quarter north of the mid-channel of the San Juan River, that being Pan American's Frank Wood lease and Pan American's Gray lease. As the Examiner will also recall, both El Paso Natural Gas Products Company and Pan American said that they would meet with Humble and do everything that we could to voluntarily pool our acreage insofar as we could, and form a unit. Since that

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hearing day of June 7th, negotiations have been going on, and it looks like they have been fruitful, and that we are going to be able to voluntarily pool our acreage with the Products Company acreage and the Humble acreage.

In view of that voluntary effort, I would like to move that the record of Case 2297 be consolidated with the record of El Paso's case here today for the purpose of issuing an order to cover a non-standard unit in that southeast quarter of Section 17. While we are in the process of voluntarily pooling our acreage, there is some unleased acreage in that southeast quarter that cannot be voluntarily pooled, and the only way it can be brought into a unit at this time is through forced pooling. So I would like to move that the record of Case 2297 be consolidated with the record of the case here today.

MR. UTZ: Is there objection to the inclusion of the record of Case 2297 into the record of Case 2318?

MR. SPANN: I would like to inquire of Mr. Buell if it is his position that insofar as his application for the non-standard unit conflicts with El Paso's application, you are dismissing it. In other words, you are joining in El Paso's application as distinct from yours insofar as the unit is concerned.

MR. BUELL: I don't understand any conflict, unless you are referring to our disagreement of the northern boundary of the Navajo Reservation.

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MR. SPANN: No, I wasn't referring to that at all, but your application does conflict with El Paso's in that it asks for a different unit, a smaller unit than we are seeking, and your application, your unit, as proposed by your application, is included within the area encompassed within our application.

MR. BUELL: At that hearing, we asked for approval, as you may recall, of a hundred eight acre non-standard unit, which would eventually have included all of the acreage that's within your application. That's why I don't see that there's any conflict.

MR. SPANN: I understood your original application was for less than the entire area that we are now --

MR. BUELL: If you are referring to the notice of hearing, you are absolutely correct, but as you recall, we amended our application, you might say, at the hearing to ask for an administrative procedure to be set up whereby we could expand to a full one hundred eight acre non-standard unit, which, with the exception of the question between us on the boundary line of the northern line of the Navajo Reservation, included the exact acreage that's within your application.

MR. SPANN: Okay.

MR. UTZ: Mr. Buell, as I recall your application, the previous application in 2297, you asked for a considerably smaller unit than El Paso is asking for now, and also requested administrative relief to expand that unit to include the other unit.

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MR. BUELL: Yes, sir, that's exactly correct.

MR. UTZ: In that respect, you don't feel that you are at odds with the Products Company at this time?

MR. BUELL: That's right.

MR. SPANN: I have two witnesses, Mr. Examiner, Roland Hamblin and Lee Ayers.

(Witnesses sworn)

MR. SPANN: For the record, I have Mr. John Mason of El Paso with me.

MR. UTZ: I think I have a motion which I neglected to rule on, the consolidation of Case 2297 with Case 2318. Is there further comment with regard to this consolidation? If not, the Case 2297 will be consolidated with Case 2318.

ROLAND HAMBLIN,

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

DIRECT EXAMINATION

BY MR. SPANN:

Q Would you state your name and your residence, for the record, please?

A My name is Roland L. Hamblin. I'm manager of the Land Department, El Paso Natural Gas Products Company in El Paso, Texas.

Q For how long have you been with El Paso, employed by El Paso Products Company?

A For El Paso Natural Gas Products Company, approximately



four years. Since it was organized.

Q Are you familiar with the application filed by El Paso Natural Gas Products Company in Case 2318?

A Yes, sir, I am.

Q Generally, that application seeks to force-pool certain acreage in the southeast quarter of Section 17, Township 29 North, Range 14 West, San Juan County, New Mexico, which lies north of the center of the channel of the San Juan River; is that correct?

A That is correct.

Q Do you have a plat of that area?

A Yes, sir.

MR. SPANN: Mark this as Applicant's Exhibit 1.

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

Q (By Mr. Spann) You have a copy of Exhibit 1 in front of you, I take it.

A Yes, sir, I have.

Q Directing your attention to that Exhibit, what does it show, Mr. Hamblin?

A Exhibit No. 1 is a map and survey of the southeast quarter of Section 17, Township 29 North, Range 14 West, showing the location of the San Juan River, and the ownership north of the River in the southeast quarter of Section 17.

Q When was that survey made, if you know? I see the date May 15, 1961 on the plat. Would that be the correct date?

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A Yes, sir, that is the date that that survey was made by Jim Leasse for Humble Oil & Refining Company; the recent survey of the San Juan River in this Section.

Q That shows the mid-channel of the River as it flows today, or at that time, May 15, 1961; is that correct?

A Yes, sir.

Q I notice you've colored the various interests on this plat. Have you calculated the acreage held by each owner there?

A Yes, sir, we have. We have calculated the acreage owned by Pan American, which is colored in orange on the Exhibit, 54.85 acres; the acreage of Humble in blue, 10.56; the acreage of El Paso Natural Gas Products, which is an undivided one-half interest in the yellow tract as 14.21 acres, would be our net interest. The yellow tract itself is 28.42 acres. There's a tract not covered, 19.80 acres, making a total of 117.89 acres. This is slightly different than it is in the application, but our surveyor has made a slight miscalculation, and he has readjusted his figures very slightly, so there is a slight difference, a few tenths of an acre, between the Exhibit and our application.

Q But the figures that you have just testified to are the correct ones, insofar as the respective acres are concerned?

A Yes, sir, as far as we can determine.

Q Would you just state who the owners are of the various tracts there? I believe you've said Pan American owns the acreage colored in orange; is that correct?

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A Yes, sir. El Paso Natural Gas Products has an undivided one-half interest in the acreage colored yellow. Humble owns the acreage colored in blue. Mr. A. L. Duff owns the minerals under the 19.80 acre tract unleased, and also an undivided half interest under our yellow tract, which is also unleased.

Q Have you notified him of this application?

A Yes, sir. Pan American and Humble and El Paso, of course, are in agreement now as to the unit, and we have notified Mr. Duff, and he is aware and has notice of this application and this hearing.

Q Have you been able to obtain his approval to the formation of this unit?

A No, sir, we have been unable to obtain his approval.

Q Now, do you feel that the forced pooling of this unleased acreage into this unit is necessary to protect correlative rights in this area?

A Yes, sir, I do, for the reason that of the 19.80 acre tract, which is unleased, and the other undivided half interest in our 22.42 acre tract, if we do not force-pool these at this time, this acreage will be drained, and it will not protect his correlative rights.

Q Do you know any alternative way this could be drilled and produced, except through force-pooling this acreage, in accordance with your application?

A No. I know of no other way to protect the correlative

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rights other than to force-pool the entire tract.

Q You feel it's absolutely necessary that this be done if you are to receive your fair share of the oil from your acreage --

A Yes, sir.

Q -- and the other owners receive theirs from their acreage?

A That is correct.

Q Mr. Hamblin, do you feel that the acreage in this entire unit is productive of oil, based on your information at this time?

A I'm no geologist, I wouldn't be qualified to answer that question. As far as I know, it is.

Q You expect to get production?

A I don't know that it's not, but, as I say, I'm no expert on it.

Q Do you have any recommendations as to who the operator of this unit should be?

A Yes, sir. We have reached an agreement with Pan American, and they are to be the operator of this tract, and we are in agreement.

Q It is agreeable with you that Pan American operate this unit?

A Yes, sir, we are in agreement.

Q What about a proposed well location?

A Well, the proposed location, as presented by Pan American, is acceptable to El Paso Natural Gas Products Company.

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Q That is the unorthodox location which they have applied for in their Case No. 2297; is that correct?

A Yes, sir, that is correct.

Q You are familiar with that application --

A Yes, sir.

Q -- and know the location of that well?

A Yes, sir.

Q What would you contemplate insofar as payment for the cost of the well is concerned being allocated among the various owners in the unit?

A Well, inasmuch as Mr. Duff is unable to join, and, therefore, pay his share of the drilling costs, I assume that an operating agreement will have to be entered into with Pan American being the operator, and that Pan American and El Paso Products, and Humble, in the respective proportions, will have to put up Mr. Duff's share of the drilling costs, and also of the operating costs, and recover those costs out of production from this well.

Q What would you recommend insofar as the percentage of recovery of those costs are concerned?

A Well, there is, of course, the risk of drilling the well, putting up our money. We might not obtain production, we might not get our money back, and the only way we can get it back would be, of course, out of production from the well. Therefore, we should be entitled to something more than just our drilling costs. The normal cost in the industry for a non-consenting working inter-

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est owner is another two hundred percent, or one hundred fifty percent to recover that of their drilling and operating costs. However, in this case, I believe we feel that one hundred twenty-five percent would be approximately correct.

Q That would be the minimum that you ought to receive?

A That would be the minimum that we feel we should ask for. We understand that is about the most that the Commission will approve, so we decided that's about all we should ask for.

Q Well, in the event, of course, that Mr. Duff should come forward and contribute his share, then, of course, you would permit that and permit him, then, to join?

A Yes, sir. If he could and he would join, and pay his share of the drilling costs, that would be perfectly agreeable with El Paso Products.

MR. SPANN: That's all we have from this witness.

MR. UTZ: Do you want to offer your Exhibits?

Q (By Mr. Spann) Was this Exhibit 1 prepared by you or under your direction?

A Yes, sir, it was.

MR. SPANN: I'll offer Exhibit 1 in evidence.

MR. UTZ: Exhibit 1 will be entered into the record.

(Whereupon, El Paso's Exhibit No. 1 was received in evidence).

MR. UTZ: Any questions of the witness?

MR. MORRIS: Yes, sir.

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CROSS-EXAMINATION

BY MR. MORRIS:

Q Mr. Hamblin, this plat that you have introduced has been marked as Exhibit No. 1. Would you go into a little bit more detail on the source of your information here, and the survey, and when it was made, and by whom?

A Yes, sir. We and Humble have both requested the River right here to be resurveyed (indicating). This area right here was requested by Humble, and they requested that Mr. Jim Leasse with San Juan Engineering Company survey that. He has done so recently, at Humble's request, and this survey has just recently been completed, and was actually done on May 15, 1961.

It shows in quite detail the course of the San Juan, the high bank, the edge of the water of the mid-channel, the varying degrees of the River. It has changed since the 1882 survey.

Q Is it the opinion of El Paso Natural Gas Products Company that the ownership in this area is as shown by your Exhibit No. 1?

A Yes, sir, that is our understanding and our thinking, that this correctly represents the ownership of this tract at the present time.

MR. MORRIS: At this time I would like to ask a question of the attorneys present whether Pan American and Humble intend to put witnesses on the stand to testify as to ownership?

MR. BUELL: I can speak for Pan American, Mr. Morris. We have previously done so in the Case 2297, which has been consolidated

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with this. That's the reason that I haven't objected to these questions and answers that have gone into title. I made that same objection in 2297, and was overruled, and I felt that the same ruling would carry forward. I didn't see any sense in delaying the hearing with that.

MR. MORRIS: I would like to ask, then, if you can speak for Pan American and answer whether they would concur with the acreage allocation to the various tracts that have been presented on Exhibit No. 1?

MR. BUELL: No, sir. As you may recall, and Mr. Spann and myself discussed at the outset of the hearing, that's one point of contention between the Products Company and ourselves. We feel that the northern boundary of the Navajo Tribal Reservation leases is as it was fixed by the last official survey in 1882.

MR. MORRIS: So Pan American would not claim to own 54.85 acres, as shown on Exhibit No. 1?

MR. BUELL: No, sir. The record of our case will show that we claimed --

MR. SPANN: I would like to state this. The reason we aren't making any point of it at this time is that Pan American will be the acreage affected and not El Paso. In other words, if they take the position that their acreage calculation is correct, it will merely affect the interest they have in the unit, it won't affect us.

MR. MORRIS: But in bringing a forced pooling action, we

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need to establish whose figures we're going by in setting up how many acres are in the unit.

MR. SPANN: Well, there is this dispute as to that. However, it does not affect El Paso's position, and we'll just have to defer that to the judgment of the Commission.

MR. BUELL: We, in this case, Mr. Examiner, we're the only ones that are, I don't believe adversely affected is the proper expression, because we don't feel that we're entitled to anything that is not legally ours. Under our application, we figure that in this unit we have 46.47 acres. According to El Paso, they figure we have 54.85. But using the last official survey, which was made in 1882, our Frank Wood lease and that portion of our Gray lease in the southeast quarter of Section 17 and in our legal opinion, contains 46.47 acres --

MR. SPANN: I might say also that the unleased portion that we are attempting to force-pool is not affected also.

MR. MORRIS: May I ask the same question of Humble?

MR. HINKLE: I understand that Humble participated in the survey, and as far as I know, they are willing to accept the figures.

A This is their survey.

MR. HINKLE: I am sure they will want to accept their survey.

MR. MORRIS: Would it be Humble's contention that you own the amount shown by your own survey?

MR. HINKLE: I think it would be, although I have no way

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of knowing what the disposition would be.

CROSS-EXAMINATION (Continued)

BY MR. MORRIS:

Q Mr. Hamblin, have you any plans for submitting this survey made by Mr. Leasse to the Bureau of Land Management for approval, or for any sort of official recognition?

A We do not have any definite plans. Certainly this question has to be resolved, because there's a lot of people involved that are not here. It's going to have to be discussed with the Navajo's B.L.M. and resolved.

We have no definite plans as to how that is going to be done, or what action it would take. We are in agreement that it will have to be resolved. Just how, I don't think we know at this time, just how we're going to resolve it.

Q Mr. Hamblin, as to the El Paso Products Company's acreage in here, will you be willing to abide by a Commission decision to follow the 1882 survey governing the amount of acreage that's in your --

MR. SPANN: I would like to inject this. I don't want any position taken by the El Paso people that would be binding on them insofar as the future position is concerned. I would prefer that Mr. Hamblin not answer that unless it be construed as the opinion of El Paso so far as any point made in the future is concerned. We merely say that we are not affected in this application, if you use the figures that Mr. Buell submitted in his appli-

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cation for the acreage of this so-called Wood lease.

MR. MORRIS: Let me ask this question, then, to you, Mr. Spann, if I may. Assuming that the Commission approves this forced pooling application, it's going to have to issue an order, and it's going to have to say how many acres are in the unit that we're forced pooling. How many acres do you think that we must say in our order are in this particular unit?

MR. SPANN: Well, now, we've submitted a plat showing the acreage, according to that survey, and the present course of the River. Pan American has submitted a plat showing the acreage based on the 1882 survey. I'm no more in a position to agree that Mr. Buell's position is correct than he is that mine is correct. I'm merely saying that we are not affected by this dispute in acreage, and that we are making no contention regarding it one way or the other at this point. I appreciate that that doesn't help the Commission, but on the other hand, I don't know what other position we can take.

MR. UTZ: Mr. Spann, the plat that was submitted in Case -- whatever it was -- 2297 --

MR. BUELL: 2297. That is the copy that I handed you.

MR. UTZ: -- shows 2297 acres in your lease, and yours shows 2842.

MR. SPANN: Wait a minute.

MR. MORRIS: 27.92 acres were shown in Pan American's Exhibit in that case.

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MR. SPANN: We contend that as far as our acreage is concerned, that our plat is correct. We make no contention about the Wood lease. I don't know why that came about like that.

A He readjusted each one of the figures in here very slightly. Our tract, Humble's tract.

MR. SPANN: I don't know how that came about.

MR. BUELL: I don't know either. If I might interject, it was my understanding that we were in agreement on the amount of acreage in your tract. If it would be proper for me to submit here, Mr. Examiner, in this particular case; I realize that this factual situation is going to apply in other cases, it might cause a more painful decision for the Commission to make, but here in this case and in this factual instance, Pan American is contending that the northern boundary of Navajo Tribal Reservation lease is as it was set in 1882, the last official survey. We are the operator in the proposed non-standard unit who will have their acreage participation in this proposed unit reduced, and it would seem to me that in this case and especially since an order of the Commission does not decide title, that the decision in this particular case shouldn't be too difficult, because we're the ones that would suffer the reduction in acreage.

MR. SPANN: Any problem between the parties will be resolved by an operating agreement anyway.

MR. MORRIS: What it would boil down to is, we would take El Paso's acreage as they propose it, Humble's acreage as it's pro-

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posed on Exhibit No. 1 here, the unleased acreage as proposed here, and then take Pan American's acreage in the previous case.

MR. BUELL: Our only contention, Mr. Morris, is that the southern boundary of this unit should be in accordance and in agreement with the 1882 official survey. I'm at a loss, as I stated, to understand the minor discrepancy of our acreage figure for El Paso's and theirs. I understood we were in agreement on that.

MR. UTZ: Mr. Buell, I would like to clarify a point. If this survey of Mr. Leasse of May 15, 1961 is accepted by you, would that affect the acreage in your unit south of the River?

MR. BUELL: Yes, sir.

MR. UTZ: It would decrease it?

MR. BUELL: Yes, sir.

A Add it here, and decrease it there, it wouldn't affect Pan American either way.

MR. MORRIS: There's a 51.86 acre unit south of the River in the southeast quarter; is that correct?

MR. BUELL: Yes, sir.

MR. SPANN: I might point out that I calculated Humble's acreage at 13.32, understand, according to Mr. Buell's Exhibit, and 14.82 according to ours, which leaves a differential of an acre and a half, as far as Humble is concerned.

Q (By Mr. Morris) Mr. Hamblin, coming back to you, finally, of your knowledge, does Pan American propose to drill the well that

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they have proposed in their unorthodox location on this unit?

A Yes.

Q Have they given you reason to believe that they're going to drill that well?

A Yes, they have. It's our understanding that they definitely intend to drill the well in the very near future.

Q Do you feel that unless the Commission issues this forced pooling order, that it will cause the drilling of unnecessary wells in this area?

A Yes, sir, I do.

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

MR. UTZ: Any other questions? If not, the witness may be excused.

(Witness excused)

MR. SPANN: Mr. Lee Ayers, please.

LEE AYERS,

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

DIRECT EXAMINATION

BY MR. SPANN:

Q Would you state your name and residence, please?

A My name is Lee Ayers. I live in El Paso.

Q By whom are you employed and in what capacity?

A I am employed by the El Paso Natural Gas Products Company as engineer in charge of the reservoir engineering section.



Q Are you familiar with El Paso's application in this Case No. 2318?

A Yes, sir.

Q In connection with that application, have you prepared an Exhibit which shows the economics of drilling in the proposed unit?

A Yes, sir.

MR. MORRIS: I would like to mark one as an Exhibit.

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

Q (By Mr. Spann) Now, directing your attention to El Paso's Exhibit No. 2, a copy of which you have in front of you, I believe, would you explain what that is?

A This Exhibit, this brochure, contains three pages identified as Exhibit 2-A, 2-B and 2-C. Exhibit 2-A shows the basic reservoir data for Cha Cha-Gallup Pool. The equation for the calculation of the original oil in place is shown to be 7758 times acre feet times porosity times one minus the water saturation, all divided by the oil formation factor. For the Cha Cha-Gallup Pool, the average porosity is 14.7 percent. The water saturation is 35.0 percent, and the oil formation volume factor is 1.392. So, putting these data into the formula for calculating the original oil in place, we show the calculation to be 532.53 barrels per acre foot. The estimated primary recovery for this reservoir is 13.7 percent of the original oil in place. So, 13.7 percent of the 532.53 barrels per acre foot originally in place gives a recovery

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of 72.9 barrels per acre foot.

Q What does Exhibit 2-B show?

A Exhibit 2-B is applying the primary recovery of the previous page to an average 80-acre well in this oil pool. The thickness, the average thickness in the Navajo acreage south of the River is 6.52 feet. So 6.52 feet times 80 acres, times the 72.9 barrels per acre foot of primary recovery gives a gross oil recovery for an average 80-acre well of 38,025 barrels. Knocking out the 1/8 royalty, then the working interest would receive 33,272 barrels. The oil sells for two dollars and seventy-five cents. There's a nickel pipeline gathering charge, and twenty cents per barrel production, and ad valorem tax, leaving a gross value of two dollars and fifty cents. So, the value of the working interest oil reserve is \$83,180.

Now, during the operating life of the well, we've estimated the cost to be \$8,460, the drilling cost for the well is 60,000. Eventually, pumping equipment will have to be installed, and that has been estimated to cost \$8,500, so deducting from the value of the working interest oil operating costs, development costs and pumping equipment would leave a profit to the working interest owner on this average well from the oil production of \$6,220. Soon we hope to be selling the casinghead gas. The value of the casinghead gas has been valued at \$6,040. So, the total profit on the average well in 80-acre spacing is estimated to be \$12,248. at the end of primary. Our purpose in submitting the economics for an

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average 80-acre well is to try to show that we think the profit on such a spacing is an absolute bare minimum.

Q Could this acreage be developed and operated on any other basis except in accordance with this forced-pooling application, profitably, could it be?

A In my opinion, no well should be spaced on anything less than 80 acres.

Q Have you then calculated this profit from the operation of the well on this unit?

A Yes, sir.

Q And that is your Exhibit 2-C?

A Yes, sir.

Q What does that show?

A Exhibit 2-C is taking, again, the basic reservoir data that has been previously developed and applying it to the tract that we propose to force-pool. At the time that this Exhibit was prepared, why, we were under the opinion that it would be 117.53 acres. I understand, now, the surveyor has recalculated it to be 117.89, so there's a minor discrepancy in the amount of acreage. That wouldn't change the answer to any significant extent. The gross reserves for primary for this forced-pool tract is estimated to be 51,407 barrels. Again, knocking out the 1/8 royalty, the working interest owner would get 44,981 barrels, and applying the value of the oil at two dollars and fifty cents per barrel, the working interest would receive an income of \$112,452. Subtracting

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the operating costs, which are estimated at \$8,460, the drilling costs to be 60,000, and the purchase of pumping equipment to be 8,500, would leave a profit to the working interest owners on the oil production to be \$35,492. Again, the value of the casinghead gas has been estimated, and that's approximately \$8,198. So, the total profit from the oil and the gas to the working interest owners is estimated to be \$43,690. If that is true, that would be a ratio of profit to investment, then, of 0.64. In other words, if the working interest owners invested a dollar, they get that dollar back plus sixty-four cents profit. We feel that this is, again, a minimum type of a wise investment.

Q Where did you get the basic data that you used in your calculations in this Exhibit?

A All the basic data presented in these Exhibits came from an engineering subcommittee report that was prepared jointly by Humble, El Paso Products, and Pan American.

Q You are familiar with the acreage involved in the so-called unleased unit, which A. L. Duff owns. Have you calculated what his portion of the development cost and the operating cost would be?

A According to my calculations, and this is based on the new survey, the unleased tract would have a participation in this force-pool unit of 28.9 percent. 28.9 percent of the estimated sixty thousand dollar well cost would be \$17,330. What was the rest of your question?

Q How about the operating cost?



A Well, he, again, would pay 28.9 percent of the estimated operating cost, and for him that would be \$2,440. He would likewise have to pay 28.9 percent of the purchase of pumping equipment, which would be \$2,460.

Q Is there sufficient production attributable to his acreage to pay those costs that he would be obligated for, in the event this forced-pooling order was interned, and he was required to pay his proportionate share?

A Yes, sir, there is, if the percentage of recoupment is established at 125 percent, then the amount of recoupment for the drilling of the well would be \$21,700. The value of the primary reserves to his interest would be \$32,500, so that's more than adequate to pay the 125 percent recoupment of the drilling cost of the well. It's also adequate to pay his share of the operating costs; it's also adequate to pay his share of the pumping equipment purchased.

Q In your figures there as to recovery of 32,000, is that from his 7/8 working interest?

A Yes. The royalty has reduced down.

Q He would still get his royalty --

A That is correct.

Q -- and pay back what you had contributed by way of his cost for drilling and operating; is that correct?

A That's correct.

Q Could you recover 150 percent --



A Yes, sir.

Q -- of the investment attributable to him out of his pro-
duction?

A Yes, sir, you could.

Q Was Exhibit 2 through A, B and C prepared by you or
under your direction and supervision?

A Yes, sir.

MR. SPANN: I would like to offer Exhibit 2-A, B, C in
evidence.

MR. UTZ: Without objection, Exhibit 2-A, B and C will be
entered into the record.

(Whereupon, El Paso's Exhibit
2-A, B and C was received in
evidence).

MR. SPANN: That's all we have.

MR. UTZ: Any questions of the witness?

MR. MORRIS: Yes.

CROSS-EXAMINATION

BY MR. MORRIS:

Q Mr. Ayers, in the event the Commission established a unit
of a size smaller than 117.89 acres, because of the various dis-
putes over how much acreage is going to be included in the unit, if
it was smaller than 117.89 acres, though, Mr. Duff would actually
come out even better, would he not? In other words, he's still go-
ing to own approximately 20 acres, and if the size of the unit de-
creases, then he's going to be percentagewise better off?



A His percent of participation in the well would be greater. However, the total allowable for the well would be reduced, so dollars of income per month, I believe, would stay the same.

MR. MORRIS: That's all.

MR. UTZ: Are there any more questions of Mr. Ayers? If not, the witness may be excused.

(Witness excused)

MR. SPANN: That's all we have.

MR. UTZ: Does Humble intend to put on anything?

MR. HINKLE: The Humble would like to go on record of favoring the Commission in granting the application of El Paso in this case.

MR. UTZ: Does Pan American intend to put on testimony?

MR. BUELL: I would like to recommend to the Commission that in this Order, assuming they do approve the Order be based with regard to the southern boundary of the unit as shown in Exhibits in Case 2297. El Paso Natural Gas Products Company are sincere in their legal beliefs as to the true boundary line; Pan American is equally sincere in its legal belief as to the true boundary line. I believe the Commission would be on firm ground in this case in using our Exhibits to set that southern boundary, because, one, their Order would be based on and following the last official survey. Two, Pan American would be the one that would have the reduced acreage in the subsequent non-standard unit. For those two reasons I think the Commission would be on firm

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ground. I think they would be on shaky ground if they set the southern boundary otherwise, because we would then be faced with one having dually dedicated acreage in that a portion of the acreage shown on El Paso's Exhibit No. 1 here is already dedicated to the Navajo "G" No. 6. The Commission would either continue the dual litigation, or if they revised the proration of our Navajo "G" 6 Well, they would then be decreasing the size of the Navajo Tribal Reservation. This Commission cannot try title, and I'm sure does not want to try title. They would also be varying and leaving the last official survey. For those reasons, I sincerely recommend to the Commission that the boundary of the southern portion of this unit be as reflected on the Pan American Exhibits in Case 2297. I would also hope that the Commission doesn't lose sight of another portion of our application in Case 2297, which was our request for a non-standard unit and unorthodox well location for our Navajo "G" No. 8. I specifically urge that the Commission give favorable consideration to that portion of our application in 2297.

MR. SPANN: I would like to state in connection with the other portion of the application that Mr. Buell just referred to, and we are not by approving or by not objecting to our using their acreage factor or survey in our application, we are not retreating one step from the position taken in opposition to our other non-standard unit and unorthodox location, because there, of course, we are directly affected by your using their survey, and,

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of course, our position was made clear at the time, and we are not in any way waiving it at this time.

MR. UTZ: Any other statements?

MR. ANDERSON: John Anderson, Geological Survey. There is a Federal lease involved in this pooled unit. I believe it's Lot No. 8, and although we do have a forced-pooling Order, we are going to have to have a communitization agreement executed by the lessee of the Federal lease as far as joinder by the other parties is concerned. We can use the force-pooling Order, but when we set up the communitized tract, we are going to have to use the acreage in that tract, as shown by the last official survey, and in the absence of a later survey accepted by the Bureau of Land Management, we would have to use Lot 8 as set up, I suppose, by the 1882 survey. I think this is one of the things we are going to have to consider in figuring out what the acreage in this unit should be. Of course, there's one thing I might add, and that is if a later survey is accepted and the acreage in Lot 8 is increased or decreased, certainly the whole matter can be adjusted as of the effective date of that survey; whether it reflects back to the date of this Order or some other date, I just don't know.

MR. UTZ: Mr. Anderson, perhaps you can answer a question that has come to my mind. Does the 1882 survey include acreage to the middle of the River?

MR. ANDERSON: I don't know.

MR. HAMBLIN: The legal descriptions were fixed at the

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middle of the River. The legal, North of the River, anchoring lot south of the River.

MR. UTZ: You feel it does not include the acreage in the River bottom?

MR. HAMBLIN: Yes, it goes to the center of the mid-channel of the San Juan River, wherever it is.

MR. UTZ: We can determine that by calling the Bureau of Land Management. Any other statements? The case will be taken under advisement. We will take a ten-minute recess.

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