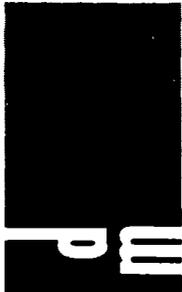


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BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
July 24, 1968

EXAMINER HEARING

IN THE MATTER OF:)
)
)

Application of Aztec Oil & Gas Company)
for commingling, Lea County, New Mexico.)

Case No. 3822

BEFORE: Daniel S. Wutter
Examiner

TRANSCRIPT OF HEARING

MR. NUTTER: We'll call the next case, 3822.

MR. HATCH: Case 3822. Application of Aztec Oil and Gas Company for commingling, Lea County, New Mexico.

MR. MORRIS: Mr. Examiner, I'm Dick Morris of Montgomery, Federici, Andrews, Hannahs and Morris, Santa Fe, appearing for the Applicant, Aztec Oil and Gas Company. I have one witness. I ask that he stand and be sworn, please.

(Witness sworn.)

(Whereupon, Applicant's Exhibits Numbers 1 and 2 were marked for identification.)

JERRY ESKEW

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

DIRECT EXAMINATION

BY MR. MORRIS:

Q Mr. Eskew, will you state your name, where you reside, by whom you are employed and in what capacity?

A Jerry Eskew, Hobbs, New Mexico, District Engineer for Aztec Oil and Gas.

Q Have you previously testified before the New Mexico Oil Conservation Commission or one of its examiners and had your qualifications established and accepted as a matter of record?

A Yes, I have.

Q Mr. Eskew, please refer to what has been marked as Exhibit Number 1 in this case and state what that exhibit is and what it shows.

Q This is a plat of the subject wells, the AJ Number 1 located in Section 1 of 18 South, 36 East and the Amerada State Number 1 located in Section 12 of 18 South, 36 East. And it also shows all completed wells within two miles and the ownership of the leases.

Q All right, sir. Concerning the two subject wells, are they both completed in the same pool?

A Yes, they are. Both are completed in the Arkansas Junction San Andres Pool.

Q Now, these are two separate leases that you have shown here colored in yellow: the State AJ Lease and the Amerada State Lease.

A Correct.

Q Is Aztec Oil and Gas Company the working interest owner in each of these leases?

A That is true.

Q Are they both -- is the royalty interest in each of these leases owned by the State of New Mexico?

A That is correct.

Q Are there overriding royalty interests in each of these

leases?

A Yes. In the State AJ Lease, the Fort Worth National Bank, the Executor for Roy S. McGrueter, deceased, is 2% overriding royalty interest; and Helen McGrueter Colliker has 2% overriding royalty interest, and Morris R. Antwell has 3-1/2 % overriding royalty interest.

In the Amerada State Lease, Amerada has 6-1/4% overriding royalty interest. Tenneco has 4.71750% interest. C. R. McVey has .78125%, and Carmen J. Stafford has .78125% interest.

Q So the overriding royalty interests are not common as between these two leases?

A No, they're not.

Q What is the present producing capacity of each of the subject wells?

A The State AJ Well Number 1 is capable of fifteen barrels of oil and 280 barrels of salt water per day, and the Amerada State Number 1 is capable of 35 barrels of oil and 300 barrels of water per day.

Q What is the present allowable for each of these wells?

A The Amerada State has a 41 barrel per day allowable and the State AJ Number 1 has a 20 barrel per day allowable.

Q Now, these allowables that you just gave are allowables that have been assigned in accordance with the producing capacities of the wells, is that correct?

A That is correct.

Q What would the top unit allowable be for each of these two wells?

A For a well on 40 acres in this particular pool which is below 5,000 feet, it would be 77 barrels per day. And both wells are under top allowable.

Q Would the combined producing ability of these two wells be less than a single top unit allowable?

A Yes.

Q What would the combined producing ability of the wells be?

A Approximately 50 barrels per day.

Q And that would be as opposed to what figure?

A 77.

Q 77 barrels per day as a single well's top unit allowable?

A Right.

Q Have you experienced any production problems with these two wells?

A Yes, quite a few. The State AJ Number 1 was formerly a Queen gas well and in 1965, the Queen was squeezed off and

the well was completed in the San Andres and a few months later, the Amerada State Number 1, the Queen was squeezed off, deepened to the San Andres, and both of these wells produced a high volume of water and the water is quite corrosive.

It's been our experience that ordinary beam type pumps will not handle this production because of the corrosive nature of the water. In fact, numerous strings of tubing, rods, pumps were replaced and we thought it necessary to get the corrosion inhibitor chemical to a point where the water enters the tubing string so we went to a hydraulic type system and it was necessary, of course, to be high volume. They're sort of quite expensive, and we have found that by injecting corrosion inhibitor with a power oil down the tubing, that we can contain this corrosion condition.

Q What would be necessary, Mr. Eskew, in order to comply with the rules and regulations and manuals of the Commission to commingle the production from these two leases and how much would it cost to do that?

A The necessary meters, proving connections, samplers, another heater treater and the labor involved in this installation would be approximately \$7,000.00, and this, we feel to be too much to economically continue producing both wells. In fact, if we're not allowed to commingle without putting in these facilities, we will have to plug and abandon the State

AJ Number 1.

Q Is your proposal for commingling set forth on Exhibit Number 2?

A Yes, it is.

Q Would you briefly describe the manner in which you would propose to commingle the production from these two leases?

A Starting with a triplex pump, the power oil is separated at the power oil meters and distributed to the individual wells. The production, oil and water, is commingled, enters a single heater; from there to power oil production tanks which are at constant level, and the difference in the amount of power oil used in production is transferred by gravity to the stock tanks. And we propose, should we be allowed to use these facilities, to perform monthly production tests on each well and report these tests to the Commission.

Q How would your tests actually be performed on the basis of which production would be allocated to each of these wells?

A Once production is stabilized from both wells, one well will be shut in. Say, for example, the State AJ Number 1 would be shut in. The production on a twenty-four hour period would be measured in the stock tanks from the Amerada State Number 1. Then power oil would be transmitted to the State AJ

Number 1 again, and production stabilized over a three to five-day period, and then the Amerada State Number 1 would be shut in for a twenty-four hour period and the production gauged in the stock tanks from the State AJ Number 1.

Q In your opinion, Mr. Eskew, would this monthly testing procedure be adequate under the circumstances, the production from these two wells, to adequately allocate the monthly and daily production that you will obtain from these wells?

A In my opinion, it would be.

Q In your opinion, would this afford adequate protection to the correlative rights of the overriding royalty interests under both of these leases?

A Yes, it would.

Q Has actual notice been given of this application to all of the overriding royalty interests that you mentioned earlier in your testimony?

A Yes, it has. To our knowledge, they have no objection.

Q No one has registered any objection to this?

A No, they haven't.

Q Were Exhibits 1 and 2 prepared by you or under your direction?

A Yes, they were.

MR. MORRIS: Aztec's Exhibits 1 and 2 are offered

into evidence.

MR. NUTTER: Aztec's Numbers 1 and 2 will be admitted in this case.

(Whereupon, Applicant's Exhibits Numbers 1 and 2 were admitted in evidence.)

MR. MORRIS: That's all I have on direct, Mr. Examiner.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Eskew, inasmuch as you're not putting in a testing system here, you propose to shut the wells in one day a month and take a production test there?

A Yes, sir.

Q You're producing 15 barrels from one well and 35 barrels from the other. That's a total of 50 barrels production you are going to lose each month.

A Right.

Q Wouldn't the installation of at least a testing loop pay out with 50 barrels of production a month?

A We feel that it would not because, at this time, the lifting cost is \$2.00 per barrel in this particular pool because we have to buy sweet gas. The gas produced on the lease is too sour and it's necessary to replace the engines quite often if you use a sour gas. Corrosion inhibitor is quite expensive.

The paraffin solvent we use is expensive, also, and this accounts for this \$2.00 per barrel lifting cost.

Q And it has become completely infeasible to lift with a standard beam pumping equipment?

A This is correct.

Q Now, in the application here, it states that the Applicant has installed a hydraulic pumping system. Has this already been put in?

A Yes, sir. It has already been put in exactly as it's pictured in Exhibit Number 2.

Q How is it being used at the present time?

A At this time, we are producing only Amerada State Number 1.

Q That's the one that makes 35 barrels?

A Right.

Q So your AJ is shut in at the present time?

A We have tested the AJ Number 1 this month of July and we know its capabilities, but it is shut in now.

Q Now, the application further states that the State Land Office has been advised of the application. Have they given their consent to it?

A Whether we've received correspondence from them or not, I do not know.

Q Have you checked it out to be sure that the beneficiary --

A Yes, I checked this --

Q -- is identical?

A -- with the local office in Hobbs and the beneficiary is the same.

Q What is the beneficiary here?

A I don't recall who it is. But I remember they're the same.

Q Now, would you go through those overriding royalties again, please? I didn't take those down when you were reading them on the State AJ Number 1.

A State AJ Number 1, Fort Worth National Bank is the Executor for Roy S. McGrueter, 2%.

Q Okay.

A And Helen McGrueter Colliker, 2%. And Morris R. Antwell, 3-1/2%. The Amerada State Number 1, Amerada Petroleum Corporation, 6-1/4%. Tenneco, 4.71750%. C. R. McVey, .78125%.

Q Point seven --

A Eight, one, two, five. And Carmen J. Stafford also has .78125%.

Q Now, the application, I don't think, states that a copy of the application was sent to them. What contact has been made with these parties?

A Here's a copy of a letter which has been sent to all the royalty owners and it asks for their approval or this approval.

Q Have the parties returned the letter to you approved?

MR. MORRIS: Let me interject, Mr. Examiner, that I'm informed by Mr. Starks who sent this letter out, who is an attorney for Aztec in Dallas, that waivers have been received from Amerada, from C. R. McVey and from Fort Worth National Bank, Executor and Trustee, and that no objections have been received. However, some of the waivers have not been received, either.

May I ask that this form letter that was sent out to all overriding royalty interests be marked as Exhibit 3 in this case?

(Whereupon, Applicant's Exhibit Number 3 was marked for identification.)

MR. MORRIS: We offer this letter which was sent to all of the overriding royalty interests that Mr. Eskew testified to by Astec on July 11, 1968 informing them of this application and asking for their cooperation.

MR. NUTTER: Well, if it was only sent out July the 11th, there's a chance that additional waivers will be obtained. Would you contact Mr. Starks, Mr. Morris, and request that he

follow up on this and furnish us with waivers as they come in from the interested parties?

MR. MORRIS: Yes, I will.

MR. NUTTER: Also, request that you furnish us with a waiver from the State Land Office to the proposed commingling.

MR. MORRIS: All right, sir.

MR. NUTTER: If the beneficiaries are the same, I don't think they'll have any objection. They may.

Are there any further questions of Mr. Eskew? You may be excused. Do you have anything further, Mr. Morris?

MR. MORRIS: No, sir.

MR. NUTTER: Does anyone have anything they wish to offer in Case 3822? We'll take the case under advisement.

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