

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

11 July 1984

EXAMINER HEARING

IN THE MATTER OF

Application of Merrion Oil & Gas Corporation for retroactive allowable, Rio Arriba County, New Mexico.	CASE 8261
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BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

For the Applicant: William F. Carr
Attorney at Law
CAMPBELL & BLACK P.A.
P. O. Box 2208
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I N D E X

DANIEL S. NUTTER

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3 MR. STAMETS: We'll call next
4 Case 8251, application of Merrion Oil & Gas Corporation for
5 retroactive allowable, Rio Arriba County, New Mexico.

6 MR. CARR: May it please the
7 Examiner, my name is William F. Carr with the law firm Camp-
8 bell and Black, P. A., of Santa Fe, appearing on behalf of
9 Merrion Oil & Gas Corporation.

10 I have one witness who needs to
11 be sworn.

12 MR. STAMETS: Any other appear-
13 ances in this case?

14 (Witness sworn.)

15 DANIEL S. NUTTER,
16 being called as a witness and being duly sworn upon his
17 oath, testified as follows, to-wit:

18 DIRECT EXAMINATION

19 BY MR. CARR:

20 Q I'd like to ask you to state your name.

21 A My name is Dan Nutter.

22 Q Where do you reside?

23 A In Santa Fe, New Mexico.

24 Q By whom are you employed?

25 A I'm a consulting engineer employed in

1
2 this case by Merrion Oil & Gas Corporation.

3 Q Have you previously testified before the
4 Commission or one of its examiners and had your credentials
5 as an engineer accepted and made a matter of record?

6 A I have.

7 Q Are you familiar with the application in
8 this case and the subject well?

9 A Yes, I am.

10 MR. CARR: Are the witness'
11 qualifications acceptable?

12 MR. STAMETS: They are.

13 Q Mr. Nutter, would you briefly state what
14 Merrion Oil & Gas Corporation seeks with this application?

15 A Merrion Oil & Gas Corporation is seeking
16 the assignment of a retroactive gas allowable to its East
17 Lindrith Well No. 5 in the South Blanco Pictured Cliffs
18 Pool, Rio Arriba County, New Mexico, from the date, the ef-
19 fective date of a regular allowable which was assigned to
20 the well in -- on July 18th of 1983, until the present --
21 let me back up -- from date of first production on June 2nd
22 of 1982 until the effective date of a regular allowable as-
23 signment on June -- July the 18th of 1983.

24 Q Mr. Nutter, have you prepared certain ex-
25 hibits for introduction in this case?

A Yes, I have.

Q Would you please refer to what has been
marked as Merrion Exhibit Number One, and using this exhibit

1
2 provide Mr. Stamets with a history of this well?

3 A Yes. Exhibit Number One is a chronologi-
4 cal history of certain events that occurred in the life of
5 the well.

6 I don't know the exact spud date on the
7 well; however, the drilling of it was completed May the 22nd
8 of 1980.

9 Now, the well was not actually cased and
10 perforated and completed until December the 3rd of 1981.
11 This was a period of a year and a half from the date the
12 drilling was completed.

13 However, if the Examiner will recall,
14 this well was involved in a long series of compulsory pool-
15 ing hearings of Merrion Oil & Gas Corporation versus Mr. and
16 Mrs. Brown, and until all the problems were resolved con-
17 cerning the forced pooling of the Brown case, Merrion Oil &
18 Gas chose not to try to complete the well and perforate it.

19 So the well sat there after being drilled
20 for a year and a half. Finally Order No. R-6366 was entered
21 resolving the forced pooling problems. The rig was moved in
22 and the well was completed ready to produce on December 3rd
23 of 1981.

24 A one point back pressure test was taken
25 on December the 8th of 1981 and it qualified for connection
to a gas pipeline, so a deal was made with El Paso to con-
nect the well but no connection was made until June the 2nd
of 1982.

1
2 Thus we see that more than two years has
3 elapsed between the time that the drilling on the well was
4 completed and it was put into the pipeline.

5 The well commenced producing in June of
6 1982 and continued producing until it was shut in for over-
production, which was in June of 1983.

7 Q Would you now refer to your Exhibit Num-
8 ber Two and review the production data contained thereon?

9 A Yes. As you'll note from Exhibit Number
10 Two, the first production was in June of 1982 for a total of
11 6641 Mcf of gas for that month.

12 The well was carried in the proration
13 schedule with an NC, indicating a new connection.

14 A deliverability test could have been
15 scheduled for the well as late as September of 1982 and
16 still by virtue of a deliverability test can be back-dated
17 for allowable purposes for ninety days, so effective in Sep-
18 tember you could have taken the deliverability test, had it
19 back dated back to June the 2nd of 1982, and had a full al-
20 lowable assigned to the well; however, through some mix-up a
21 deliverability test was not scheduled until September -- un-
til December of 1982.

22 In December of 1982 a deliverability test
23 was commenced; however, the test had to be aborted in the
24 middle of the test because we've checked the pumper's logs
25 on the test and found that in January the snowdrifts were
too deep to get to the well, so that test was aborted.

Another test was then scheduled for March of 1983 and there was something wrong with the charts on that test and no volumes could be reported. So another chance to qualify the well for an allowable was lost.

Subsequent to that there was not another test scheduled until October -- it was either scheduled to start in September or start in October, I don't know, but the test was completed in October of 1983.

So that was the first deliverability test that was completed on the well.

When the deliverability test was reported to the Oil Conservation Division in Aztec on October the 17th of 1983, an allowable was assigned retroactively for ninety days from the date the test was received, which brought the allowable back to July 17th of 1983.

That will, you will notice, be the first allowable that's assigned there on Exhibit Number Two, which was 385 Mcf for the month of July.

Subsequent to that the well has received an allowable, the minimum allowable in that pool, of 1000 for five months; however the minimum allowable for the pool is 250 Mcf per day now, and it is classified for the first time in May of 1984 as a nonmarginal well.

So that we can see even though the deliverability test was taken way back in July -- or the allowable was assigned way back in July of 1983, it doesn't carry any classification actually until the May schedule of 1984.

1
2 So there's been nothing at any time to
3 indicate that the well was in a badly overproduced condition
4 until the May schedule came out. The May schedule showed
5 that the well had an overproduced status of 17,368 Mcf.

6 Now, if we take this 17,368 Mcf which was
7 the status of the well at the end of May of 1984, and we
8 divide that by the twelve month average for the allowables
9 in the preceding twelve full months, which would be August
10 through May of 1984, we find that the well is 15.3 times
11 overproduced the twelve month average allowable for that
12 twelve month period.

13 However, these allowables included those
14 high allowables back in '83 and the early part of '84 when
15 they were, even the minimum allowables were four times what
16 a present day minimum allowable is for the pool, being 1000
17 versus the present day 250 Mcf for a monthly minimum allow-
18 able.

19 So if we only take the last four months
20 which we have an allowable for, which would be April, May,
21 June and July of 1984, we find that the average allowable
22 there comes out that the overproduction is 25.3 times the
23 last four months average allowable, which would mean in or-
24 der to get back in balance if allowables continued at the
25 rate they are for the last four months, if allowables con-
tinued at that rate, it would be over two years before this
well could get back in balance being completely shut in.

We feel that this is a definite hardship,

1
2 an economic hardship on the operator.

3 First of all there was a delay of two and
4 a half years from the time the well was completed -- there
5 was a delay of two years from the time the well was com-
6 pleted in mid-1980 until mid-1982 before it could be put on
7 production.

8 Then it qualified for a year's production
9 and it will have to now be shut-in. It's been shut-in for a
10 year now, and it will have to be shut-in, then, for another
11 two years.

12 So we find that if the well has -- two
13 years from now will be 1986, so we'll find that the well in
14 a six year period from 1980 until 1986 had one year of pro-
15 duction. Doesn't seem right that a well would have to be
16 penalized that much for having one year of production at a
17 time when allowables were fairly high and then be faced with
18 such a low market demand period of time in which to make it
19 up.

20 Q Mr. Nutter, what does the NC symbol mean
21 in terms of the status?

22 A The NC in the proration schedule means a
23 new connection and it doesn't denote what's going on with
24 that well. It could be that there's no test that's been re-
25 ported. It could be that a test has been filed, a legiti-
mate test that's being processed by the Division offices.
Sometimes I've seen those take more than a year.

Q Is --

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2 A Before you find out what the status of
3 your well is, because it will carry an NC on it but it won't
4 carry any status. It won't indicate that the well is in any
5 danger of being overproduced.

6 Q Would the NC status have alerted anyone
7 to this particular problem at Merrion Oil & Gas?

8 A No, no flag was raised as far as they
9 were concerned. They had such a voluminous case file to
10 start with with all of the forced pooling proceedings and
11 the tests and the retests and the aborted tests, and things
12 like this, that it just got -- the well actually got lost in
13 the shuffle.

14 Q Was there anything in the reporting from
15 El Paso that should have signaled to them this problem?

16 A There was -- at one time El Paso was re-
17 porting a code 88, I believe it is, on the well, or it was
18 reporting a code 11 on the well on the production reports
19 there that come to the operator, and that meant that there
20 was a problem with market demand on the well.

21 If it had carried the proper code, which
22 would have been a code 88, it would have shown that a regu-
23 latory form was missing.

24 So that was another thing, it kept coming
25 in with this code 11 rather than a code 88 on the reports
that go to the operator and the operator wasn't aware, the
well having gotten lost in the shuffle, there was no flag
from El Paso, either, to indicate that the well was in

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trouble insofar as form filing was concerned.

Q When the proper test was finally taken, was this taken at the earliest possible time or was it in the normal course of --

A Well, the tests were scheduled different times and tests were broken. The time when they could have tested sooner was after the test that was started in March of 1983 and aborted.

There was no further testing done then for -- until October of September.

Q Could that October test have been conducted at an earlier date?

A It might have been but if the operator had been aware of a problem he would have scheduled it sooner, but he wasn't really aware of a problem at that time.

Q Mr. Nutter, you're familiar with prorationing in New Mexico, are you not?

A Yes.

Q If an earlier test had been filed, tested and filed in a timely fashion, this problem simply would not have occurred, would it?

A No, because the allowable is always, under normal procedures, the allowable, assuming the other forms are filed, a notice of connection and a C-104 requesting an allowable, then the only thing that hinges is receiving deliverability test and the date of the receipt of

1 the deliverability test is backed up ninety days for the ef-
2 fective date of an allowable.
3

4 And the District Office did do that.
5 They backed up -- the test was received October 17th. They
6 backed up ninety days from that and assigned the allowable
7 effective July.

8 Q If that test had been filed at an earlier
9 date, the well would have produced the same volumes but now
10 would not be overproduced.

11 A The well would have produced the same
12 volumes.

13 Q And would it be overproduced today?

14 A No.

15 Q If this application is granted, what im-
16 pact will it have on correlative rights?

17 A It won't have any impact on correlative
18 rights to grant the application -- on anyone else's correla-
19 tive rights.

20 Q What would --

21 A It will have -- it will have a favorable
22 impact on the correlative rights of the operator because he
23 has had the well completed in the pool. Through a negligent
24 error, a comedy of errors and whole series of broken gas
25 well deliverability tests, end up with no allowable for a
period of time when the well was producing and got into this
overproduced status.

Q Will granting the application cause

1 waste?

2 A No, it won't. It won't cause any waste
3 at all.

4 Q Were Exhibits One and Two prepared by you
5 or have you reviewed them and can you testify as to their
6 accuracy?

7 A I can testify to the accuracy except for
8 the Item 5 on Exhibit One. It says the date of the first
9 deliverability test was January 26th of 1983. Broke test,
10 rescheduled in October. There was another one scheduled in
11 between that broken test in January and the one that was
12 scheduled in October.

13 That's the only incorrect thing that's on
14 that.

15 Q And did you prepare Exhibit Number Two?

16 A Yes.

17 MR. CARR: At this time we
18 would offer Merrion Exhibits One and Two into evidence.

19 MR. STAMETS: These exhibits
20 will be admitted.

21 MR. CARR: I have nothing fur-
22 ther of Mr. Nutter on direct.

23 CROSS EXAMINATION

24 BY MR. STAMETS:

25 Q Mr. Nutter, you mentioned early in your
testimony that there was something that happened that caused

1 the operator not to take that test before January 26th. Was
2 there some particular thing you had in mind, or speaking
3 generally?
4

5 A First test? No, there wasn't any parti-
6 cular -- anything in particular there.

7 Q As far as you are aware the failure to
8 commence this test before January 26th, 1983 was just from
9 the fact that the operator has overlooked the necessity of
10 doing that.

11 A Right.

12 Q And if that January 26th test had been
13 completed, we would have had the results perhaps in Feb-
14 ruary.

15 A See, actually he was three months late
16 taking that test because that test was started in December.

17 Q It was begun in December?

18 A Yes, and he could have taken the test as
19 late as September, so he actually was three months late
20 starting that test.

21 So he was -- he erred in starting the
22 first test by a three month period, a ninety day period.

23 MR. STAMETS: Any other ques-
24 tions?

25 MR. CARR: No questions.

MR. STAMETS: He may be ex-
cused.

Does anyone have anything fur-

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ther they wish to add in this case?

MR. CARR: Nothing further.

MR. STAMETS: The case will be
taken under advisement.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY
that the foregoing Transcript of Hearing before the Oil Con-
servation Division was reported by me; that the said tran-
script is a full, true, and correct record of the hearing,
prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 8261,
heard by me on July 11, 1984.
Richard A. Ham, Examiner
Oil Conservation Division