

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

27 March 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Slayton Oil Corpor-
ation for a nonstandard proration
unit, San Juan County, New Mexico.

CASE
8535

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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MR. STOGNER: Call next Case
8535.

MR. TAYLOR: The application of
Slayton Oil Corporation for a nonstandard proration unit,
San Juan County, New Mexico.

MR. PADILLA: Mr. Examiner, Er-
nest L. Padilla, Santa Fe, New Mexico, on behalf of the ap-
plicant and I have one witness to be sworn.

MR. STOGNER: Are there any
other appearances in this matter?

Will the witness please stand
and be sworn?

(Witness sworn.)

MR. PADILLA: Mr. Examiner, if
I may be permitted, I'd like to make a short opening state-
ment on this case in order to give you historical perspec-
tive of this proration unit under consideration today.

MR. STOGNER: You may.

MR. PADILLA: In Case 8117
Slayton Oil Corporation applied for a nonstandard proration
unit of 70.57 acres. That application was approved result-
ing in Order R-40 -- 7482.

Subsequently, Greenwood Resour-
ces, Inc., applied to the Division to -- or to the Commis-

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2 sion, to vacate R-7482, and as a result of Case 8285 Order
3 7630 was issued, vacating the original order.

4 We are now back on the basis of
5 new evidence that was not available at the time of the hear-
6 ing, two other hearings, to present additional testimony in
7 support of our application for a nonstandard proration unit
8 of 70.5 acres.

9 With that I'd like to proceed.

10 MR. STOGNER: You may, Mr. Pa-
11 dilla.

12 PAUL SLAYTON,
13 being called as a witness and being duly sworn upon his
14 oath, testified as follows, to-wit:

15 DIRECT EXAMINATION

16 BY MR. PADILLA:

17 Q Mr. Slayton, for the record would you
18 please state your name, your address, and your connection
19 with the applicant in this case?

20 A I'm Paul Slayton, Box 2035, Roswell, New
21 Mexico.

22 Q And what position do you hold with the
23 Slayton Oil Corporation.

24 A I'm the President.

25 Q Will you briefly tell us whether you have
previously testified before the Oil Conservation Division

1 and had your -- before?

2 A About 1970 or '71 I think I testified.

3 Q On your own behalf?

4 A Yes.

5 Q Did you -- would you tell the Examiner
6 what your work experience in the oil and gas industry is?

7 A I started about 1964 with an oil well,
8 buying and selling leases and producing oil and gas. We've
9 done about everything in the field, I guess, from digging
10 the wells to all the way through the plugging.

11 Q Are you familiar with your land holdings
12 in the area of the proration unit under application today?

13 A Yes.

14 Q And you've familiarized yourself with all
15 the title data and exhibits that you are going to present
today?

16 A Yes, I have.

17 MR. PADILLA: Mr. Examiner, I
18 offer Mr. Slayton as an expert and that he be allowed to
19 testify on his own behalf in this proceeding.

20 MR. STOGNER: He may. Please
continue, Mr. Padilla.

21 Q Mr. Slayton, would you briefly describe
22 the operations that you conduct in the area of the proration
23 unit under consideration today?

24 A I operate the Northwest Cha-Cha Unit,
25 which is a large unit, about 15 or 16 producing oil wells.

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2 It's a Navajo Federal lease. It's all
3 contiguous in that it's the northeast corner of the Indian
4 Reservation south of the river there.

5 Q Let me refer you to what we have marked
6 as Applicant's Exhibit Number One and have you tell the Exa-
7 miner what that is and what it contains.

8 A Okay. The end of last year, the first of
9 this year, I had Brewer and Associates in Farmington four
10 aero-photos, had aerial photos taken and do more drafting
11 and surveying engineering on this particular property, and
12 the part we're interested in is the northeast quarter of
13 Section 18.

14 Q Now does that -- can you briefly tell us
15 -- well, what -- what is shown on that photograph?

16 A Okay. Shown --

17 Q What is that?

18 A Shown on the photocopy, the dashed lines
19 are the riverbanks as the old river appeared in 1882, which
20 would have been the part that was the south half of the
21 river would be part of my lease as given to the Navajo Tribe
22 in the Treaty of 1882.

23 Q In other words, you operate generally the
24 property south of the centerline of those --

25 A South of the centerline of the San Juan
River in this section.

Q Now the river has changed over the years
and it's --

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A Yes.

Q -- actually lies to the south of the dashed lines.

A Right.

Q Let me show you what we have marked as Exhibit Number Two and have you identify what that is.

A Okay, Exhibit Number Two is the northeast quarter of Section 18 and it shows the dashed lines, which are meander lines here again of the old river. The heavier dashed line is the centerline of the old river bed as it would have appeared is, as I said, 1882.

Q What acreage lies to the south of the centerline of the river as depicted on Exhibit Number Two?

A That is part of our lease --

Q And --

A -- that lies south of the centerline.

Q What -- how much acreage is that?

A About 70^{ms}.5 acres.

Q And north of that center line?

A That is property operated by Greenwood Resources. There's 89.48 acres.

Q North of the centerline of the --

A Yes.

Q -- river, and it's your understanding that you operate to the centerline of the river.

A Right.

Q And presumably they operate to the cen-

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2 terline of the river.

3 A Presumably.

4 Q Let me show you what we have marked as
5 Exhibit Number Three and have you tell us what that is.

6 A Okay. Number Three is the north half of
7 the northeast of Section 18 and it shows the Kirtland No. 3
8 Well 730 from the north and 5250 from the east, and it also
9 has a red circle that shows where they've recently completed
10 another well in that same tract far north of the river and
11 northeast of Section 18.

12 Q So they have a laydown unit with two
13 wells on the north half of that northeast quarter, is that
14 --

15 A Yes, sir, that's correct.

16 Q Okay. Now where is your well located on
17 the south of the river?

18 A My well is in the southwest of the
19 northwest of Section 18.

20 Q Have you produced your well yet?

21 A We got to produce it for almost a month
22 intermittently, we run it probably about three weeks and
23 then we were shut in.

24 Q Why were you shut in?

25 A The new order came out and the State went
out and put a tag her, I guess, and told us to shut the well
off.

Q Let me show you what we have identified

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as Exhibit Number Four. Tell us what it is and what it --

A Okay, that's a letter from Greenwood Resources saying that at this time they have no objection to my 70.5 acre nonstandard proration unit and that they want no participation in my well that I drilled last year, No. 32-18.

Q So you have been in communication with Greenwood Resources -- Greenwood Resources since issuance of the last order.

A Right.

Q Would approval of this application be in the best interests of conservation?

A Yes.

Q Why is that?

A Well, if it's not approved, there's a real good chance that I'll plug and abandon the well. From what we learned the amount of time that we produced it, probably about 10 barrels a day, to 12, is all it's going to make, we're spending 4 or 5 barrels a day now operating expenses, and if this well has -- if this well can't go into my unit, if I have to get separate tank batteries and haul water and stuff like that, I'll have a loser on my hands before I start, and chances are the well won't get any better. The more we produce it, probably the worse it will get, so it will be uneconomic to produce the well.

Q Well, let me turn to the issue of correlative rights. Would correlative rights be impaired to the

1 north half of the river, to the property line north of the
2 river, in your opinion?

3 A I wouldn't think so.

4 Q And why don't you think so?

5 A We have two wells in the 80 that's north
6 of the river now and I think you'll find that those two
7 wells are much closer to my property line than my well is
8 closer to their property line.

9 Q Okay. Now what kind of time parameters
10 are you facing with respect to issuance of the order
11 approving this application?

12 A The Minerals Management wants me to
13 produce the well, have it hooked into the line and producing
14 by the 15th of April or they want the well plugged.

15 Q You're not going to produce it if you
16 have to have two tank batteries.

17 A No, there's too much red tape, too much
18 paperwork for a 10 or 12 barrel well. Like I say, it would
19 be a loser to start with so there's no problem, have any
20 more problems.

21 MR. PADILLA: Mr. Examiner, we
22 offer Exhibits One through Four, and tender the witness for
23 cross examination.

24 MR. STOGNER: Exhibits One
25 through Four will be admitted into evidence.

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Slayton, I'm still a little confused on the lines here.

A Okay.

Q So let's go to Exhibit Number Three, which shows Section 18, 29 North, 14 West.

A Okay.

Q Now the proration shown on here is consisting of Lots 1 and 2, is that right?

A Yes, sir.

Q Okay, so Lots 8 and 9 would essentially consist of, looking at this map, the southeast quarter of the northeast quarter and the northeast quarter of the southeast quarter. Would that be correct?

A You said Lots 1 and 2?

Q No, Lots 8 and 9, the one that you're seeking.

A Yes, the southeast of the northeast and the southwest of the northeast.

Q Repeat that again.

A Looking at this map it would be the -- it would be the south half of the northeast quarter of 18.

Q I guess I'm just a little bit confused to where Lot 9 is.

MR. PADILLA: Mr. Examiner, if I may, it may be necessary for -- to take administrative no-

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2 tice of the other two -- of the record of the other two
3 hearings.

4 I think I also have a land plat
5 showing --

6 Q Okay, you're referring to Case Nos. 8117
7 and 8285?

8 MR. PADILLA: That's correct.

9 MR. STOGNER: The Division will
10 take administrative notice of those two cases and if you
11 have a map, I'd like to see it.

12 A Mr. Examiner, on your aerial photo it's
13 the center line, the center of the meander lines, the south
14 part of it is what is our acreage.

15 And the aerial photo --

16 Q Would you mark on my exhibit your ac-
17 reage?

18 A Sure.

19 Q In colored pen or pencil?

20 MR. STOGNER: Let's go off the
21 record for a little bit.

22 (There followed a discussion off the record.)

23 MR. STOGNER: We'll go back on
24 the record now.

25 Q Mr. Slayton, I asked you before we went
off the record to draw on Exhibit Number One your acreage,

1 and you did so.
2

3 The north part, if you took the whole of
4 Lots 8 and 9, and the north part that's not included in your
5 acreage, who owns that acreage?

6 A I would presume that it belongs to Green-
7 wood Resources.

8 Q Is that on Navajo land?

9 A No.

10 Q It is not.

11 A North of the centerline would not be Nav-
12 ajo land.

13 Q Okay, so I have this letter here in Exhi-
14 bit Four from Greenwood Resources, that 10 acres, or 9.5 ac-
15 res under question here, is that under lease agreement to
16 Greenwood Resources?

17 A I'm not sure of their legal position but
18 they -- their leases called for riparian rights, I believe,
19 in one of the other hearings. I'm having to go back on
20 memory but I think their -- they had what, the riparian
21 rights to the center of the river, I believe, was -- was
22 what this original thing all started over.

23 Since those first two hearings you had
24 another hearing with Greenwood and granted them the right to
25 drill their other well in the northeast of the northeast of
26 18.

27 Q And that essentially took in Lots 1 and
28 2, is that right?

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A Well, it would be the second well on Lots 1 and 2.

Q But this 10 acres, is it just floating out there in limbo with no production dedicated to it or --

MR. PADILLA: If I may respond to that, it seems that the grant to the Indians right to the center line of the -- right to the center line of the riverbed. Presumably the patent involving Lots 1 and 2 also goes to the centerline.

The last hearing I argued about a potential jurisdictional question about whether for a decision as to who owned the actual riverbed or the trend of the river. We never really resolved that. I'm not sure that -- certainly Mr. Slayton doesn't want to spend any money trying to figure out who owns that but we are going on the assumption that those leases on the north do extend to the centerline of the river, and so there is no acreage left unproduced acreage.

Q Okay, now the case that you are referring to is Case 8406. Order No. R-7762 came out of that, heard by me on November 28th, is that right?

MR. PADILLA: I believe that's the one authorizing the second well on the proration unit of Greenwood.

MR. STOGNER: Well, Greenwood Resources was the applicant for compulsory pooling and an unorthodox oil well location to be drilled at an unorthodox

1 location 990 foot from the north line, 360 foot --

2 A Yes, that's the second well.

3 MR. STOGNER: Okay, and the --
4 I show the acreage dedicated to that well was the north half
5 northeast quarter of Section 18, for a standard 80-acre oil
6 proration and spacing unit.

7 MR. PADILLA: I don't -- based
8 upon the master title plats, I don't see how you could have
9 a subdivision called the north half of the northeast quar-
10 ter. It would be Lots 1 and 2.

11 MR. STOGNER: Okay, let's go
12 back and talk about lots again.

13 Okay, Lot 9, you show consists
14 of 28 acres, is that right?

15 A I would think it would be 28 acres plus
16 half of the riverbed.

17 Q Has that been surveyed out there?

18 A Yes, sir.

19 Q And this is the survey. Let's refer to
20 Exhibit Number Two.

21 A Okay.

22 Q So the 70.5 acres that we are talking
23 about today is everything from south of the center of the
24 old riverbed.

25 A Yes, sir.

Q Okay. And Lots 1 and 2 would consist of
everything north of the centerline of the riverbed.

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A That's right.

Q Okay. Where is the well located that will be dedicated to this acreage, or has it been drilled yet?

A Oh, yes, it was drilled last year.

Q Okay, and what --

A Immediately after the first hearing. The southeast of the northeast of 18.

Q Do you have the footage location of that well?

A Do you have it in your file?

Q And the name of that well?

A It's Northwest Cha-Cha 32-20.

Q Northwest Cha-Cha 22-20?

A 32-20.

Q 32-20. While you're digging that information up, was the appropriate agency for the Navajo Indian Reservation, whether it be the U. S., BLM, or the BIA, have they been notified of this, or are they aware of this situation?

A Yes, the BIA and the -- they've been -- I've been on them pretty hard for about six months on it.

Q Okay.

MR. PADILLA: Mr. Examiner, that well location is contained on the application. It's the 32-18 Well, 2200 feet from the north line and 2065 feet from the east line of that Section 18.

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Q The Well 32-18.

A Yes, sir. The well was drilled, the 32-18 Well was drilled because we were required to drill it by Minerals Management to stop drainage.

Q And you're still producing it; it has been producing all that time?

A No, it only produced about three weeks. We only -- they demanded the first of last year, the first of '84 that we drill the well with the threat of compensatory royalties both forward and backward, and so we kind of got on the stick.

We had to drill two wells to stop drainage from the wells north of the river.

Lots 8 and 9 and the lots down that side, but we had another hearing on the other well and we got the rest of it taken care of with the 13-18 Well, but the 32-18 Well is the one we're talking about now.

Q Where's the 32-13 Well?

A It's in Section 18, also. I don't know. It was another in the first hearing.

Q Was the 32-18 the first well or the second well on the proration unit?

A Oh, no, this -- it's in a different proration unit. I'm sorry.

Q So there's only one well on the proration unit.

A Yes, sir.

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Q Okay, so the 32-13 really has no bearing on --

A No, not on this particular case.

Q When will this well be turned back on?

A As -- as soon as we learn something from you people. When you give us the go-ahead, why, I'll start laying pipeline to pick it up.

We produced into frac tanks the first month and we've now moved the frac tanks so I'll have to lay flow lines and get it hooked into the system.

MR. STOGNER: In reviewing Order No. R-7630, Mr. Padilla, maybe you can help me out here, after hearing the testimony today and our discussion, some particular findings may be in R-7630, such as, that there is a standard 80-acre oil proration unit comprising Lots 1 and 2, this is Finding Number Three, this is not so, is that right?

MR. PADILLA: In response to that I'd probably want to also -- in my opinion, no, that is not so. That should at least be Lots 1 and 2.

Obviously I don't agree with that order, having been on the losing side.

MR. STOGNER: Mr. Padilla, do you need this back that you've given me? This is Exhibit Number Five off of Case 8285?

MR. PADILLA: I don't need it.

MR. STOGNER: Okay, may we keep

1 it?

2
3 MR. PADILLA: You certainly
4 may.

5 MR. STOGNER: Okay, I have no
6 further questions of this witness, of Mr. Slayton.

7 Are there any other questions
8 of Mr. Slayton?

9 MR. TAYLOR: Do you have a copy
10 of your lease from the Tribe?

11 Do you have a lease from the
12 Navajo Tribe, is that what you have, a Federal lease?

13 MR. SLAYTON: Yes.

14 MR. TAYLOR: Could we have a
15 copy of that? Is that -- is the description in that lease a
16 metes and bounds description or just include lots or does it
17 --

18 MR. SLAYTON: No, it includes
19 all of Section 18 which lies north -- south of the center-
20 line of the San Juan River. That's what the lease calls
21 for.

22 MR. STOGNER: The San Juan
23 River as it stood in 1880.

24 MR. SLAYTON: Yes.

25 MR. TAYLOR: Could we get a
copy of that?

MR. SLAYTON: Yeah, it's an old
lease from about 1954-55.

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2 MR. PADILLA: I think he also
3 has a unit agreement, which he operates the Cha-Cha Unit.

4 MR. TAYLOR: We'd like to have
5 that, too, just to make sure we know what we're up to.

6 MR. SLAYTON: You need the unit
7 agreement?

8 MR. TAYLOR: If we could, you
9 know, how about just --

10 MR. SLAYTON: Like that.

11 MR. TAYLOR: Yeah, just sent it
12 all.

13 MR. STOGNER: Send it all up.

14 Okay, Mr. Padilla, I'm going to
15 leave this record open pending that information, the lease
16 and the unit agreement. I may have some questions after I
17 receive them.

18 If you'll get that up to us,
19 maybe we'll get this thing resolved as soon as possible.

20 Is there anything further in
21 Case Number 8535 at this time?

22 MR. PADILLA: No, sir.

23 MR. STOGNER: Then this witness
24 may step down and we'll proceed today.

25 (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 Conservation Division was reported by me; that the said
transcript 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 and true transcript of the proceedings in
the Examiner's hearing of Case No. 8535,
heard by me on 27 March 1985.
Michael B. Stynes Examiner
Oil Conservation Division.