

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

17 September 1986

EXAMINER HEARING

IN THE MATTER OF:

Application of Cinco, Ltd. for a non-  
standard gas proration unit and for  
an exception to Division Order No.  
R-8170, Rio Arriba County, New Mexico.  
and

CASE  
8971

Application of the Estate of Edward  
Gerber and Iris Gerber Damson for a  
nonstandard gas proration unit and for  
an exception to Division Order No.  
R-8170, Rio Arriba County, New Mexico.

CASE  
8972

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

Jeff Taylor  
Legal Counsel for the Division  
Oil Conservation Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant:

Ken Bateman  
Attorney at Law  
WHITE, KOCH, KELLY & MCCARTHY  
Santa Fe, New Mexico

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MR. CATANACH: Let's call Case 8971.

MR. TAYLOR: Application of Cinco, Limited, for a nonstandard gas proration unit and for an exception to Division Order No. R-8170, Rio Arriba County, New Mexico.

MR. CATANACH: This case was heard August 20th, 1986, and subsequently readvertised for some errors in the advertisement.

Is there anything further in this case at this time?

MR. BATEMAN: Mr. Examiner, I'm Ken Bateman of White, Koch, Kelly, and McCarthy, on behalf of the applicant.

We have nothing further at this time.

We would ask that this case be combined with Case 8972, which was also heard on August the 20th.

MR. CATANACH: Okay, we'll call Case 8972.

MR. TAYLOR: Application of the Estate of Edward Gerber and Iris Gerber Damson for a nonstandard gas proration unit and an exception to Division

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Order No. R-8170, Rio Arriba County, New Mexico.

MR. CATANACH: Is there anything further in this case?

MR. BATEMAN: Nothing further on behalf of the applicant.

MR. CATANACH: Okay. Case 8971 and Case 8972 will be taken under advisement.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY  
CERTIFY the foregoing Transcript of Hearing before the Oil  
Conservation Division (Commission) 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 record of the proceedings in  
the Examiner hearing of Case No. 897173  
heard by me on Sept. 17, 1986.

David R. Catamb, Examiner  
Oil Conservation Division

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

3 September 1986

EXAMINER HEARING

IN THE MATTER OF:

Hearings called on this docket but  
for which no testimony was presented.

CASE  
8305  
8936, 8820,  
8972, 8971,  
8849, 8984

*Transcript in  
Case 8305*

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: No attorney present.

For the Applicant:



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I N D E X

STATEMENT BY MR. BATEMAN	4
A. R. KENDRICK	
Direct Examination by Mr. Bateman	6
Cross Examination by Mr. Catanach	15

E X H I B I T S

Applicants Exhibit One, Plat	7
Applicants Exhibit Two, Document	8
Applicants Exhibit Three, Calculations	9
Applicants Exhibit Four, Plat	9
Applicants Exhibit Five, Calculations	11

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MR. CATANACH: Call next Case

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8971.

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MR. TAYLOR: Application of

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Cinco, Ltd. for nonstandard gas proration unit and for an

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exception to Rule 5(a)2(2) of Division Order R-8170, Rio Ar-

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riba County, New Mexico.

8

MR. CATANACH: Are there

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appearances in this case?

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MR. BATEMAN: Mr. Examiner, I'm

11

Ken Bateman of White, Koch, Kelly & McCarthy, appearing on

12

behalf of the applicant and I request that this case be com-

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bined for purposes of testimony with Case Number 8972.

14

MR. TAYLOR: Case 8972 is the

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application of the Estate of Edward Gerber and Iris Gerber

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Damson for a nonstandard gas proration unit and an exception

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to Rule 5(a)2(2) of Division Order No. R-8170, Rio Arriba

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County, New Mexico.

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MR. BATEMAN: Mr. Examiner, I'm

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also appearing on behalf of the applicant in Case Number

21

8972.

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MR. CATANACH: Are there ap-

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pearances in either one of these cases?

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Will the witnesses please stand

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and be sworn in?

(Witness sworn.)

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MR. BATEMAN: Mr. Examiner, as a preliminary matter, we have some difficulty with the form of the advertisement, but, if I may, may I give you a little background on the case?

If you'll look at what's been marked Exhibit One, which we'll get into in a moment, but for purposes of background you'll see that the acreage involved in in Section 32 of 30 North, 7 West. It's in the west half of the section. The advertisement incorrectly indicated Section 36.

But again as background, the situation is as follows: The producing well which you see in the southwest quarter of Section 32 is the Ired State No. 1. It is a well which was drilled, I think, in about 1953 on a State lease.

The applicants in Case 8972 -- the applicants in Case 8972 are about to obtain the operating rights for the west half of Section 32. They have been previously royalty owners in that area and the principal reason for the acquisition of the operating rights, or the working interest, is to arrange for the drilling of an infill well in the northwest quarter, and in that connection a farmout agreement is anticipated with the applicant in Case 8971, Cinco, Limited.

1                   Now, what these two applications have in  
2 common is the application of both applicants for the crea-  
3 tion of a nonstandard proration unit of 160 acres; one, to  
4 be dedicated to the Irid State No. 1, and the other to be  
5 dedicated to the well to be drilled in the northwest quarter  
6 of the west half of Section 32, the northwest quarter of  
7 Section 32.

8                   And in proposing such a solution to the  
9 drilling of an infill well, it became obvious that the ap-  
10 plication of the allowable formula, which is in effect in  
11 the Mesaverde, and this would be Mesaverde production, would  
12 adversely affect the allowable for both of these wells un-  
13 less there was a change.

14                   Now if we can go back to the application  
15 itself, the difficulty is as follows:

16                   First of all, the two wells, or the two  
17 properties are in Section 32, as I pointed out.

18                   Secondly, in Case 8972 there's no new  
19 well proposed. We proposed simply to dedicate the nonstand-  
20 ard proration unit to the existing well.

21                   The application indicates that we are  
22 asking for a full acreage factor of 1.00 for each well and  
23 that is not the case. We are asking instead for the appli-  
24 cation of a full deliverability factor to the formula, and  
25 that will become obvious in the testimony.

1                   But I believe that the form of the adver-  
2                   tisement is misleading in that it does indicate that we're  
3                   asking for a full acreage factor, which is not necessary.

4                   Now, Exhibit One shows that El Paso  
5                   Natural Gas Company is the offsetting operator of all the  
6                   acreage. It operates the San Juan 29-7 Unit to the south  
7                   and the San Juan 30-6 Unit surrounding the acreage in Sec-  
8                   tion 32, and El Paso Natural has been apprised of the de-  
9                   tails of this application and specifically what we're asking  
10                  for; nevertheless it will be necessary to readvertise the  
11                  hearing, but I would request that we proceed with the testi-  
12                  mony today pending readvertisement of the case.

13   MR. CATANACH: That will be  
14                  fine, Mr. Bateman.

15

16   A. R. KENDRICK,  
17                  being called as a witness and being duly sworn upon his  
18                  oath, testified as follows, to-wit:

19

20   DIRECT EXAMINATION

21                  BY MR. BATEMAN:

22   Q                  All right, sir, would you state your full  
23                  name and place of employment for the record, please?

24   A                  A. R. Kendrick. I'm a consulting en-  
25                  gineer from Aztec, New Mexico.



1 Mesaverde formation by well number; they're spotted in the  
2 40 acres in which the wells are located. The north two  
3 tiers of sections are stippled, except for the west half of  
4 Section 32, which is left clear. This stippling identifies  
5 the San Juan 36 -- or a portion of the 30 -- San Juan 36  
6 Unit operated by the El Paso Natural Gas Company.

7 The lower tier of sections is cross-  
8 hatched. That acreage is in the San Juan 29-7 Unit and is  
9 also operated by the El Paso Natural Gas Company.

10 The west half of Section 32 is currently  
11 operated in the name of Laer (sic) Brothers and S. Loeb  
12 (sic) is the operator of the Ired State. That's I-R-E-D,  
13 Ired State, in the Unit letter N of Section 32.

14 Our preliminary proposed location for the  
15 new well to be drilled in Case 8971 would be in the north-  
16 west quarter of the northwest quarter of Section 32.

17 Q All right, sir, would you proceed then  
18 with what's been marked Exhibit Two?

19 A Exhibit Two is a graphic, or excuse me, a  
20 verbal description of the current allowable calculation pol-  
21 icy for calculating the allowable in the San Juan Basin for  
22 prorated wells, using the acreage and deliverability formu-  
23 la. It is just a verbal description of the formula and if  
24 we could proceed down to the lower portion of the page,  
25 where the formulas are described graphically, showing that

1 the allowable is equal to the acreage factor times F-1, plus  
2 the acreage times deliverability, or A x D factor, multi-  
3 plied times F-2 for single well units, and where we have  
4 multiple well units the formula is changed so that the  
5 second portion, the A x D factor is actually A times the sum  
6 of the deliverabilities of the multiple wells. Then that  
7 factor is multiplied times F-2. The derivation of these  
8 terms is identified in the upper portion of the page.

9 Q When you're speaking of multi-well units,  
10 you're speaking of a standard proration unit in which  
11 there's been an infill well drilled, is that correct?

12 A Yes, or an approved drill tract, not  
13 necessarily a standard but --

14 Q Right.

15 A -- an approved drill tract where an in-  
16 fill well has been drilled, yes.

17 Q And operated by the same operator?

18 A Yes.

19 Q All right. All right, would you proceed?

20 A Well, I think that Exhibit Three and Ex-  
21 hibit Four might serve to be utilized at the same time.

22 Exhibit Four is a plat showing the dedi-  
23 cated acreage to two wells in the south half of Section 29,  
24 two wells in the west half of Section 31, and then this pro-  
25 posed two nonstandard drill tracts in the west half of Sec-

1 tion 32, and with that in mind, I would like to show, using  
2 an assumptions for the two wells in the west half of Section  
3 32, how the proration formula operates at the present  
4 policy.

5 The F-1 factor for July, 1986, was  
6 3,469.71 and F-2 was 24.606417. And we have one two-well  
7 drill tract, which would be the equivalent of the west half  
8 of Section 32. We substitute those factors with an assumed  
9 acreage factor of 1.0 and the calculated deliverability of  
10 the Ired State No. 1, which is currently being used as 81,  
11 and an assumed deliverability of the infill well of 1000.

12 By substitution of those in the formula,  
13 the calculated allowable for the 320-acre drill tract would  
14 be 30,069 MCF for the month of July.

15 If we use the current policy and split  
16 the drill tract and make two nonstandard drill tracts, which  
17 would be two one-well drill tracts, we would change the  
18 acreage factor for each of those to 0.50.

19 If we calculated the allowable for the  
20 Ired State No. 1, that would be allowable B-1. The  
21 substitution of the factors in the formula would calculate  
22 us an allowable of 2,744 MCF for the month of July.

23 We substitute the formula for the well to  
24 be drilled in the northwest northwest quarter of Section 32,  
25 that would be allowable B-2, the allowable for July, 1986,

1 would be 14,038 MCF.

2                   When we add those two allowables  
3 together, we wind up with 16,782 MCF. Now, if we compare  
4 that to the allowable we calculated in Item A, of 30,069  
5 MCF, we find that we're just 13,287 MCF short when the wells  
6 are calculated on an individual well basis rather than on an  
7 infill drilled basis.

8                   Our proposed solution to this is identi-  
9 fied in Item C as desired calculations where that we would  
10 continue to use an acreage factor of 0.5 for each well, the  
11 same deliverabilities as assumed under Item B, and instead  
12 of showing the acreage factor in the second portion of the  
13 formula, we would use only the deliverability factor.

14                   Allowable C-1 is the allowable for the  
15 Ired State Well, would be calculated at 3,728 MCF, and Al-  
16 lowable C-2 would be the calculated allowable for the pro-  
17 posed new well in the northwest quarter northwest quarter of  
18 Section 32. That's 26,341.

19                   When we add those together we wind up  
20 with an allowable of 30,069 MCF.

21                   When we subtract that from the allowable  
22 calculated under Item A, we wind up with zero, so that we're  
23 not asking for any advantage, all we're asking for is equal  
24 treatment.

25                   Q           Mr. Kendrick, would you proceed with Ex-

1   hibit Five?

2                   A           Exhibit Five is a comparison of using two  
3 well, or multiple well calculations or individual well cal-  
4 culations. on the three tracts, as shown on Exhibit four,  
5 the first one being the San Juan 36 Unit No. 15 and 15-A  
6 tract in Section 29.

7                               Near the center of the page there's a  
8 column identified as July, 1986. The next column to the  
9 right is the average 1985 monthly factors, and the righthand  
10 column are the total factors for 1985.

11                              So if we use those factors we would rep-  
12 resent either an allowable assigned in July, 1986, or the  
13 average monthly allowable during 1985, or the total allow-  
14 able during 1985.

15                              The acreage factor for the drill tract is  
16 1.0 and the deliverabilities total 733.

17                              Calculated on the -- let's look down the  
18 righthand column for the total and I'll explain that and the  
19 other two columns will be -- have similar connotations.

20                              The multi-well allowable was -- for the  
21 year would have been 194,931 MCF if that were broken into  
22 two nonstandard drill tracts, the allowable would have been  
23 114,475 MCF.

24                              The difference would have been 80,456 MCF  
25 less allowable for two nonstandard drill tracts as compared

1 to a standard drill tract.

2           The difference is more effective on the  
3 short acreage unit in the west half of Section 31, repre-  
4 sented by the San Juan 36 Unit Wells Nos. 8 and 8A, where  
5 the acreage factor for the entire unit is .66; the allowable  
6 -- also to amplify this difference is because the deliver-  
7 abilities are higher, that the allowable for the year is a  
8 standard or the approved drill tract is -- would be 469,872  
9 MCF; as two nonstandard drill tracts it would be 246,090,  
10 the difference being 223,782 MCF allowable loss if that  
11 drill tract is split into two nonstandard drill tracts.

12           The next item identifies the west half of  
13 Section 32, using the 81 MCF as being used on the Ired State  
14 No. 1 and the 1000 as assumed for the new well, the allow-  
15 able for 1985 would have been 271,431. As two nonstandard  
16 drill tracts the allowable would have been 152,724, with an  
17 allowable loss of 118,707 MCF.

18           Our desired calculation is shown below  
19 the row of asterisks at the bottom of the page, where the  
20 Laer Brothers and Loeb Well would have an allowable cal-  
21 culated at 34,705. The Cinco, Limited, State Pat No. 1  
22 would have an allowable of 236,725, assuming a deliverabil-  
23 ity of 1000. The total would be 271,430.

24           If we subtract that from what would be  
25 calculated on the standard unit in the Laer Brothers opera-

1 tion in the section right above that, we'd find out that we  
2 came out one MCF short in the period of a year. We think  
3 that's fair treatment. We'd be within one MCF each year and  
4 there's be no bonus whatsoever financially for the opera-  
5 tions of this as two nonstandard drill tracts as compared ot  
6 a standard drill tract.

7 It's just equal treatment.

8 Our problem here is that the ownership of  
9 the two drill tracts do not have common calculation facili-  
10 ties. It would -- the separation of the two drill tracts  
11 would allow for each party to process their own financial  
12 returns from the production, and make a proper distribution  
13 to their own partners.

14 Q Mr. Kendrick, is this problem a well re-  
15 cognized problem in the industry?

16 A We have very few of this type operations  
17 in the San Juan Basin. They're primarily controlled by  
18 three major producers, being Amoco, Tenneco, and Texaco.  
19 There are less than fifty nonstandard drill tracts of this  
20 type where that they're split into essentially half units at  
21 this time.

22 Q Do you believe that the solution that  
23 you've proposed is one which would protect correlative  
24 rights?

25 A Yes, sir.

1 Q And do you believe it would prevent  
2 waste?

3 A Yes, sir.

4 Q And do you believe it would be in the  
5 best interest of conservation?

6 A Yes, I think it would allow the operation  
7 of the wells to be handled with a minimum amount of  
8 problems.

9 Q Were Exhibits One through Five prepared  
10 by you?

11 A Yes, sir.

12 MR. BATEMAN: I offer Exhibits  
13 One through Five at this time and we have no further  
14 direct examination.

15 MR. CATANCH: Exhibits One  
16 through Five will be admitted into evidence.

17

18 CROSS EXAMINATION

19 BY MR. CATANACH:

20 Q Mr. Kendrick, has the Division ever  
21 approved something like this before, --

22 A No, sir, this -- this --

23 Q -- to your knowledge?

24 A To my knowledge this is the first time  
25 that the problem has been brought before the Division. We

1 did have a committee meeting in the proposed revisions of  
2 the gas proration rules and testing rules about ninety days  
3 ago. The committee meeting was in Farmington. It was at-  
4 tended by some representatives from the Oil Conservation  
5 Division here in Santa Fe and in Aztec. It was also repre-  
6 sented by -- or attended by about thirty representatives of  
7 the producing industry in the San Juan Basin.

8 The agreement was that it would be better  
9 to handle these on an individual tract basis rather than at-  
10 tempt to change the rules for the 2000-2500 proration units  
11 in the pool when we have less than fifty of these; just han-  
12 dle it on an individual tract basis rather than a pool  
13 basis.

14 Q Do you think we'll see a lot of these?

15 A No, there are not a lot of these avail-  
16 able at the present time, and I don't think that there'll be  
17 a mass exodus for people to sell half of their proration  
18 unit to someone else to drill the wells because a large  
19 majority of infill wells have already been drilled and the  
20 communitization agreements are in effect and the operating  
21 agreements are all signed.

22 Q Mr. Kendrick, is Mr. Frank Chavez aware  
23 of your proposal? Are you talking to him?

24 A Yes, yes.

25 Q Do you know if he has any objections to

1 this?

2           A           He didn't express any when we visited  
3 about it but he was at the meeting in Farmington with -- the  
4 industry committee meeting. Harold Garcia was -- from Santa  
5 Fe was at the committee meeting in Farmington, and we dis-  
6 cussed this with Mr. Chavez in his office before this case  
7 was filed.

8                        So he was aware of the case being filed  
9 and of the ramifications of the case and the reason that it  
10 needed to be filed to get equal treatment.

11           Q           Mr. Kendrick, do you know if the well,  
12 proposed well in the northwest northwest quarter of Section  
13 32, is that going to be at a standard location? Do you  
14 know?

15           A           It -- we have not been on the ground to  
16 survey it, but from looking at the topographic maps, we  
17 would have -- not have any problems so far as we know of ob-  
18 taining a standard location.

19                        Now, preliminary work has been done to  
20 provide access to get to the lease in the north half. There  
21 is a substantial elevation difference from the well in the  
22 southeast -- or excuse me, south end of the drill tract and  
23 the north end of the drill tract, but we believe that we  
24 have access handy to the northwest quarter of the northwest  
25 quarter, and topographic maps indicate that a well out there

1 would be at a standard location.

2 I might add that Mr. Chavez of the Aztec  
3 Office suggested that we have the case before the permit to  
4 drill was applied for so that it would cause any further de-  
5 lay.

6 MR. CATANACH: I have no fur-  
7 ther questions of the witness.

8 He may be excused.

9 MR. BATEMAN: Thank you, Mr.  
10 Examiner.

11 For the record, I'd like to  
12 state that I also spoke to Mr. Chavez and I made him aware  
13 of the fact that these applications had been filed and the  
14 day they were filed.

15 MR. CATANACH: Thank you, Mr.  
16 Bateman.

17 MR. BATEMAN: I'd also like to  
18 offer to submit a form of order, if you wish.

19 MR. CATANACH: I would appre-  
20 ciate that.

21 MR. BATEMAN: All right.  
22 I have nothing further.

23 MR. CATANACH: I understand  
24 that Case 8971 and 8972 have been readvertised for September  
25 3rd, but I also understand that they will have to be again

1 readvertised for September 17th.

2 MR. BATEMAN: I believe that's  
3 correct. Thank you.

4 MR. CATANCH: Just for the re-  
5 cord.

6 So I guess we'll just hold the  
7 record open on both cases until September 17th.

8 MR. BATEMAN: September 17th.  
9 Thank you.

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(Hearing concluded.)

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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 (Commission) 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 record of the proceedings in the Examiner hearing of Case No. 8972 heard by me on April 20, 1986.  
David L. Catanach, Examiner  
Oil Conservation Division