

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. CASE 8971

and 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

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

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

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

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

8

9 (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. 8871, 8872
heard by me on September 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:

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

20 August 1986

EXAMINER HEARING

IN THE MATTER OF:

Application of Cinco, Ltd. for a CASE
nonstandard gas proration unit 8971
and for an exception to Rule 5(a)
2(2) of Division Order No. R-8170,
Rio Arriba County, New Mexico.

and

Application of The Estate of Edward
Gerber and Iris Gerber Damson for a
nonstandard gas proration unit and
an exception to Rule 5(a)2(2) of
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 Oil Conservation Division: Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicants: Ken Bateman
Attorney at Law
WHITE, KOCH, KELLY & MCCARTHY
Santa Fe, New Mexico

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MR. CATANACH: Call next Case
8971.

MR. TAYLOR: Application of
Cinco, Ltd. for nonstandard gas proration unit and for an
exception to Rule 5(a)2(2) of Division Order R-8170, Rio Ar-
riba County, New Mexico.

MR. CATANACH: Are there
appearances in this case?

MR. BATEMAN: Mr. Examiner, I'm
Ken Bateman of White, Koch, Kelly & McCarthy, appearing on
behalf of the applicant and I request that this case be com-
bined for purposes of testimony with Case Number 8972.

MR. TAYLOR: Case 8972 is the
application of the Estate of Edward Gerber and Iris Gerber
Damson for a nonstandard gas proration unit and an exception
to Rule 5(a)2(2) of Division Order No. R-8170, Rio Arriba
County, New Mexico.

MR. BATEMAN: Mr. Examiner, I'm
also appearing on behalf of the applicant in Case Number
8972.

MR. CATANACH: Are there ap-
pearances in either one of these cases?

Will the witnesses please stand
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 Q Would you state for the record your ex-
2 perience in northwest New Mexico and in particular with the
3 questions involved in the application of the allowable for-
4 mula in that area?

5 A I worked in the San Juan Basin from 1965
6 to the first of 1980 for the Oil Conservation Division as
7 the District Engineer or the District Supervisor.

8 Since that time I've been a consultant in
9 the San Juan Basin for people who do not have large staffs
10 and I supplement their staff to help them through technical
11 problems.

12 Q Mr. Kendrick, I presume that you've pre-
13 viously testified before the Division and had your qualifi-
14 cations made a matter of record.

15 A I have.

16 MR. BATEMAN: We tender Mr.
17 Kendrick as an expert witness.

18 MR. CATANACH: Mr. Kendrick is
19 considered qualified.

20 Q Mr. Kendrick, would you proceed, then,
21 with what's been marked Exhibit One in this case?

22 A Exhibit One is a 9-section plat with Sec-
23 tion 32 of Township 30 North, Range 7 West, as the center
24 section.

25 It identifies the wells completed in the

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 beind 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 roy 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.

10

11 (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 August 20, 1988.

David R. Catant, Examiner
Oil Conservation Division