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

3 December 1986

EXAMINER HEARING

IN THE MATTER OF:

Application of Apollo Oil Company for NGPA Wellhead Price Ceiling Category Determination, Lea County, New Mexico. CASE 9043

BEFORE: Michael E. Stogner, 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 Applicant: Ernest L. Padilla
Attorney at Law
PADILLA & SNYDER
P. O. Box 2523
Santa Fe, New Mexico 87504

I N D E X

E X H I B I T S

MR. STOGNER: We will call next Case Number 9043.

MR. TAYLOR: The application of Apollo Oil Company for NGPA Wellhead Price Ceiling Category Determination, Lea County, New Mexico.

MR. STOGNER: Call for appearances in this matter.

MR. RALSTON: Alan Ralston, owner of Apollo Oil Company.

MR. STOGNER: Let's go off the record for a little bit, Sally.

(There followed a discussion off the record.)

MR. STOGNER: Let's go back on the record.

Are there any other appearances besides Mr. Ralston's at this time?

Mr. Ralston, how do you spell your last name?

MR. RALSTON: R-A-L-S-T-O-N.

MR STOGNER: Mr. Ralston, have you appeared before a Division or a Commission hearing before and given testimony?

MR. RALSTON: Yes, sir, I have.

MR. STOGNER: What is -- what were you qualified as at that time?

MR. RALSTON: As the owner and operator of various wells and leases in New Mexico.

MR. STOGNER: And at this time you're president of Apollo Energy, or Apollo Oil Company?

MR. RALSTON: Apollo Oil Company, yes, sir.

MR. STOGNER: I recognize Mr. Ralston as an expert witness and president of Apollo Oil Company at this time.

Okay, Mr. Ralston, I'll turn it over to you now.

MR. RALSTON: The Lovington-Queen Reservoir is comprised of three wells, as you can see in -- well, I don't have this map -- or the contours.

MR. STOGNER: I tell you what, let's -- let's continue this case until later on in the day. We do need to get moving on.

MR. RALSTON: Okay.

MR. STOGNER: Mr. Ralston, if you would go back and mark all your exhibits in a manner which we can follow when we come back up here, we'll continue this case at that time.

(Thereupon a recess was taken.)

(Thereafter at a later time on the same date the following proceedings were had, to-wit:)

MR. STOGNER: We'll go back on the record and we'll take up on Case Number 9043.

Mr. Padilla.

MR. PADILLA: Mr. Examiner, Ernest L. Padilla, law firm of Padilla & Snyder for the applicant in this case, and I'm not sure, I wasn't here this morning, whether the -- Mr. Ralston was qualified, but I would be willing to go ahead and proceed as though the case was brand new.

MR. STOGNER: Let's go ahead and proceed with it as a brand new case.

(Witness sworn.)

ALAN RALSTON,

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. PADILLA:

Q Mr. Ralston, for the record would you

please state your full name and where you reside?

A Alan Ralston, Hobbs, New Mexico.

Q What is your connection with Apollo Oil Company, the applicant in this case?

A I'm the owner and operator of Apollo Oil Company.

Q How long have you been the owner of Apollo Oil Company?

A Since 1971.

Q Have you testified before the Oil Conservation Division previously?

A Yes, I have.

Q As owner of Apollo Oil Company?

A Yes, I have.

Q And your credentials were accepted then as a practical oil man, is that --

A Yes, sir.

Q Mr. Ralston, did you prepare or have compiled under your supervision the data submitted to the Oil Conservation Division in your application for Section 102 NGPA classification for the subject well?

A Yes, I did.

MR. PADILLA: Mr. Examiner, we tender Mr. Ralston as an experienced oil person.

MR. STOGNER: Mr. Ralston is so

qualified.

Q Mr. Ralston, when did you first submit the NGPA Section 102 application to the Commission?

A June 17th, '86.

Q And since that time can you briefly tell the Examiner what your recollection of the problems has been with respect to final approval of that application?

A There was a question by Mr. Stogner on the pipeline hook-up date since the recompletion was done in '77 and the hook-up date wasn't till '78, and I sent a letter back explaining that the only gas lines in that immediate area was for casinghead gas.

Q Mr. Ralston, are you prepared now to further explain your application in fuller detail?

A Yes, I am.

Q Let me hand you what we have marked as Exhibit Number One and have you identify that and tell the -- for the record what the -- what that contains.

A Exhibit One is a description of the complete Lovington-Queen reservoir.

Q What does that reservoir consist of?

A It consists of three wells.

Q What are those wells?

A We have the Read and Stevens well, Unit letter I, Section 14, 17, 36, that was recompleted in 1973,

10-1973, and was put on the line at that time and it was flowing at 75 pounds pressure.

Then the second well in that pool is the Getty Oil Company BL Well No. 1, Unit letter P, Section 11, 17, 36, and it was put on the line in 1977.

Q Is that a brand new well, Mr. --

A The Getty well is a new well.

Q -- Ralston.

A The Read and Stevens well is a recompletion from an old Sun Oil Company well.

Q How about your well, the Amoco -- what's the name of your well?

A My well is the Amoco State E. It's not the Amoco State E any more. It's the State E Tract 17 Well No. 5. It's in Unit letter P, Section 1, 17, 36, and it's approximately two miles from the original well of Read and Stevens in this reservoir, this Lovington-Queen reservoir.

Q Mr. Ralston, was your well a recompletion?

A It was recompleted in 9-21-76.

Q In what formation was it recompleted?

A It was recompleted into the Queen. The top of the Queen in this well is 3901.

Q Now, are the Read and Stevens and the Getty Well and your well producing from the Queen?

A They're all producing from the Queen formation.

Q Mr. Ralston, let me hand you what we have marked as Exhibit Number Two and have you tell us what that is.

A In Exhibit Two you've got a topographical map -- or a contour map.

Q Of what formation, Mr. --

A Of the Queen formation, and in the bottom left corner is number one, is the Read and Stevens well.

Due north of that is number two, is the Getty well.

And northeast of that, over in the Section 1 is the subject well. The --

Q You have a line drawn between those wells, Mr. Ralston, what is that?

A This is an indication of Exhibit Three on the --

Q Okay, you're going to have a cross section, is that --

A Yes.

Q Does that show the cross section that you have as Exhibit Number Three?

A Right.

Q Now, tell us about the contour lines and how those evolve or contour around your well.

A Okay. This Queen is similar to the Caprock Queen, to the Jalmat Yates in some areas on south, where the highs are stratigraphically trapped out and dolomite and salt are in these pinched out highs, and they're not productive in those high areas, and you have to drop off the highs down on the other side to pick up a productive area or a productive reservoir with enough porosity and permeability.

Q Do the -- does the formation pinch out around the contour lines in that area?

A Yes, it does, and I was going to present some logs to the Commission at this hearing and show that the pinchout, as indicated with these dry holes to the north of the Getty well.

Q How are those dry holes depicted on that Exhibit Number Two?

A They are circles with four lines going out, one north, east, south and west, and -- but the logs were not available on these wells. The Queen was not even looked at that much in that area because supposedly by the pinchout, and the logs were available in this area but they weren't -- did not cover that reservoir or that section.

Q So there's no way you could compare those dry holes with your existing well?

A There's only one that's in Exhibit Three.

Q Okay, let me hand you Exhibit Three and have you explain that.

A In Exhibit Three --

Q And you're now referring to the cross section, is that correct?

A The cross section, you can see that the Read and Stevens well --

Q Where is that located, Mr. --

A It's located in the --

Q Is that the lefthand side of that --

A -- lefthand side. It's producing interval is 4300 feet and you go to the Texaco BL Lease and it comes up -- I'd have to refer to something else -- and the top of the pay on it is 4145, which indicates an increase on the top of the reservoir.

Then you go to the Union of California well, which our line goes over to -- to the northeast or to the right of number two, and you see where your porosity is pinching out and it's going and you're going on a high, and then you go directly north of that to the Lovington-Paddock Unit No. 72 and you get a little higher there and then you go back to the Lovington-Paddock Unit 82, which is directly to the east of it, and it starts dropping off again, and then you go to the well in question and you see where it drops off and you start getting some more permeability for

production.

Q Mr. Ralston, is your well in geologic communication with the Read and Stevens Well, in your opinion?

A In my opinion there's no connection with the other wells because of the stratigraphic trap that's -- that is natural in this high pinchout area.

Q How about with -- is it in communcation with the Getty well?

A No, the Getty well is definitely not tied in by well number three, this Union Oil Company log.

Q Mr. Ralston, referring back to Exhibit Two, what are the dark dots in that -- dark circles?

A Okay, the dark dots are producing oil wells that are in one of three zones. They're either in the San Andres, the Paddock, or the Abo, and all three of these zones are below the Queen formation.

Q Do those oil wells produce casinghead gas, Mr. Ralston?

A All these wells produce casinghead gas.

Q How does that gas differ from the gas produced from your well?

A Casinghead gas should be or normally is wet gas and it is processed through a plant or some facility to dry it out for marketability.

The gas in the subject well is dry gas and it may need to be -- go through a plant but it would be for a different purpose, to take out the nitrogen and things like that for availability to the end user.

Q Mr. Ralston, is the casinghead gas produced from the oil wells compatible with the gas produced from your well?

Would you say it would be like kind and like quality?

A No. The casinghead gas is generally -- has a lot higher BTU rating and it generally has fluid content that processors like Phillips, El Paso, et cetera, take the fluids out of this before it's used in the natural gas market.

Q How about the pressures regarding casinghead gas and the gas from your well?

A The casinghead gas will generally run less than 30 pounds and consequently the pipeline will have a line that -- that they won't put gas in that has pressure over 20 pounds, or something like that, which is a low pressure line.

The pipelines generally want to put gas well gas into a line that has 100 plus tested rating on these lines in case a well cleans up, or something, that they won't rupture the line, and secondly, they couln't mix

it together because if you had a lot of volume from a high pressure well, then their casinghead gas would not produce.

Q What kind of pressure do you encounter in your well?

A My well currently produces on a -- well, it's shut in at the present and it's got 825 pounds on it.

It currently produces or prior to the shut-in last month, it was producing at about 225 pounds.

Q How does that compare with wells producing casinghead gas?

A Casinghead gas, they'll run from just about five pounds to sometimes they get as high as 30 or 40 pounds but it's not good in a pumping well to have any more pressure on it than that.

Q Okay, let me have you refer to what we have marked as Exhibit Number Four, which I hand you, and have you tell the examiner what that is.

A Okay, this is an analysis certificate from the three wells in this reservoir and there is not a dramatic difference in this gas analysis but there is some different in it which should or may or may not be any type positive proof that it's a -- it's all from the Queen reservoir but it may or may not prove that it's -- well, how do I want to say this -- there's just slight differences in this gas analysis. There is maybe enough significant difference

in it to show that it's coming from a different pool.

Q Is that all you have to say concerning Exhibit Four, Mr. Ralston?

A Yes, sir.

Q Let me hand you what we have marked as Exhibit Number Five and have you tell us what that is.

A Okay, Exhibit Five is part of the original application and it states that, down in the thir paragraph, this well was recompleted in 1976.

Q Is that underlined in red, Mr. Ralston?

A Yes, sir, it's underlined in red.

Q Okay.

A It was recompleted in 1976 as an undesignated Queen gas well and it was put on the line in November of 1978. There was not really a good market at that time for this gas and so the pipeline company, which in this case was Phillips, wasn't interested in putting a pipeline up there until '78, and the first recorded sales from the Commission records was January, 1979. Now it may have produced some in 1978 but there was no record of it.

Q Mr. Ralston, could this well have produced in commercial quantities from the time it was recompleted to the date of first sale?

A Yes.

Q But it was -- it was not economically

feasible, is that what you're saying?

A Well, it could have -- it could have produced -- well, now it was productive but it was not commercial productive until at a later date because they -- it was not economically feasible in '76 for Phillips to lay the line and it wasn't economical for Amoco to lay the line, almost two miles, to tie into the Read and Stevens line.

Q There were no sales in commecial quantities of gas from this well until the date of first production, is that correct?

A Right. This well as undesignated Lea-Queen gas unti 1980 and then it was grouped into the Lovington-Queen, and later on, this is irrelevant, I think, about the stripper part of it.

Q I don't understand your testimony, Mr. Ralston. Was it economical to lay that pipeline to -- gather lines to the pipeline for the pipeline prior to date of first sales?

A In -- well, as -- as you know, and most everyone knows, in the seventies until about '78, or NGPA came into effect, there was kind of a glut on gas and gas was real cheap.

And then when NGPA came into effect and they started seeing that there was not enough gas to go around, then they would lay lines and then try to service

the markets for it.

Since then it's gone back to the glut side.

Q Was it economical for the producer to lay the -- the pipeline or the gathering line to the --

A Had I been the producer at the time, it would not hav been economical for me.

Q Okay. Do you know of -- well, let me have you refer to what we have marked as Exhibit Number Six and have you tell us what that is.

A It's Rule 15, Section 5, where I answered the questions there.

Q How did you answer the first question in that?

A I answered it no.

Q What was that? What was the question?

A I can't say.

Q I believe the question was something to the effect of whether or not natural gas was produced in commercial quantities from the reservoir prior to April 20th, 1977?

You answered that no?

A No. That is correct.

Q Then you answered a subsequent question concerning whether or not there was a pipeline in the area.

I'd like for you to -- I believe that you answered that in the affirmative. Is that correct?

A Right, there was a pipeline in the area but it was only for casinghead gas.

Q Why could you not have connected this well to the casinghead gas system?

A The well had too much pressure to go into a casinghead system. The casinghead systems will not, and purchasers will not tie, or normally, a gas well into the casinghead system.

Q As a practical matter --

A Safety.

Q -- was there an available pipeline system for sales of your gas to the high -- high pressure pipeline system?

A No, not until 1978. That's the only pipeline that was laid and there's just one producing well in this area and one gas well in this whole area, so there was no need to lay -- I mean if there had been another five or six or a dozen wells there, true, they may have laid the line earlier, but for the quantity and the -- versus the expense, it wasn't feasible.

Q Mr. Ralston, in this area have any of the three wells in -- that you have mentioned in your testimony, was there any purposeful lack of -- that you know of -- lack

of completion in the Queen formation that was designed to obtain the higher price as the result of the NGPA?

A Well, in -- yes, back in -- which exhibit is this, I think this is Exhibit Five, where it's red-lined, this well was -- was a producer and it loaded up and had problems and it dropped to a stripper status in June, 1983, until March, 1985, and it produced only 7-million cubic feet for 21 months, for an average of 330,000 cubic feet per month, or 11 -- 11,000 cubic feet a day.

Q But that was from what formation, Mr. --

A That was from this formation.

Amoco, in 1985 did a workover on this well and increased the production but they didn't file for stripper or enhanced recovery or anything prior to the work-over.

Q Let me see if I understand your application.

MR. PADILLA: May we go off the record just a minute, Mr. --

MR. STOGNER: You want to take a little recess?

MR. PADILLA: Yes.

MR. STOGNER: Okay.

(Thereupon a recess was taken.)

MR. STOGNER: Back on the record.

MR. PADILLA: Ready.

Q Mr. Ralston, was the Queen formation ever logged in the -- originally in the -- in this well?

A In 1939 when this well was drilled there was not any logs available.

Let me see, I don't know if this is dated here. The logs, as far as I know, were made at a later date.

Q Prior to the time that you had actual production from the Queen formation, is there any indication at all to your knowledge that this formation could be produced in commercial -- commercial quantities?

A No.

Q Let me clarify some of the questions I asked you concerning the pipeline.

In determining commercial quantities, would you have to consider the cost of the pipeline or the gathering lines to the pipeline?

A Yes, definitely.

Q And prior to the NGPA you could not have produced this well in commercial quantities?

A No, we couldn't afford to lay the pipe-

line and produce it. The initial production on it, the cost of that, and recompletion didn't pay out.

Q In fact you had no sales at all until January of 1979.

A Right. That's correct.

Q So is it your testimony that natural gas could not have been produced in commerical quantities from this reservoir prior to April 20th, 1977?

A In my opinion it could not have been produced.

Q Mr. Ralston, do you have any further testimony concerning this application?

A I think that's about all.

MR. PADILLA: Mr. Examiner, we tender Exhibits One through Six and I would also indicate for the record that the actual NGPA application has additional data that we have not included in this presentation.

MR. STOGNER: At this time I think it would be wise to take administrative notice of the NGPA application for this well filed and received with the OCD on June 17th, 1986.

I'd like to also take administrative notice of the well file which we have here in our Santa Fe office on this well.

MR. PADILLA: We have no objec-

tion, Mr. Examiner.

We pass the witness.

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Ralston, let's take a brief look at the history of this well, now.

When was it spudded?

A In 10-31-79.

Q I'm sorry, what year?

A 39.

Q 39, okay, and what was its initial completion?

A It was completed in the San Andres.

Q Okay. At what depth was it TD'ed at that time?

A 4955.

Q 4955?

A No, it was 4977, TD'ed and plugged back to 4955.

Q Okay. When it was completed in the San Andres what was the depth of the perforations or the completion?

A The top of the pay was at 4740.

Q Okay, that will be fine. Now what are

the present perforations in the Queen at this time?

A 3901 to -- 3908 to 3930.

Q Okay. How long did this well produce from the San Andres formation?

A It was included into the Lovington San Andres Unit, which is operated by Skelly originally and then it was operated by Getty and now Texaco. It was deemed uneconomical and returned almost -- it was TA'ed in '49 and was TA'ed again in '62, and it was returned after '62 to Amoco because they couldn't make a commercial producer out of it from the San Andres.

Q Okay, when was the last San Andres production from that well?

A I don't have a record of that but I'm going to have to say the last economical --

Q No, I didn't say economical. I said --

A Last production? I'm going -- I can't tell you from the San Andres.

Q Okay. Was this well ever plugged and abandoned or was it just TA'ed the whole time?

A It was TA'ed.

Q Okay. You wouldn't happen to have a cumulative production value on that particular well from the San Andres, would you?

A No, sir, not from the San Andres.

Q Okay.

MR. STOGNER: I'll take administrative notice of the cumulative production figures that we have here at the OCD for this particular well from the Lovington-San Andres. It shows the cumulative production to be 102,006 barrels of oil and reported 1,484 Mcf of gas.

Q Let's now go to your Exhibit Number Six, I believe. That's the answers to the questions?

A Yes, sir.

Q Let's go over them and take them one at a time here, and I apologize for repeating some of this stuff that we've already gone over but I want to make it clear in my mind in this particular case.

The first question being was natural gas produced in commercial quantities from the reservoir prior to April 20th, 1977.

According to your testimony today the reservoir in which we're talking about is an isolated little spot in which your well has penetrated and is perforated in?

A Uh-huh.

Q Was that a yes?

A That it's perforated in presently, yes.

Q Okay. But we do not know an areal extent of this little --

A Of this reservoir that I'm claiming, no,

we don't know the perimeters of the pool.

Q Okay, but this is the only well that penetrates that. Correct?

A Yes, sir.

Q Okay. So the answer to that is no, which you've indicated.

And then the next question was the reservoir penetrated before April 20th, 1977?

And I believe you answered that yes, right?

A I answered that yes because the parameters of that pool is not established.

Q And this well, since it was drilled in '39 down to about 5000 feet, penetrated this reservoir, right?

A Yes, sir.

Q Okay. Now this well also had production of natural gas or crude oil from any reservoir, is that correct?

A It had production from the San Andres.

Q Okay. So we have yes on that, which you have indicated.

A Right.

Q So -- and having one question yes and the other one no, the rules on the -- when I speak of these

questions I'm referring to Rule 15, sub-part 5 of the Oil Conservation Division's Rules and Procedures for Natural Gas Pricing Act Well Category Determinations.

The next question is could natural gas have been produced in commercial quantities from this reservoir before April 20th, 1977?

And if I understand that right, the answer would be no because it wasn't penetrated before -- I mean it wasn't perforated before that time.

A That's right.

Q And also pipeline facilities able to take this gas due to pressure.

A Right.

Q Okay.

A Was not available.

Q Now then, if we proceed to Part D, as in dog, were any sales and deliveries of natural gas made from any other reservoir through this well?

And the answer to that was yes because of the San Andres production?

A Right.

Q Okay. Prior to April 20th, 1977, were any sales and deliveries of natural gas made from the subject reservoir through such old well on or after April 20th, 1977?

A Okay, after 1977, yes, because after 1877 was when this was recompleted and hooked onto a pipeline in 1978.

Q So the answer that that is yes?

A Yes.

Q Okay. Let's go down to Part E, the question E. If natural gas was being produced is being produced through this old well, and this particular well is the old well which they mention.

A Right.

Q Were suitable facilities for production and delivery to a pipeline of such natural gas in existence?

I believe we answered that no because you had already mentioned it.

A Correct.

Q Okay, and we don't need to move to F because your previous question.

Now, then, let's go to sub-part 6 of Rule 15 in Order No. R-5878-B, as amended.

And this talks about the behind the pipe exclusion, which one goes to because Part D states that if both of the questions are unable to be answered negative, that a behind the pipe exclusion must be demonstrated.

Are you prepared to do that today?

A Let me read this shortly.

MR. STOGNER: Let's go off the record for a little bit, Sally.

(Thereupon a discussion was had off the record.)

MR. PADILLA: Mr. Examiner, after having been off the record and reading this Rule 5 and 6 of the NGPA Rules relating to Section 102, I believe it's necessary for us to come back and submit to you the information that is required by Rule 6-B of those regulations pertaining to Section 102.

Accordingly, we ask that the record be left open and if necessary continue this case till the January 7th hearing date in order to submit this additional information.

MR. STOGNER: Thank you, Mr. Padilla.

In that case, this case will be -- the record of this case will be left open pending the January 7th, 1987, Examiner Hearing scheduled at that time.

(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 (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. 9043, heard by me on 3 December 1986.

, Examiner
Oil Conservation Division