

Original

BEFORE THE  
OIL CONSERVATION COMMISSION  
SANTA FE, NEW MEXICO

TRANSCRIPT OF HEARING  
IN CASES 467 AND 468

Henrickson's Reporting Service  
2224 - 47th Street  
Los Alamos, New Mexico

BEFORE THE  
OIL CONSERVATION COMMISSION  
SANTA FE, NEW MEXICO

JANUARY 15, 1953

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In the Matter of:

In the matter of the application of Phillips Petroleum Company for approval of a unit agreement for the development of the stipulated San Juan 31-6 Unit Area embracing 10,049.38 acres of land, more or less, in Rio Arriba County, New Mexico, as described: NMPM Township 31 N, Range 6 West, All Sections 27, 28 and 29; All Sections 31 through 36, incl. - Township 30 N, Range 6 West, All Sections 1 through 6, incl. - Township 30 North, Range 7 West, All Section 1.

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TRANSCRIPT OF HEARING

BEFORE:

Hon. Ed Mechem, Governor and Chairman  
Hon. R. R. Sparrier, Secretary and Member  
Hon. E. S. Walker, Member

R. F. R O O D

having benn first duly sworn, testified as follows:

DIRECT EXAMINATION

By MR. FOSTER:

Q. Will you state your name, please?

A. R. F. Rood.

Q. Where do you reside?

A. Bartlesville, Oklahoma.

Q. Are you employed by Phillips Petroleum Company?

A. I am.

Q. In what capacity?

A. San Juan Division Land Man in charge of lands and leases.

Q. As part of your duties, do you have something to do with the preparation of the unit agreement on the San Juan unit No. 31-6?

A. I have.

Q. Listed on the docket here as Case No. 467?

A. Yes, sir.

Q. Mr. Rood, for the record and for the information of the members of the Commission, I wish you'd just outline the salient features of this proposed unit agreement - 31-6.

A. This was initiated in the early days of unitization and follows the township plan. Each section of land is divided by line running north and south through the center of the section, creating half section drilling blocks of approximately 320 acres each, to and including the base of the Mesaverde formation. The initial well, on that half section drilling block,

it's  
if/a producer of unitized substances and paying quantities, establishes  
the initial participating area for that zone.

Q. What is the area of a participating zone?

A. 320 acres.

Q. Is what you refer to as a participating area?

A. Half section drilling block, yes, sir. As the second well is drilled and completed as a producer in that same zone, that additional half section is taken into the participating area and it is expanded progressively until the unit is drilled up in that particular zone.

Q. How is the oil and gas in the participating area divided among the several owners in the area?

A. By ownership of the working interest in the particular half section and likewise, the royalty in that particular drilling block.

Q. In that the acreage in the participating area, owned by each, varies to the total acreage in the area?

A. Right. On formations below the Mesaverde, a well has to be drilled by mutual agreement. If a discovery of paying quantities is made, a participating area is established by geological inference and the owners of the working interest and the royalty owners, owning royalty in that established participating area will share proportionately in their ownership to the entire participating area.

Q. Now let me ask you this question, Mr. Rood. Under the unit agreement that we've talked about in this case, how many wells have the operators agreed to drill?

A. Two mesaverde wells in addition to the one well already drilled

on the unit area.

Q. Is there one well on the unit area now?

A. There is. It is the El Paso Natural No. 1 Seymour in Section 6, 30 North, 6 West.

Q. In what formation?

A. Mesaverde.

Q. As far as the unit agreements, they have agreed to drill two more wells?

A. Yes, sir.

Q. And when are those wells to be drilled?

A. They're to be commenced sixty days after the effective date of the unit and the second well commenced, which would be the third well, not more than thirty days after the completion of the first well.

Q. You say sixty days after the effective date of the unit, what would be the effective date of the unit?

A. Final approval by the Director of the U.S.G.S. in Washington.

Q. And his approval will follow the approval of the Commission, is that correct?

A. Yes, sir.

Q. And that's just a matter of form?

A. Yes, sir.

Q. And then, when do you start the next well?

A. Within thirty days after the completion of this first well that we will drill.

Q. The first well must be started within sixty days after approval

of the unit agreement?

A. Yes, sir.

Q. Are there State lands involved in this unit agreement?

A. Yes, sir.

Q. As well as Federal lands?

A. Yes, sir.

Q. Are there any fee lands?

A. No.

Q. No fee lands - just Federal and State?

A. Yes, sir.

Q. Now after you drill these two initial wells in addition to the one that's already on the property, what is the proposed plan of operation for this unit?

A. A unit operator is required to file a plan of development for a specified period of time, giving the locations of the wells that he proposes to drill and the time and order of drilling which has to be approved by the Commission and the supervisor - the Federal and the State government.

Q. Now, in other words, in order to protect the State's interest, the operator's are required to file a development plan that meets with the approval of this Commission?

A. That is correct.

Q. And meets with the approval of the Land Commissioner as one of the members of this Commission?

A. Yes, sir.

Q. And suppose the plan proposed, don't meet with the approval of the Commission - what then?

A. Well, he has the right to require such drilling as he sees fit. If we think it's a little improper, why - probabilities are, we'd have a little discussion over it and compromise it in some way.

Q. Wouldn't do much good for you to do that?

A. Not a great deal.

Q. In other words, the entire plan of the development of this unit is in the hands of this Commission - is that correct?

A. And the Federal government. Yes, sir.

Q. That's what I mean. In other words, they must agree to any plan?

A. That is correct.

Q. Before that plan for development is put into effect or operation by the unit operators?

A. Yes, sir.

Q. Now are there any other features that you'd like to call to the attention of the Commission?

A. Well, the matter of expanding the participating area on Mesa-verde and shallower does not provide for any readjustment of well costs or credit for production received, which greatly simplifies the bookkeeping and by that I mean, that any owner of a half section block drills that well at his sole cost, risk and expense. If it's a dry hole, obviously, he does not come into the participating area and stands that drilling expense.

Q. You have filed with the Commissioner of Public Lands in the State of New Mexico, your application for the approval of this unit, have you not?

A. Yes, sir.

Q. And you have paid the required filing fees?

A. We have.

Q. Is there anything unusual in this particular unit agreement as to the general form and plan as entertained in the other unit agreements which have heretofore been presented to this Commission?

A. No. This is similar in all respects.

FOSTER - I believe that's all.

WHITE - You stated that this area would be developed by mutual consent, is that right?

ROOD - That's correct.

WHITE - What do you mean by mutual consent?

ROOD - Well, there is no obligation to drill a well below the base of the Mesaverde. But it's likely that if some sub-surface information is developed that would make say, a Dakota test attractive, the larger owner, naturally, would solicit the other working interest owners for support in drilling that well because, if it's a dry hole, under the plan as prepared, it would be the - - the dry hole cost would be shared by everybody in the unit area. If it were a producer, then only the holders of leases within the established participating area from geological inference, would own the well. Now, I don't mean to say that that requires 100% agreement to drill the initial deep well because the desire for the larger owner might

be such that he would be willing to pay the proportionate cost to some small leaseholder who didn't want to go along.

WHITE - Then the small leaseholder cannot be forced to pay, if he does not want to go along?

ROOD - No, sir.

WHITE - Have all the leaseholders agreed to this?

ROOD - We have 100% execution of the working interest, 100% execution of the pure royalty interest in this unit.

SPURRIER - Are there any other questions of this witness?

FOSTER - Mr. Rood, would you explain to the Commission here what the general purposes of these unit agreements are?

VOICE - Thank you. I was just going to ask that.

ROOD - We believe that it's a more economical operation. And under this particular unit, there a little background. It was originally proposed to be included in this area here (pointing to map).

There is production along the southern part of this now thirty-day 6 unit. The working interest owners felt that Phillips Petroleum Company was saturating the unit area with acreage in the north 16 sections of which we own 6% of the acreage, and because of the discouraging development on the Rosa unit. So we decided that we still thought enough of our acreage that if we could agree upon this separate unit, that we would drill and pay for the required two additional mesaverde exploratory test wells.

It gives testing to the possibilities of the San Juan basin in an orderly manner and it's imminently fair. As I say, we have 100% participation here and it is quite evident that they all think it's a good idea.

SPURRIER - If you prove this acreage productive, which is part of your plan, I presume?

ROOD - Yes, sir.

SPURRIER - Do you think you will be able to find a market for it?

ROOD - Oh, we hope so.

SPURRIER - Does anyone else have a question of this witness?

WHITE - Is there a present market demand for it?

ROOD - Not one that would be desirable. There are presently two purchasers in the area and one has a 50% load factor and has advised us that they have ample gas for their present requirements.

The other operator is willing to purchase the gas on a life-of-the-lease basis, as I understand it. But that's a little bit out of my department. That's the Natural Gas Department.

SPURRIER: Any other questions?

FOSTER - If you don't proceed to develop this area at this time, there are other portions of the area that are being developed, are they not?

ROOD - Yes, sir.

FOSTER - And it is necessary and desirable to develop the gas potential in this particular area in order to maintain a market?

ROOD - It most assuredly is - to protect yourself from drainage.

FOSTER - And if you don't proceed under this unit agreement, you're liable to loose by vacuum to other areas by drainage, are you not?

ROOD - That's true, yes sir.

FOSTER - I believe that's all.

SPURRIER - Anyone else? If there are no further questions, the witness may be excused.

FOSTER - While the witness is here, I'd like to have him testify with regard to the other agreement before I put on the geological testimony here.

WHITE - Wouldn't it be simpler to consolidate the two cases?

FOSTER - I think we could do that.

WHITE - Let the record show that notice has been read on both of these cases and particularly on Case No. 468.

FOSTER - Now, Mr. Rood, returning to San Juan Unit No. 32-4, appearing on the docket here as Case No. 468, will you explain the salient features of the proposed unit agreement in that unit?

ROOD - It is identical with the preceding unit we talked about except that the drilling requirement to validate the unit is four wells, two Mesaverde wells and two Fruitland wells.

This unit represents somewhat of a step out from presently known producing areas in the Basin in this position. We likewise have 100% participation of the working interest and the pure royalty interest.

FOSTER - Are there any State lands in this unit?

ROOD - None.

FOSTER - No State lands in this unit?

ROOD - None.

FOSTER - And for that reason, you haven't filed any application for approval of this unit with the State Land Commission, is that true?

ROOD - We did, at a later date. We didn't originally. We have an

application on file.

FOSTER - But you didn't make any payment of any fees, in this case, did you?

HOOD - We did not. I am waiting now for an opinion as to whether or not the filing fee is required. If it's required, we're - - -

FOSTER - You have in your possession at this time a check - you are ready to pay to the State Land Commissioner if that is a condition for approval of this agreement?

HOOD - I do. The regulations are not clear where there is no State land involved.

FOSTER - There is no state land involved. This is all Federal land?

HOOD - No. There is some fee and patented land.

FOSTER - Fee and patented land?

HOOD - Yes, sir.

FOSTER - And what percentage of agreement do you have with regard to this unit?

HOOD - 100%.

FOSTER - On the royalty and on the working interest?

HOOD - Correct.

FOSTER - Everything you've said with respect to the features of the unit agreement in this case - or in the previous case, is applicable to this case?

HOOD - In all respects, yes.

FOSTER - I'd like to incorporate the witness' testimony on the previous case as far as the testimony of this case relates to the unit agreements

and I believe that's all.

SPURRIER - Anyone have a question of the witness? If not, the witness may be excused.

(Witness excused)

(Five Minute Recess)

FOSTER - If the Commission pleases, I'd like to just make a short statement here. We are in negotiations now with the Pacific Northwest Pipeline Company to market this gas and a hearing has been scheduled for February 16th - -

SPURRIER - It isn't out yet, is it?

FOSTER - Well, it was already set for a hearing and then it was recessed for February 16th. We have hopes that we will have a market in this area and that's one of the reasons why we are shooting for these unit agreements so that when we have the gas available, we will have a market. There's no use of our trying to reveal all the details of our market negotiations here at a public record, but if any member of the Commission would wish to know these things, we'd be happy to tell them.

G. L. KNIGHT

having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By MR. FOSTER:

Q. Will you state your name, please?

A. G. L. Knight.

Q. Where do you reside, Mr. Knight?

A. Bartlesville, Oklahoma.

Q. And you're employed by Phillips Petroleum Company?

A. I am.

Q. In what capacity?

A. Division geologist for the San Juan Basin.

Q. And you have testified here before the Commission, have you not?

A. I have.

Q. And stated into the record, your qualifications?

A. I have.

MR. FOSTER - Are the qualifications of this witness acceptable to the Commission?

SPURRIER - They are.

Q. Mr. Knight, I notice upon the board there three maps. I wonder if you'd just mark those maps, giving them an exhibit number - say 1, 2 and 3.

(Mr. Knight marked the maps, "Phillips Petroleum Company Exhibits 1, 2 and 3")

FOSTER: Now for the record, would you please explain to us what is on these exhibits marked 1, 2 and 3.

A. Exhibit No. 3, the small scale map of the general San Juan area shows the various units which have been approved and which, in the future, may be asked for approval. Those that have been approved are outlined in green. Those future units that are proposed are outlined in red. The two units for which we are asking approval at this hearing are colored red on

this map. That gives the location of the various units with respect to each other and the position in the San Juan Basin area of New Mexico.

Q. Your explanation follows the legend on the map?

A. It does.

Q. Exhibit No. 1 is a larger scale plat showing the outline of the proposed San Juan Unit 31-6. On that map, the Federal lands are shown in yellow - the State lands are shown in orange. That area corresponds to the area 31-6 on the key map.

Q. How many acres in the area referred to there?

A. The total acreage in this area is 10,049.38.

Q. And how is it divided between State and Federal lands?

A. Federal lands 81.84% - State lands 18.16%. Phillips Exhibit No. 2, is a plat showing the proposed unit 32-4. On this plat, the Federal lands are shown in yellow and the fee and patented lands are shown in blue.

Q. What is the acreage area of that unit?

A. The total acreage of this unit is 17,111.44 acres of which 94.71% is Federal land, 5.29% fee and patented land. This plat corresponds to the area designated as 32-4 on the small-scale map.

Q. Now, you are familiar with the unit agreements in these two cases, aren't you?

A. Yes, sir.

Q. In your opinion, do you believe that the unit agreements will tend to promote the conservation of oil or gas and the better utilization of reservoir energy?

A. I do.

Q. Is it your opinion that under these unit agreements the operations proposed, the State will receive its fair share of the oil or gas on this land?

A. Such is my opinion.

Q. Are you of the opinion that the agreements in other respects are for the best interests of the State?

A. I think they are.

Q. Now, I'm not going to ask you to give all of your reasons as to why you think so, but if the Commission has any questions I know you'll be glad to answer them. That's all.

SPURRIER - Are there any questions of this witness? If not, the witness may be excused.

(Witness excused)

SPURRIER - Are there any further comments in this case?

FOSTER - I would like to submit in evidence our exhibits No. 1, 2 and 3.

SPURRIER - If there are no objections, these will be admitted in evidence. We will take the case under advisement and proceed to case 469.

STATE OF NEW MEXICO )  
                          )  
COUNTY OF LOS ALAMOS)

I HEREBY CERTIFY that the foregoing and attached transcript of hearing on Cases 467 and 468, before the Oil Conservation Commission, State of New Mexico, at Santa Fe, on January 15, 1953, is a true and correct record of the same to the best of my knowledge, skill and ability.

DATED at Los Alamos, New Mexico, this 16th day of January, 1953.

  
REPORTER