Case No.

1461

Application, Transcript,
Small Exhibits, Etc.

1461

CASE 1461: A. A. Greer, et al application for order granting an exception to acreage factors.

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 1461
Order No. R-1212

APPLICATION OF A. A. GREER, ET AL.,
FOR AN ORDER GRANTING SPECIAL ALLOWABLES
FOR CERTAIN WELLS IN THE AZTEC-PICTURED
CLIFFS POOL AND FULCHER KUTZ-PICTURED
CLIFFS POOL IN SAN JUAN COUNTY, NEW MEXICO,
IN EXCEPTION TO THE SPECIAL RULES AND
REGULATIONS FOR SAID POOLS.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on May 28, 1958, at Santa Fe, New Mexico, before Elvis A. Utz, Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this 11th day of July, 1958, the Commission, a quorum being present, having considered the application, the evidence adduced and the recommendations of the Examiner, Elvis A. Utz, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicants are the owners and operators of the following-described wells:

Owner & Operator	Well Name & Location	Pool
Greer, A. A.	Thompson No. 1 - SE/4 SW/4 Sec. 10, T-30N-R11W	Aztec-Pictured Cliffs
BMNS Co.	Brown No. 1 - NE/4 SE/4 Sec. 30, T-30N-R12W	Fulcher Kutz-Pictured Cliffs
BMNS Co.	Brown No. 2 - SW/4 SW/4 Sec. 29, T-30N-R12W	Fulcher Kutz-Pictured Cliffs
BMNS Co.	Wyper No. 2 - SW/4 SE/4 Sec. 29, T-30N-R-12W	Fulcher Kutz-Pictured Cliffs
Krause, Geo. H.	Krause Beck No. 1 - NW/4 SE/4 Sec. 10, T-29N-R-12W	Fulcher Kutz-Pictured Cliffs

Owner & Operator	Well Name & Location	Pool
MSBW Co.	McCarty No. 1 - SW/4 SW/4 Sec. 28, T-30N-R12W	Fulcher Kutz-Pictured Cliffs
MSBW Co.	Montano No. 1 - SE/4 SW/4 Sec. 28, T-30N-R12W	Fulcher Kutz-Pictured Cliffs
MSBW Co.	Palmer No. 1 - SW/4 SE/4 Sec. 28, T-30N-R12W	Fulcher Kutz-Pictured Cliffs

all in San Juan County, New Mexico.

(3) That all of the above-described wells were drilled prior to June 22, 1948, on which date Order No. 748 was entered by the Commission changing the drilling and spacing units for gas wells from 40 acres to 160 acres.

(4) That it is not possible to dedicate 160 acres to each of the above-described wells.

(5) That the applicants in this case seek an order granting the above-described wells an acreage factor for allowable purposes of one (1.0) in exception to the Special Rules and Regulations for the Aztec-Pictured Cliffs Pool and Fulcher Kutz-Pictured Cliffs Pool, on the grounds that said wells were drilled at a time when it was legal to drill gas wells on a 40-acre spacing pattern.

(6) That the applicants are not entitled to the relief sought on the grounds stated above.

(7) That the preponderance of the evidence presented in this case indicates that the above-described wells will be prematurely abandoned, thereby causing waste, unless they are granted an exception to the proration formulae set forth in the Special Rules and Regulations for the Aztec-Pictured Cliffs Pool and Fulcher Kutz-Pictured Cliffs Pool.

(8) That in order to prevent premature abandonment and resulting waste, the above-described wells should be assigned an allowable equal to their capacity to produce or 1500 MCF per month, whichever is less.

IT IS THEREFORE ORDERED:

(1) That the application of A. A. Greer et al. for an order granting the following-described wells an acreage factor for allowable purposes of one (1.0) be and the same is hereby denied:

Owner & Operator	Well Name & Location	Pool
Greer, A. A.	Thompson No. 1 - SE/4 SW/4 Sec. 10, T-30N-R11W	Aztec-Pictured Cliffs
[illegible] Co.	Brown No. 1 - NE/4 SE/4 Sec. 30, T-30N-R12W	Fulcher Kutz-Pictured Cliffs

Owner & Operator	Well Name & Location	Pool
BMNS Co.	Brown No. 2 - SW/4 SW/4 Sec. 29, T-30N-R12W	Fulcher Kutz-Pictured Cliffs
BMNS Co.	Wyper No. 2 - SW/4 SE/4 Sec. 29, T-30N-R12W	Fulcher Kutz-Pictured Cliffs
Krause, Geo. H.	Krause Beck No. 1 - NW/4 SE/4 Sec. 10, T-29N-R12W	Fulcher Kutz-Pictured Cliffs
MEBW Co.	MCarty No. 1 - SW/4 SW/4 Sec. 28, T-30N-R12W	Fulcher Kutz-Pictured Cliffs
MEBW Co.	Montano No. 1 - SE/4 SW/4 Sec. 28, T-30N-R12W	Fulcher Kutz-Pictured Cliffs
MEBW Co.	Palmer No. 1 - SW/4 SE/4 Sec. 28, T-30N-R12W	Fulcher Kutz-Pictured Cliffs

(2) That the above-described wells shall be assigned an allowable equal to their capacity to produce or 1500 MCF per month, whichever is less.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

EDWIN L. MECHEM, Chairman

MURRAY E. MORGAN, Member

A. L. PORTER, Jr., Member & Secretary

ir/

No. 16-58

DOCKET: EXAMINER HEARING MAY 28, 1958

Oil Conservation Commission 9 a.m. Mabry Hall, State Capitol, Santa Fe

The following cases will be heard before Elvis A. Utz, Examiner:

CASE 1225: Application of Moab Drilling Company and Utex Exploration Company for an order amending Order No. R-975. Applicant, in the above-styled cause, seeks an order amending Order No. R-975 to permit the conversion to a water injection well of the Utex Exploration Company Donohue-Federal No. 3 Well, located in the SE/4 SW/4 of Section 15, Township 16 South, Range 29 East, Eddy County, New Mexico.

CASE 1446: Application of The Texas Company for approval of a unit agreement. Applicant, in the above-styled cause, seeks an order approving its Cotton Draw Unit embracing 35,144 acres, more or less, of Federal, State of New Mexico, and patented lands, located in Township 24 South, Ranges 31 and 32 East; Township 25 South, Ranges 31 and 32 East, in Eddy and Lea Counties, New Mexico.

CASE 1447: Application of The Texas Company for a non-standard gas proration unit. Applicant, in the above-styled cause, seeks an order establishing a 320-acre non-standard gas proration unit in the Eumont Gas Pool comprising the E/2 of Section 11, Township 20 South, Range 37 East, Lea County, New Mexico, said unit to be dedicated to the applicant's C. H. Weir "B" Well No. 3, located 330 feet from the North line and 660 feet from the East line of said Section 11.

W Weir
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CASE 1448: Application of Ambassador Oil Corporation for approval of a unit agreement. Applicant, in the above-styled cause, seeks an order approving its North Caprock Queen Unit No. 2 embracing 1808 acres, more or less, of State of New Mexico lands located in Township 13 South, Ranges 31 and 32 East, in Chaves and Lea Counties, New Mexico.

CASE 1449: Application of Graridge Corporation for an exception to Rule 309 of the Commission Rules and Regulations. Applicant, in the above-styled cause, seeks an order permitting the consolidation of tank batteries to receive the production from more than sixteen wells in the North Caprock Queen Unit No. 1 in Chaves and Lea Counties, New Mexico, which was established by Order No. R-1145. The applicant further seeks permission to install automatic custody transfer equipment on the above-referenced Unit.

CASE 1450: Application of Neville G. Penrose, Inc. for approval of a unit agreement. Applicant, in the above-styled cause, seeks an order approving its November State Unit comprising 913 acres, more or less, of State of New Mexico and patented lands, located in Township 10 South, Range 37 and 38 East, and Township 11 South, Range 38 East, Lea County, New Mexico.

CASE 1451: Application of Amerada Petroleum Corporation for a non-standard gas proration unit. Applicant, in the above-styled cause, seeks an order establishing a 280-acre non-standard gas proration unit in the Justis Gas Pool consisting of the W/2 SW/4 Section 24, NW/4 and SW/4 NE/4 of Section 25, all in Township 25 South, Range 37 East, Lea County, New Mexico, said unit to be dedicated to the applicant's proposed well to be drilled in the NE/4 NW/4 of said Section 25.

CASE 1452: Application of Amerada Petroleum Corporation for the dual completion of a producing oil well to permit the disposal of salt water therein. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its H. C. Posey "A" No. 4 Well, located in the NW/4 NE/4 of Section 14, Township 12 South, Range 32 East, Lea County, New Mexico, in such a manner as to permit the production of oil through the tubing from the Pennsylvanian formation, adjacent to the East Caprock-Pennsylvanian Pool, and to permit the disposal of salt water through the casing tubing annulus into the Devonian formation between 11,205 feet and 11,370 feet.

CASE 1453: Application of Magnolia Petroleum Company for an oil-oil dual completion. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its Stephens Estate No. 1 Well, located in the NW/4 SW/4 of Section 24, Township 21 South, Range 37 East, Lea County, New Mexico, in such a manner as to permit the production of oil from the Terry-Blinebry Pool and Wantz-Abo Pool.

CASE 1454: Application of Gulf Oil Corporation for an oil-oil dual completion. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its Learcy McBuffington No. 4 Well, located 660 feet from the South line and 1980 feet from the West line of Section 13, Township 25 South, Range 37 East, Lea County, New Mexico, in such a manner as to permit the production of oil from an undesignated Blinebry oil pool and oil from the Justis-Ellenburger Pool through parallel strings of tubing.

CASE 1455: Application of Gulf Oil Corporation for an oil-oil dual completion. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its Learcy McBuffington Well No. 5, located 1650 feet from the South line and 1980 feet from the East line of Section 13, Township 25 South, Range 37 East, Lea County, New Mexico, in such a manner as to permit the production of oil from an undesignated Blinebry oil pool and oil from the Justis-Ellenburger pool through parallel strings of tubing.

CASE 1456: Application of Gulf Oil Corporation for an oil-oil dual completion. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its Learcy McBuffington Well No. 6, located 330 feet from the South line and 1980 feet from the East line of Section 13, Township 25 South, Range 37 East, Lea County, New Mexico, in such a manner as to permit the production of oil from an undesignated Blinebry oil pool and oil from the McKee formation, adjacent to the Justis-McKee Pool, through parallel strings of tubing.

CASE 1457: Application of Sinclair Oil & Gas Company for an oil-oil dual completion. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its State Lea Well No. 1, located 660 feet from the South and West lines of Section 24, Township 16 South, Range 33 East, Lea County, New Mexico, in such a manner as to permit the production of oil from the Kemnitz-Wolfcamp Pool and from the Pennsylvanian formation adjacent to the Kemnitz-Pennsylvanian Pool through parallel strings of tubing.

CASE 1458: Application of Albert Gackle for a non-standard gas proration unit. Applicant, in the above-styled cause, seeks an order establishing a 320-acre non-standard gas proration unit in the Jalmat Gas Pool consisting of the S/2 of Section 23, Township 23 South, Range 36 East, Lea County, New Mexico, said unit to be dedicated to the applicant's Sinclair State No. 1 Well, located 1650 feet from the South line and 990 feet from the East line of said Section 23.

CASE 1459: Application of Continental Oil Company for a dual completion and non-standard gas proration unit. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its Farney A-17 Well No 3, located in Section 17, Township 23 South, Range 36 East, Lea County, New Mexico, in such a manner as to permit the production of oil from the Lower Yates formation of the Jalmat Gas Pool and gas from the Upper Yates formation of the Jalmat Gas Pool through the tubing and casing-tubing annulus respectively. The applicant further seeks the establishment of a 160-acre non-standard gas proration unit in the Jalmat Gas Pool comprising the NW/4 of said Section 17, to be dedicated to the said Farney A-17 Well No. 3.

CASE 1460: Application of Phillips Petroleum Company for an oil-oil dual completion and for permission to commingle production from two separate pools. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its New Mex "A" Well No. 1 located 1983 feet from the South line and 2313 feet from the West line of Section 25, Township 16 South, Range 33 East, Lea County, New Mexico, in such a manner as to permit the production of oil from the Kemnitz-Wolfcamp Pool and oil from an undesignated Pennsylvanian pool through parallel strings of tubing. The applicant also proposes to produce the Wolfcamp and Pennsylvanian production from said well into common storage.

CASE 1461: Application of A. A. Greer, et al., for an exception to the acreage factors established by Order No. R-565-C for certain wells in San Juan County, New Mexico. Applicant, in the above-styled cause, seek an order granting an exception to the acreage factors provided in the Special Rules and Regulations for the Aztec-Pictured Cliffs Gas Pool and Fulcher Kutz-Pictured Cliffs Gas Pool, as set forth in Order No. R-565-C, for one well in the Aztec-Pictured Cliffs Gas Pool and eight wells in the Fulcher Kutz-Pictured Cliffs Gas Pool which were drilled on 40-acre spacing prior to the establishment of 160-acre spacing in the aforementioned pools.

CASE 1462: Application of El Paso Natural Gas Company for a non-standard gas proration unit. Applicant, in the above-styled cause, seeks an order establishing a 335-acre, more or less, non-standard gas proration unit in the Blanco Mesaverde Gas Pool consisting of the SW/4 of Section 7 and the W/2 of Section 18, all in Township 30 North, Range 8 West, San Juan County, New Mexico, said unit to be dedicated to the applicant's Howell No. 4-C Well, located 933 feet from the South line and 931 feet from the West line of said Section 18.

CASE 1463: Application of Pan American Petroleum Corporation for an oil-gas dual completion. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its O. H. Randel "A" No. 1 Well, located 1650 feet from the South line and 990 feet from the West line of Section 9, Township 26 North, Range 11 West, San Juan County, New Mexico, in such a manner as to permit the production of oil from an undesignated Gallup oil pool and gas from an undesignated Dakota gas pool through parallel strings of tubing.

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BEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION
_____ EXHIBIT NO. _____
CASE NO. _____

BEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION
_____ EXHIBIT NO. _____
CASE NO. _____

OIL CONSERVATION COMMISSION
P. O. BOX 871
SANTA FE, NEW MEXICO

July 11, 1958

COPY

Mr. Geo. L. Verity
Attorney-at-Law
One Radio Plaza
Santa Fe, New Mexico

Dear Mr. Verity:

On behalf of your client, A. A. Greer, et al., we enclose two copies of Order R-1212 issued June 11, 1958, by the Oil Conservation Commission in Case 1461, which was heard on May 28th at Santa Fe before an Examiner.

Very truly yours,

A. L. Porter, Jr.
Secretary - Director

bp
Encls.

GOVERNOR
EDWIN L. MECHEM
CHAIRMAN

New Mexico
OIL CONSERVATION COMMISSION

LAND COMMISSIONER, MURRAY E. MORGAN
MEMBER

STATE GEOLOGIST, A.L. PORTER JR.
SECRETARY DIRECTOR

P. O. Box 871
Santa Fe, New Mexico

July 8, 1958

MEMORANDUM

TO: Governor Edwin L. Mechem
Land Commissioner Murray E. Morgan

FROM: A. L. Porter, Jr., Secretary - Director

SUBJECT: Case No. 1461, Order No. R-1212

The attached order is submitted for your consideration.

The subject wells were drilled prior to the establishment of 160-acre gas well spacing in the San Juan Basin and it is not now possible to dedicate 160 acres to those wells due to the dense drilling pattern in the area. With the low acreage factors, these wells are not given enough allowable under the regular proration formula to warrant their continued operation. If no relief is granted the wells will be plugged and the gas which they would have recovered will be wasted.

Provision is made for just such a situation in Section 65-3-14 (d) which authorizes for minimum allowables for wells to prevent their premature abandonment. Even though there is an express statutory provision for minimum allowables, there is considerable opposition in the industry to the granting of the same. The gas pipelines seem to be especially fearful. I believe they are afraid we might require them to take the minimum if one is established. Despite this opposition, I believe that these operators have proved their case and that the subject wells should be granted the allowables provided for in the order.

ALP:bp

BEFORE THE OIL CONSERVATION COMMISSION OF
THE STATE OF NEW MEXICO

IN THE MATTER OF: Application of A. A. Greer, Geo. H. Krause, BMNS Co., a Mining Partnership, consisting of E. D. Brown, L. M. Mecham, E. J. Brown and Leo Stearns; and MSBW Co., a Mining Partnership consisting of Robert L. Maddox, Carl E. Seivert, Charles E. Whale, W. Earl Bates and Dr. Geo. C. Widney, for an Order permitting Applicants to produce certain gas wells in the Pictured Cliffs formation of San Juan County, New Mexico, at a rate sufficient to prevent premature abandonment thereof.

COME NOW Applicants and state:

1. That Applicants are the owners and operators of the following described gas wells located in the Pictured Cliffs formation within San Juan County, New Mexico, to-wit:

Owner & Operator	Well Name & Location	Pool	
Greer, A. A.	Thompson No. 1 - SE¼SW¼ D47-Spud 385 Sec. 10, T. 30 N., R. 11 W.	Aztec P.C.	1540
BMNS Co.	2607 Brown No. 1 - NE¼SE¼ D —— Sec. 30, T. 30 N., R. 12 W.	Fulcher-Kutz	1820
BMNS Co.	Brown No. 2 - SW¼SW¼ D-111 Sec. 29, T. 30 N., R. 12 W.	" "	
~~BMNS Co.~~	~~Copp No. 1 - SW¼NW¼~~ Sec. 29, T. 30 N., R. 12 W.	" "	
BMNS Co.	Wyper No. 2 - SW¼SE¼ D 148 of Sec. 29, T. 30 N., R. 12 W.	" "	2350
Krause, Geo. H.	Krause Beck No. 1 - NW¼SE¼ D37 gas Sec. 10, T. 29 N., R. 12 W.	" "	1040
MSBW Co.	McCarty No. 1 - SW¼SW¼ D165 of Sec. 28, T. 30 N., R. 12 W.	" "	1856
MSBW Co.	Montano No. 1 - SE¼SW¼ D136 of Sec. 28, T. 30 N., R. 12 W.	" "	2800
MSBW Co.	Palmer No. 1 - SW¼SE¼ D-267 of Sec. ~~36~~ 28, T. 30 N., R. 12 W.	" "	3760

2. That all of such wells were drilled prior to Order No. 748, promulgated on the 22nd day of June, 1948, which Order established drilling and spacing units of 160 acres; that subsequent to the promulgation of said Order at the time stated and on the 23rd day of December, 1954, the Oil Conservation Commission promulgated Order No. R-565, which established field rules for all of the pools in which the above described wells are located, and such order provided a formula which gave 25% weight to an acreage factor arrived at by dividing 160 into the number of acres dedicated to each well; and that

such order disregarded the fact that the above described wells had been drilled prior to the promulgation of the original 160-acre spacing order and at a time when it was legal for such wells to be drilled upon 40-acre tracts.

3. That the Commission's order cannot validly penalize the owners of the above described wells by virtue of an acreage attribution factor when such wells were drilled prior to the promulgation of the original Order No. 748, establishing 160-acre spacing, and at a time when it was proper to drill upon a 40-acre tract.

4. That these applicants and all individuals or corporations similarly situated are entitled to an order creating an exception to that portion of Order No. R-565, which places upon them an acreage attribution factor of less than one, and providing that they be granted an acreage attribution factor of one on all of said wells

WHEREFORE, Applicants pray that this application be set down for hearing; that due notice thereof be given in accord with the laws of the State of New Mexico and the Rules and Regulations of the Commission, and that upon this hearing, from the evidence adduced, Applicants be granted an exception to the acreage attribution portion of Order No. R-565, and be granted an acreage attribution factor of one on each of said wells.

Geo. L. Verity
Attorney for Applicants

OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

Date 6-9-55

CASE 1461 Hearing Date 5-25-55

My recommendations for an order in the above numbered cases are as follows:

1. If within the scope of the application we can grant the 8 wells listed in the application (BMNS Copp #1 is P+A) a 1500 MCFD allowable we should do this. I would rather see a 2000 MCFD but testimony might not support this amount.

2. If we cannot ~~allow as~~ legally grant minimum then deny the application. If application is denied ~~probably~~ should advertise a case on our own motion so we can handle the situation as we desire.

Staff Member

ILLEGIBLE

mjp

Reg hearing
May

GEO. L. VERITY
ATTORNEY AT LAW

ONE RADIO PLAZA
TELEPHONE 3-4633
SANTA FE, NEW MEXICO

211 EAST BROADWAY
TELEPHONE DAVIS 5-2265
FARMINGTON, NEW MEXICO

Farmington, New Mexico
April 30, 1958

State of New Mexico
Oil Conservation Commission
State Office Building
Santa Fe, New Mexico

Gentlemen:

Enclosed herewith is application of A. A. Greer et al asking for an order creating an exception to the acreage attribution factor of Order No. R-565 establishing field rules for the Pictured Cliffs formation in San Juan County, for all those wells which were drilled on 40-acre spacing prior to the promulgation of the Order No. 748 which established 160 drilling and spacing units.

We would appreciate your setting this application down for hearing.

Very truly yours,

Geo. L. Verity

GLV:am

cc: Mr. Emery Arnold
Oil Conservation Commission
Aztec, New Mexico

Mr. W. J. Cooley
Oil Conservation Commission
Santa Fe, New Mexico

No. 16-58

DOCKET: EXAMINER HEARING MAY 28, 1958

Oil Conservation Commission 9 a.m. Mabry Hall, State Capitol, Santa Fe

The following cases will be heard before Elvis A. Utz, Examiner:

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CASE 1448: Application of Ambassador Oil Corporation for approval of a unit agreement. Applicant, in the above-styled cause, seeks an order approving its North Caprock Queen Unit No. 2 embracing 1808 acres, more or less, of State of New Mexico lands located in Township 13 South, Ranges 31 and 32 East, in Chaves and Lea Counties, New Mexico.

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CASE 1450: Application of Neville G. Penrose, Inc. for approval of a unit agreement. Applicant, in the above-styled cause, seeks an order approving its November State Unit comprising 913 acres, more or less, of State of New Mexico and patented lands, located in Township 10 South, Range 37 and 38 East, and Township 11 South, Range 38 East, Lea County, New Mexico.

CASE 1451: Application of Amerada Petroleum Corporation for a non-standard gas proration unit. Applicant, in the above-styled cause, seeks an order establishing a 280-acre non-standard gas proration unit in the Justis Gas Pool consisting of the W/2 SW/4 Section 24, NW/4 and SW/4 NE/4 of Section 25, all in Township 25 South, Range 37 East, Lea County, New Mexico, said unit to be dedicated to the applicant's proposed well to be drilled in the NE/4 NW/4 of said Section 25.

CASE 1452: Application of Amerada Petroleum Corporation for the dual completion of a producing oil well to permit the disposal of salt water therein. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its H. C. Posey "A" No. 4 Well, located in the NW/4 NE/4 of Section 14, Township 12 South, Range 32 East, Lea County, New Mexico, in such a manner as to permit the production of oil through the tubing from the Pennsylvanian formation, adjacent to the East Caprock-Pennsylvanian Pool, and to permit the disposal of salt water through the casing tubing annulus into the Devonian formation between 11,205 feet and 11,370 feet.

CASE 1453: Application of Magnolia Petroleum Company for an oil-oil dual completion. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its Stephens Estate No. 1 Well, located in the NW/4 SW/4 of Section 24, Township 21 South, Range 37 East, Lea County, New Mexico, in such a manner as to permit the production of oil from the Terry-Blinebry Pool and Wantz-Abo Pool.

CASE 1454: Application of Gulf Oil Corporation for an oil-oil dual completion. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its Learcy McBuffington No. 4 Well, located 660 feet from the South line and 1980 feet from the West line of Section 13, Township 25 South, Range 37 East, Lea County, New Mexico, in such a manner as to permit the production of oil from an undesignated Blinebry oil pool and oil from the Justis-Ellenburger Pool through parallel strings of tubing.

CASE 1455: Application of Gulf Oil Corporation for an oil-oil dual completion. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its Learcy McBuffington Well No. 5, located 1650 feet from the South line and 1980 feet from the East line of Section 13, Township 25 South, Range 37 East, Lea County, New Mexico, in such a manner as to permit the production of oil from an undesignated Blinebry oil pool and oil from the Justis-Ellenburger pool through parallel strings of tubing.

CASE 1456: Application of Gulf Oil Corporation for an oil-oil dual completion. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its Learcy McBuffington Well No. 6, located 330 feet from the South line and 1980 feet from the East line of Section 13, Township 25 South, Range 37 East, Lea County, New Mexico, in such a manner as to permit the production of oil from an undesignated Blinebry oil pool and oil from the McKee formation, adjacent to the Justis-McKee Pool, through parallel strings of tubing.

CASE 1457: Application of Sinclair Oil & Gas Company for an oil-oil dual completion. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its State Lea Well No. 1, located 660 feet from the South and West lines of Section 24, Township 16 South, Range 33 East, Lea County, New Mexico, in such a manner as to permit the production of oil from the Kemnitz-Wolfcamp Pool and from the Pennsylvanian formation adjacent to the Kemnitz-Pennsylvanian Pool through parallel strings of tubing.

CASE 1458: Application of Albert Gackle for a non-standard gas proration unit. Applicant, in the above-styled cause, seeks an order establishing a 320-acre non-standard gas proration unit in the Jalmat Gas Pool consisting of the S/2 of Section 23, Township 23 South, Range 36 East, Lea County, New Mexico, said unit to be dedicated to the applicant's Sinclair State No. 1 Well, located 1650 feet from the South line and 990 feet from the East line of said Section 23.

CASE 1459: Application of Continental Oil Company for a dual completion and non-standard gas proration unit. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its Farney A-17 Well No 3, located in Section 17, Township 23 South, Range 36 East, Lea County, New Mexico, in such a manner as to permit the production of oil from the Lower Yates formation of the Jalmat Gas Pool and gas from the Upper Yates formation of the Jalmat Gas Pool through the tubing and casing-tubing annulus respectively. The applicant further seeks the establishment of a 160-acre non-standard gas proration unit in the Jalmat Gas Pool comprising the NW/4 of said Section 17, to be dedicated to the said Farney A-17 Well No. 3.

CASE 1460: Application of Phillips Petroleum Company for an oil-oil dual completion and for permission to commingle production from two separate pools. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its New Mex "A" Well No. 1 located 1983 feet from the South line and 2313 feet from the West line of Section 25, Township 16 South, Range 33 East, Lea County, New Mexico, in such a manner as to permit the production of oil from the Kemnitz-Wolfcamp Pool and oil from an undesignated Pennsylvanian pool through parallel strings of tubing. The applicant also proposes to produce the Wolfcamp and Pennsylvanian production from said well into common storage.

CASE 1461: Application of A. A. Greer, et al., for an exception to the acreage factors established by Order No. R-565-C for certain wells in San Juan County, New Mexico. Applicant, in the above-styled cause, seek an order granting an exception to the acreage factors provided in the Special Rules and Regulations for the Aztec-Pictured Cliffs Gas Pool and Fulcher Kutz-Pictured Cliffs Gas Pool, as set forth in Order No. R-565-C, for one well in the Aztec-Pictured Cliffs Gas Pool and eight wells in the Fulcher Kutz-Pictured Cliffs Gas Pool which were drilled on 40-acre spacing prior to the establishment of 160-acre spacing in the aforementioned pools.

CASE 1462: Application of El Paso Natural Gas Company for a non-standard gas proration unit. Applicant, in the above-styled cause, seeks an order establishing a 335-acre, more or less, non-standard gas proration unit in the Blanco Mesaverde Gas Pool consisting of the SW/4 of Section 7 and the W/2 of Section 18, all in Township 30 North, Range 8 West, San Juan County, New Mexico, said unit to be dedicated to the applicant's Howell No. 4-C Well, located 933 feet from the South line and 931 feet from the West line of said Section 18.

CASE 1463: Application of Pan American Petroleum Corporation for an oil-gas dual completion. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its O. H. Randel "A" No. 1 Well, located 1650 feet from the South line and 990 feet from the West line of Section 9, Township 26 North, Range 11 West, San Juan County, New Mexico, in such a manner as to permit the production of oil from an undesignated Gallup oil pool and gas from an undesignated Dakota gas pool through parallel strings of tubing.

ir/

NEW MEXICO
OIL CONSERVATION COMMISSION
P. O. Box 871
Santa Fe, New Mexico

Date May 21, 1958

George L. Verity
211 E. Broadway
Farmington, New Mexico

Gentlemen:

Your application ~~for~~ on behalf of A. A. Greer, et al., for exceptions to the allowable for wells in the Pictured Cliffs formation

dated April 30, 1958 has been received, and has been tentatively scheduled for hearing before an examiner on May 28, 1958.

A copy of the docket will be forwarded to you as soon as the matter is advertised.

Very truly yours,

A. L. Porter, Jr.

A. L. PORTER, Jr.,
Secretary-Director

ga

MAIN OFFICE OCC

GEO. L. VERITY
ATTORNEY AT LAW

ONE RADIO PLAZA
TELEPHONE 3-4833
SANTA FE, NEW MEXICO

211 EAST BROADWAY
TELEPHONE DAVIS 5-2265
FARMINGTON, NEW MEXICO

Farmington, New Mexico

May 20, 1958

Oil Conservation Commission
Capitol Office Building
Santa Fe, New Mexico

Gentlemen:

Under date of April 30, 1958, I forwarded you an application for an order calling for exceptions to the allowable for wells in the Pictured Cliffs formation, which application was filed in behalf of A. A. Greer, et al.

I have not received any notification of setting of this case. Will you please advise me if it has been set and when.

Yours truly,

Geo. L. Verity

GLV:ecr

via air mail

CLASS OF SERVICE
This is a fast message unless its deferred character is indicated by the proper symbol.

WESTERN UNION
TELEGRAM

W. P. MARSHALL, PRESIDENT

1220 (R II-54)

SYMBOLS
DL = Day Letter
NL = Night Letter
LT = International Letter Telegram

The filing time shown in the date line on domestic telegrams is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

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NEW MEXICO OIL CONSERVATION COMM=

SANTAFE NMEX=

Case 1461

1958 MAY 27 PM 4 36

RE CASE 1461. AZTEC OIL & GAS COMPANY CONCURS IN APPLICATION OF A.A. GREER ET AL FOR AN EXCEPTION TO THE ACREAGE FACTORS ESTABLISHED BY ORDER R-565-C FOR CERTAIN WELLS IN SAN JUAN COUNTY, NEW MEXICO. AZTEC OFFSETS MOST OF THE WELLS INVOLVD IN VAPPLICANT'S APPLICATION AND HAS SEVEN PICTURED CLIFFS WELLS DRILLED ON A 40-ACRE BASIS PRIOR TO ORDER 748 THAT HAVE AN ACREAGE FACTOR OF LESS THAN ONE. SIX OF THESE AZTEC WELLS HAVE BEEN SHUT IN FOR EXTENDED PERIODS OF TIME DUE TO OVERPRODUCTION, AND SOME RELIEF SHOULD BE GRANTED TO PREVENT PREMATURE ABANDONMENT=

AZTEC OIL & GAS CO QUILMAN B DAVIS=

=1461 R-565-C 40 748=

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

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BEFORE THE OIL CONSERVATION COMMISSION OF THE
STATE OF NEW MEXICO

IN THE MATTER OF A HEARING CALLED
BY THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO FOR THE
PURPOSE OF CONSIDERING:

CASE NO. 126
ORDER NO. 748

IN THE MATTER OF THE PETITION OF THE SOUTHERN UNION PRODUCTION COMPANY FOR AN ORDER FIXING THE SPACING OF WELLS IN THE KUTZ CANYON-FULCHER BASIN GAS FIELD OF SAN JUAN COUNTY (AS THEY MAY BE EXTENDED) ON THE BASIS OF ONE WELL TO A DRILLING UNIT OF APPROXIMATELY 160 ACRES WITH SUITABLE PROVISIONS FOR ANY RELATED MATTERS, INCLUDING SPECIAL APPROVAL OF NONCONFORMING WELL LOCATIONS WHERE NECESSARY.

BEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION
Green EXHIBIT NO. A
CASE NO. 1461

ORDER OF THE COMMISSION

BY THE COMMISSION:

WHEREAS, after due notice as required by law the Commission held a public hearing in Santa Fe on February 17, 1948, to consider the petition of Southern Union Production Company for the adoption of an order fixing the spacing of wells hereafter drilled in the Kutz Canyon-Fulcher Basin gas field, San Juan County, New Mexico, and related matters; and

WHEREAS, the Commission having considered the evidence adduced at such hearing, pertinent information otherwise available in the Commission's records, the statements made and viewpoints expressed by interested parties at or in connection with such hearing.

FINDS, from the evidence adduced:

A. That the Kutz Canyon and Fulcher Basin gas pools are productive of natural gas from the Pictured Cliffs sandstone formation, that such pools are contiguous and from all information available to date appear to be one continuous gas producing area or pool in the Pictured Cliffs sandstone;

B. That such pool has produced natural gas for more than 15 years, during which time the average of well-head pressures has declined approximately 200 P.S.I. gauge.

C. That by reason of rules of this Commission previously applicable to the pool, of the general practices of certain operators in the area and of policies of the U. S. Geological Survey, a fairly uniform spacing of one well to 160 acres has heretofore prevailed throughout most of the pool;

D. That one well will, in view of present evidence, economically and effectively drain the recoverable gas from at least 160 acres of the pool, and, accordingly, that more dense spacing in the pool may be conducive to waste and will unnecessarily increase the costs of development and production.

E. That for wells hereafter drilled, a general spacing pattern of one centrally located well on a unit of 160 acres, substantially in the shape of a square, is required to protect the equities of those having interests in wells heretofore drilled on 160-acre tracts, for which general spacing pattern the pooling of properties should be encouraged when necessary;

F. That the gas productive area of the pool is likely to be substantially more extensive than the presently developed portion thereof;

G. That waste will result in the drilling of wells in the pool, unless special rules and regulations are adopted for the prevention thereof; and

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H. That, while the Kutz Canyon-Fulcher Basin gas field has been commercially productive for more than 15 years, it has not been subject to cooperative action representative of the interest of all the operators or lease-holders within the area during that period. In addition, properties, holdings and/or leases of any undetermined number of small landowners or lease-holders, whose total acreage is either less than 160 acres or includes portions of 160-acre tracts, still exist within the pool boundaries, as herein defined. The number of such holdings will be likely to increase as the pool boundaries are extended by subsequent drilling.

THEREFORE, IT IS ORDERED that, effective on the date of this order, the following rules and regulations shall apply to wells hereafter drilled or completed or recompleted to the Pictured Cliff pool in the Kutz Canyon-Fulcher Basin area, defined below, in addition to the Commission's applicable rules, regulations and orders heretofore or hereafter adopted to the extent not in conflict herewith:

Section 1. No well shall be drilled or completed or recompleted, and no Notice of Intention to Drill or drilling permit shall be approved, unless

(a) such well be located on a designated drilling unit of not less than one hundred sixty (160) acres of land, more or less, according to legal subdivisions of the United States Land Surveys, in which unit all the interests are consolidated by pooling agreement or otherwise and on which no other well is completed, or approved for completion, in the pool;

(b) such drilling unit be in the shape of a square except for normal variations in legal subdivisions of the United States Lands Surveys; and

(c) such well be located on its drilling unit at a distance from the unit boundaries of not less than nine hundred ninety feet (990); provided, if such proposed new well is to be an offset to any then producing gas well completed in the pool, or the drilling of which has authorized prior to the effective date of this order, located on an adjoining unit in which the interests are not identical with those in the unit proposed to be drilled, such proposed well may be located and drilled offsetting the existing well and as close to the common unit boundary line as the well to be so offset.

Section 2. Any provision herein to the contrary notwithstanding, the Commission may, and in proper cases will, on petition or on its own motion, by order entered after notice and hearing to the extent required by law, grant exceptions and permit drilling locations to become effective, thereby authorizing the drilling or completion of wells in the pool not conforming to the requirements of Section 1 above if the Commission shall find that the property sought to be drilled would be deprived of an opportunity to produce gas from the pool in the absence of such exception, and shall also find one or more of the following conditions to exist:

(a) that consolidation or pooling of the property sought to be drilled with necessary adjoining land, notwithstanding diligent efforts made in good faith, is impossible or impractical;

(b) that the property sought to be drilled is located within a then developed portion of the pool and its non-conforming size or shape is due to the adjoining developed properties in the pool;

(c) that because of the nature of the terrain, location of the proposed well at a lesser distance from one of the outer boundaries of its drilling unit should be permitted; or

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(d) that by reason of the location of the property to be drilled along the southwest or northeast flank of the developed portion of the area, it appears improbable that gas can be produced in paying quantities if the well conforms to Section 1, in which case the Commission may modify the requirements of Section 1 as to such well to the extent it deems necessary.

Irrespective of such findings, if the Commission shall find that by reason of all circumstances an exception is proper in the prevention of waste, or undue drainage between properties, or otherwise in the exercise by the Commission of its jurisdiction over the spacing of wells or its other powers conferred by law, express or implied.

IT IS FURTHER ORDERED that, in accordance with recommendations of the Northwestern New Mexico Nomenclature Committee approved and adopted by this Commission, the Pictured Cliff gas producing pool in the Kutz Canyon-Fulcher Basin area, to which this order applies, is defined to include the following described land in San Juan County, New Mexico:

Township 27 North, Range 10 West	
Sec. 5	W/2
Secs. 4 & 5	All
Township 28 North, Range 10 West	
Secs. 7 & 8	All
Sec. 18	W/2
Secs. 16,17,19,20	
29,32	All
Sec. 28	W/2
Sec. 27	W/2
Secs. 25,26,30,31,	
33,34	All
Sec. 36	W/2
Township 28 North, Range 11 West	
Secs. 9,10,11,12,13	
14,15,16,22,23,24,25,26	All
Township 29 North, Range 11 West	
Secs. 5,7,8,15,17,18,	
19,20,21,22,26,27,28,	
29,30,31,32,33,34,35,	
36	All
Township 29 North, Range 12 West	
Secs. 1,2,3,4,5,6,7,	
10,11,12,13,14,15,23,	
24,25	All
Township 29 North, Range 13 West	
Sec. 1	All
Township 30 North, Range 12 West	
Sec. 29	All
Sec. 20	E/2
Secs. 26,27,28,29,	
32,33,34,35,	
36	All
Township 30 North, Range 13 West	
Secs. 24,25,36	All

All additional lands located within one-half (1/2) mile of any land in the pool as defined or as it may be extended shall conform to these rules and regulations; provided, however, that such pool shall in no event be extended so as to include any lands now or hereafter included by the Commission in some other producing area formally designated as an oil or gas pool in the

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Pictured Cliffs, provided, further, by order of this Commission the pool may be redesignated from time to time so as to embrace other lands in the vicinity which are believed, on the basis of additional developments, to be capable of producing gas from the Kutz Canyon-Fulcher Basin pool, whether or not such other lands shall have been at one time included in another designated field or pool producing from the Pictured Cliffs.

Entered and adopted by the Oil Conservation Commission this 22 day of June 1948.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

CHAIRMAN

MEMBER

SECRETARY

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BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO
FOR THE PURPOSE OF CONSIDERING:

729)
859)
CASES: 860) Consolidated
941)
ORDER NO. R-565-C

THE APPLICATION OF THE OIL
CONSERVATION COMMISSION UPON
ITS OWN MOTION FOR AN ORDER
REVISING ORDER R-565 AFFECTING
AND CONCERNING THE FULCHER KUTZ-
PICTURED CLIFFS, THE AZTEC-PICTURED
CLIFFS, AND THE SOUTH BLANCO-PICTURED
CLIFFS GAS POOLS IN SAN JUAN AND RIO
ARRIBA COUNTIES, NEW MEXICO.

BEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION
Gruen EXHIBIT NO. 8
CASE NO. 1461

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a. m. on June 16, 1954, and was thereupon continued to October 14, 1954, March 16, 1955 and August 17, 1955, at Santa Fe, New Mexico, before the Oil Conservation Commission, hereinafter referred to as the "Commission".

NOW, on this 13th day of October, 1955, the Commission, a quorum being present, having considered the records and testimony adduced, and being fully advised in the premises,

FINDS:

(1) That due notice of the time and place of hearing and the purpose thereof having been given as required by law, the Commission has jurisdiction of this case and the subject matter thereof.

(2) That there is need for the revision of Orders R-565, R-565-A, R-565-B, R-614, R-620 and their consolidation into this order, due to the revision of Order R-333-B.

IT IS THEREFORE ORDERED:

That special pool rules applicable to the Fulcher Kutz-Pictured Cliffs Gas Pool, the Aztec-Pictured Cliffs Gas Pool and the South Blanco Pictured Cliffs Gas Pool, be and the same hereby are promulgated, as follows:

SPECIAL RULES AND REGULATIONS
FOR THE FULCHER KUTZ-PICTURED CLIFFS
GAS POOL

Well Spacing and Acreage Requirements for Drilling Tracts:

RULE 1: Any well drilled a distance of one mile or more from the outer boundary of the Fulcher Kutz-Pictured Cliffs Gas Pool shall be classified as a wildcat well. Any well drilled less than one mile from the outer boundary of said pool shall be spaced, drilled, operated and prorated in accordance with the regulations in effect in the Fulcher Kutz-Pictured Cliffs Gas Pool.

RULE 2: Each well drilled or recompleted within the Fulcher Kutz-Pictured Cliffs Gas Pool shall be located on a tract consisting of not less than a quarter section of approximately 160 surface contiguous acres substantially in the form of a square which shall be a legal subdivision (quarter section) of the U. S. Public Land Surveys.

RULE 3: Any well drilled within the defined limits of the Fulcher Kutz-Pictured Cliffs Gas Pool shall be located on a designated drilling tract consisting of not less than a quarter section which is a legal subdivision of the U. S. Public Lands Survey, such quarter section to contain approximately 160 contiguous acres and to be substantially in the form of a square. Such well shall be located at least 990 feet from the outer boundary of said quarter section, provided, however, that a tolerance of 200 feet is permissible.

RULE 4: The Secretary-Director of the Commission shall have authority to grant exception to the requirements of Rules 2 and 3 where application has been filed in due form and such exception is required because of conditions resulting from previously drilled wells in the area or, in the case of Rule 3, the necessity for exception is based upon topographic conditions.

Applicants shall furnish all operators of leases offsetting the lease containing subject well, a copy of the application to the Commission, and applicant shall include with his application a list of names and addresses of all such operators, together with a written statement that all such operators have been properly notified by registered mail. The Secretary-Director of the Commission shall wait at least 20 days before approving any such exception, and shall approve such exception only in the absence of objection of any offset operators. In the event an operator objects to the exception, the Commission shall consider the matter only after proper notice and hearing.

RULE 5: The provision of Statewide Rule 104, Paragraph (k), shall not apply to the Fulcher Kutz-Pictured Cliffs Gas Pool.

Gas Proration and Allocation:

RULE 6: (A) The acreage allocated to a gas well for proration purposes shall be known as the gas proration unit for that well. For the purpose of gas allocation in the Fulcher Kutz-Pictured Cliffs Gas Pool, a standard proration unit shall consist of approximately 160 surface contiguous acres substantially in the form of a square which shall be a legal subdivision (quarter-section) of the U. S. Public Land Survey; provided, however, that a non-standard proration unit may be formed after notice and hearing by the Commission or under the provisions of Paragraph (B) of this rule.

The allowable production from any non-standard gas proration unit as compared with the allowable production therefrom if such tract were a standard unit shall be in the ratio which the area of the non-standard proration unit bears to a standard proration unit of 160 acres, subject to the provisions of Rule 9 of this order. Any gas proration unit containing between 158 and 162 acres shall be considered to contain 160 acres for the purpose of computing allowables.

(B) The Secretary of the Commission shall have authority to grant an exception to Rule 6 (A) without Notice and Hearing where application has been filed in due form and where the following facts exist and the following provisions are complied with;

1. The proposed non-standard proration unit consists of less than 160 acres or where the unorthodox size or shape of the tract is due to a variation in legal subdivision of the U. S. Public Land Surveys.

2. The non-standard gas proration unit consists of contiguous quarter-quarter sections and/or lots.

3. The non-standard gas proration unit lies wholly within a single governmental section.

4. The entire non-standard gas proration unit may reasonably be presumed to be productive of gas.

5. The applicant presents written consent in the form of waivers from:

(a) All operators owning interests in the section in which any part of the non-standard gas proration unit is situated and which acreage is not included in said non-standard gas proration unit.

(b) All operators owning interests in acreage offsetting the non-standard unit.

6. In lieu of paragraph 5 of this rule, the applicant may furnish proof of the fact that said offset operators were notified by registered mail of his intent to form such non-standard gas proration unit. The Secretary of the Commission may approve the application if, after a period of 30 days following the mailing of said notice, no operator has made objection to formation of such non-standard gas proration unit.

RULE 7: At least 30 days prior to the beginning of each gas proration period, the Commission shall hold a hearing after due notice has been given. The Commission shall cause to be submitted by each gas purchaser "Preliminary Nomina-

tions" of that quantity of gas which each purchaser in good faith actually desires to purchase within the ensuing proration period, by months, from the Fulcher Kutz-Pictured Cliffs Gas Pool. The Commission shall consider the "Preliminary Nominations" of purchasers, actual production, and such other factors as may be deemed applicable in determining the amount of gas that may be produced without waste from said pool within the ensuing proration period. "Preliminary Nominations" shall be submitted on Form C-121-A as prescribed by the Commission.

RULE 8: In the event a gas purchaser's market shall have increased or decreased, purchaser may file with the Commission prior to the 10th day of the month a "Supplemental Nomination" showing the amount of gas the purchaser actually in good faith desires to purchase during the ensuing proration month from the Fulcher Kutz-Pictured Cliffs Gas Pool. The Commission shall hold a public hearing between the 13th and 20th days of each month to determine the reasonable market demand for gas from said pool for the ensuing proration month, and shall issue a proration schedule setting out the amount of gas which each well may produce during the ensuing proration month. "Supplemental Nominations" shall be submitted on Form C-121-A as prescribed by the Commission.

Included in the monthly proration schedule shall be (a) a summary of the total pool allocation for that month showing nominations, and adjustments made for underage or overage applied from a previous month, (b) a tabulation of the net allowable and production for the second preceding month together with a cumulative overage or underage computation, (c) a tabulation of the current and net allowables for the preceding month, (d) a tabulation of current monthly allowable for the ensuing proration month, and (e) a tabulation of the acreage and deliverabilities assigned each well, and the factors assigned each well for use in calculating individual well allowables. The Commission shall include in the proration schedule the gas wells in the Fulcher Kutz-Pictured Cliffs Pool delivering to a gas transportation facility, or lease gathering system, and shall include in the proration schedule of said pool any well which the Commission finds is being unreasonably discriminated against through denial of access to a gas transportation facility which is reasonably capable of handling the type of gas produced by such well. The total allowable to be allocated to said pool each month shall be equal to the sum of the preliminary or supplemental nominations, whichever is applicable, together with any adjustment which the Commission deems advisable.

If, during a proration month, the acreage assigned a well is increased, the operator shall notify the Secretary-Director in writing of such increase. The increased allowable assigned the gas proration unit for the well shall become effective on the first day of the month following receipt of the notification by the Director. All communications shall be mailed to the Director, at Box 871, Santa Fe, New Mexico.

RULE 9: The monthly gas allocation to the Fulcher Kutz-Pictured Cliffs Gas Pool shall be divided and allocated among the wells connected to a gas transportation facility in the following manner:

The product obtained by multiplying each well's acreage factor by the calculated deliverability (expressed as MCF per day) for that well shall be known as the "AD" factor for that well. The acreage factor shall be determined to the nearest hundredth of a unit by dividing the acreage within the proration unit by 160. The "AD" factor shall be computed to the nearest whole unit.

A tentative allocation shall be made by dividing seventy-five percent (75%) of the pool allocation among the wells in the proportion that each well's "AD" factor

bears to the sum of the "AD" factors of all wells in the pool.

The remaining twenty-five percent (25%) of the pool allocation shall be divided among wells in the proportion that each well's acreage factor bears to the sum of the acreage factors of all wells in the pool.

When the tentative allowable received by a well is in excess of its known producing ability, the well shall be classed as a marginal well and its allowable limited to its known producing ability. The sum of the difference between the tentative allowables and the limited allowables of all marginal wells on the proration schedule shall be reallocated to the non-marginal wells by application of the same formula. If such reallocation shall result in placing any other well within the marginal classification, the difference between the tentative allowable and the limited allowable of such marginal well shall be redistributed by application of the same formula until no well has received an allowable in excess of its known producing ability.

Any well having a calculated allowable less than that of the largest allowable assigned a marginal well shall be assigned an allowable equal to the largest marginal allowable; provided that the allowable so assigned shall not be greater than the well's ability to produce. If the allowable so assigned is greater than the well's ability to produce, the well shall be limited to its ability to produce. All wells with allowables so assigned shall be classified as marginal wells.

RULE 10: The calculated deliverability at the "deliverability pressure" shall be determined in accordance with the provisions of Order R-333-C.

Balancing of Production:

RULE 11: Underproduction: The hours of 7 o'clock a. m., M. S. T. February 1, and 7 o'clock a. m., M. S. T., August 1, shall be known as balancing dates and the periods of time bound by these dates shall be known as gas proration periods. In order to effectively administer the prorationing of gas in the Fulcher Kutz-Pictured Cliffs Pool, it is advisable to have a portion of each proration period include both summer and winter months. Therefore, the first proration period shall commence on March 1, 1955, and shall continue for a period of eleven months until February 1, 1956. Future proration periods shall commence on the dates set out above. The amount of current gas allowable remaining unproduced at the end of each proration period shall be carried forward to and may be produced during the next succeeding proration period in addition to the normal gas allowable for such succeeding period; provided, however, that whatever amount thereof is not made up within the first succeeding proration period shall be cancelled.

If it appears that such continued underproduction has resulted from inability of the well to produce its allowable, it may be classified as a marginal well and its allowable reduced to the level of the well's ability to produce.

If, at the end of a proration period a marginal well has produced more than the total allowable assigned a non-marginal unit of corresponding size and deliverability, such marginal well shall be reclassified as a non-marginal well and its allowable prorated accordingly.

If, during a proration period a marginal well is reworked or recompleted in such a manner that its productive capacity is increased to an extent that said well

should be reclassified as a non-marginal well, the reclassification shall be effective on the first day of the proration month following the date of recompletion.

The Secretary-Director may reclassify a well at any time if production data or deliverability tests reflect the need for such reclassification.

RULE 12: Overproduction: A well which has produced a greater amount of gas than was allowed during a given proration period shall have its allowable for the first succeeding proration period reduced by the amount of such overproduction and such overproduction shall be made up within the first succeeding proration period. If, at any time, a well is overproduced an amount equivalent to six times its current monthly allowable, said well shall be shut-in during the current month.

The Commission may allow overproduction to be made up at a lesser rate than would be the case if the well were completely shut-in if, upon public hearing after due notice, it is shown that complete shut-in of the well would result in material damage to said well.

Granting of Allowables:

RULE 13: No gas well shall be given an allowable until Form C-104 and Form C-110 have been filed, together with a plat showing acreage attributed to said well and the locations of all wells on the lease.

RULE 14: Allowables to newly completed gas wells shall commence

(a) on the date of connection to a gas transportation facility, such date to be determined from an affidavit furnished to the Commission (Box 697, Aztec, New Mexico) by the purchaser,

(b) The latest filing date of Form C-104, C-110 or the above described plat, or

(c) a date 45 days prior to the date upon which the well's initial deliverability and shut-in pressure test is reported to the Commission on Form C-122 in conformance with the provisions of R-333-C,

whichever date is the later.

No well shall be assigned an allowable unless a deliverability test, or a potential test taken in conformance with the provisions of Order R-333-C has been submitted.

Deliverability tests shall be taken and calculated in conformance with Order R-333-C, the provisions of Rule 10 of this order and the testing schedule provision of Order R-333-C.

A change in a well's deliverability due to retest or test after recompletion or workover shall become effective the first of the month following receipt and approval of Form C-122-A for such test. Such tests shall be taken in accordance with Order R-333-C.

Deliverability tests taken during 1954 shall be used in calculating allowables for the proration period commencing March 1, 1955. Subsequent annual tests shall be

used in calculating allowables for proration periods commencing during the next ensuing year.

Reporting of Production:

RULE 15: The monthly gas production from each well shall be metered separately and the production therefrom shall be reported to the Commission on Form C-115, and such report shall be postmarked on or before the 24th day of the month immediately following the month in which the gas reported was produced. The operator shall show on such report the disposition of the gas produced.

Each purchaser or taker of gas in the Fulcher Kutz-Pictured Cliffs Gas Pool shall submit a report to the Commission, and such report shall be postmarked on or before the 15th day of the month immediately following the month in which the gas was purchased or taken. Such report shall be filed on either Form C-111 or Form C-114, whichever is applicable, and the wells shall be listed in approximately the same order as they are found listed on the proration schedule.

Forms C-111 and C-114 as referred to herein shall be submitted triplicate, the original being sent to the Commission at Box 871, Santa Fe, New Mexico, remaining copies will be sent to Box 697, Aztec, New Mexico and Box 2045, Hobbs, New Mexico, respectively.

Forms C-115 shall be submitted in accordance with Rule 1114 of the Commission's Rules and Regulations.

The full production of gas from each well shall be charged against the well's allowable regardless of the disposition of the gas; provided, however, that gas used in maintaining the producing ability of the well shall not be charged against the allowable.

RULE 16: The term "gas purchaser" as used in these rules, shall mean any "taker" of gas either at the wellhead or at any point on the lease where connection is made to facilitate the transportation or utilization of gas. It shall be the responsibility of said "taker" to submit a nomination in accordance with Rules 7 and 8 of this order.

RULE 17: No gas, either dry gas or casinghead gas, produced from the Fulcher Kutz-Pictured Cliffs Gas Pool, except that gas used for "drilling-in" purposes, shall be flared or vented unless specifically authorized by order of the Commission after notice and hearing.

SPECIAL RULES AND REGULATIONS FOR THE AZTEC-PICTURED CLIFFS GAS POOL

Well Spacing and Acreage Requirements for Drilling Tracts:

RULE 1: Any well drilled a distance of one mile or more from the outer boundary of the Aztec-Pictured Cliffs Gas Pool shall be classified as a wildcat well. Any well drilled less than one mile from the outer boundary of said pool shall be spaced, drilled, operated, and prorated in accordance with the regulations in effect in the Aztec-Pictured Cliffs Gas Pool.

RULE 2: Each well drilled or recompleted within the Aztec-Pictured Cliffs Gas Pool shall be located on a tract consisting of not less than a quarter section approximately 160 surface contiguous acres substantially in the form of a square which shall be a legal subdivision (quarter section) of the U. S. Public Land Surveys.

RULE 3: Any well drilled within the defined limits of the Aztec-Pictured Cliffs Gas Pool shall be located on a designated drilling tract consisting of not less than a quarter section which is a legal subdivision of the U. S. Public Lands Survey, such quarter section to contain approximately 160 surface contiguous acres and to be substantially in the form of a square. Such well shall be located at least 990 feet from the outer boundary of said quarter section, provided, however, that a tolerance of 200 feet is permissible.

RULE 4: The Secretary-Director of the Commission shall have authority to grant exception to the requirements of Rules 2 and 3 where application has been filed in due form and such exception is required because of conditions resulting from previously drilled wells in the area or, in the case of Rule 3, the necessity for exception is based upon topographic conditions.

Applicants shall furnish all operators of leases offsetting the lease containing subject well a copy of the application to the Commission, and applicant shall include with his application a list of names and addresses of all such operators, together with a written statement that all such operators have been properly notified by registered mail. The Secretary-Director of the Commission shall wait at least 20 days before approving any such exception, and shall approve such exception only in the absence of objection of any offset operators. In the event an operator objects to the exception, the Commission shall consider the matter only after proper notice and hearing.

RULE 5: The provision of Statewide Rule 104, Paragraph (k), shall not apply to the Aztec-Pictured Cliffs Gas Pool.

Gas Proration and Allocation:

RULE 6: (A) The acreage allocated to a gas well for proration purposes shall be known as the gas proration unit for that well. For the purpose of gas allocation in the Aztec-Pictured Cliffs Gas Pool, a standard proration unit shall consist of approximately 160 surface contiguous acres substantially in the form of a square which shall be a legal subdivision (quarter-section) of the U. S. Public Land Survey; provided, however, that a non-standard unit may be formed after notice and hearing by the Commission or under the provisions of Paragraph (B) of this Rule.

> The allowable production from any non-standard gas proration unit as compared with the allowable production therefrom if such tract were a standard unit shall be in the ratio which the area of the non-standard proration unit bears to a standard proration unit of 160 acres, subject to the provisions of Rule 9 of this order. Any gas proration unit containing between 158 and 162 acres shall be considered to contain 160 acres for the purpose of computing allowables.

(B) The Secretary of the Commission shall have authority to grant an exception to Rule 6 (A) without Notice and Hearing where application has been filed in due form and where the following facts exist and the following provisions are complied with:

1. The proposed non-standard proration unit consists of less than 160 acres or where the unorthodox size or shape of the tract is due to a variation in legal subdivision of the U. S. Public Land Surveys.

2. The non-standard gas proration unit consists of contiguous quarter-quarter sections and/or lots.

3. The non-standard gas proration unit lies wholly within a single governmental section.

4. The entire non-standard gas proration unit may reasonably be presumed to be productive of gas.

5. The applicant presents written consent in the form of waivers from:

(a) All operators owning interests in the section in which any part of the non-standard gas proration unit is situated and which acreage is not included in said non-standard gas proration unit.

(b) All operators owning interests in acreage offsetting the non-standard unit.

6. In lieu of paragraph 5 of this rule, the applicant may furnish proof of the fact that said offset operators were notified by registered mail of his intent to form such non-standard gas proration unit. The Secretary of the Commission may approve the application if, after a period of 30 days following the mailing of said notice, no operator has made objection to formation of such non-standard gas proration unit.

RULE 7: At least 30 days prior to the beginning of each gas proration period, the Commission shall hold a hearing after due notice has been given. The Commission shall cause to be submitted by each gas purchaser "Preliminary Nominations" of that quantity of gas which each purchaser in good faith actually desires to purchase within the ensuing proration period, by months, from the Aztec-Pictured Cliffs Gas Pool. The Commission shall consider the "Preliminary Nominations" of purchasers, actual production, and such other factors as may be deemed applicable in determining the amount of gas that may be produced without waste from said pool within the ensuing proration period. "Preliminary Nominations" shall be submitted on Form C-121-A as prescribed by the Commission.

RULE 8: In the event a gas purchaser's market shall have increased or decreased, purchaser may file with the Commission prior to the 10th day of the month a "Supplemental Nomination" showing the amount of gas the purchaser actually in good faith desires to purchase during the ensuing proration month from the Aztec-Pictured Cliffs Gas Pool. The Commission shall hold a public hearing between the 13th and 20th days of each month to determine the reasonable market demand for gas from said pool for the ensuing proration month, and shall issue a proration schedule setting out the amount of gas which each well may produce during the ensuing proration month. "Supplemental Nominations" shall be submitted on Form C-121-A as prescribed by the Commission.

Included in the monthly proration schedule shall be (a) a summary of the total pool allocation for that month showing nominations, and adjustments made for underage or overage applied from a previous month, (b) a tabulation of the net allowable and production for the second preceding month together with a cumulative overage or underage computation, (c) a tabulation of the current and net allowables for the preceding month, (d) a tabulation of current monthly allowable for the ensuing proration month, and (e) a tabulation of the acreage and deliverabilities assigned each well, and the factors assigned each well for use in calculating individual well allowables. The Commission shall include in the proration schedule the gas wells in the Aztec-Pictured Cliffs Pool delivering to a gas transportation facility, or lease gathering system, and shall include in the proration schedule of said pool any well which the Commission finds is being unreasonably discriminated against through denial of access to a gas transportation facility which is reasonably capable of handling the type of gas produced by such well. The total allowable to be allocated to said pool each month shall be equal to the sum of the preliminary or supplemental nominations, whichever is applicable, together with any adjustment which the Commission deems advisable.

If, during a proration month, the acreage assigned a well is increased, the operator shall notify the Secretary-Director in writing of such increase. The increased allowable assigned the gas proration unit for the well shall become effective on the first day of the month following receipt of the notification by the Director. All communications shall be mailed to the Director, at Box 871, Santa Fe, New Mexico.

RULE 9: The monthly gas allocation to the Aztec-Pictured Cliffs Gas Pool shall be divided and allocated among the wells connected to a gas transportation facility in the following manner:

The Product obtained by multiplying each well's acreage factor by the calculated deliverability (expressed as MCF per day) for that well shall be known as the "AD" factor for that well. The acreage factor shall be determined to the nearest hundredth of a unit by dividing the acreage within the proration unit by 160. The "AD" factor shall be computed to the nearest whole unit.

A tentative allocation shall be made by dividing seventy-five percent (75%) of the pool allocation among the wells in the proportion that each well's "AD" factor bears to the sum of the "AD" factors of all wells in the pool.

The remaining twenty-five percent (25%) of the pool allocation shall be divided among wells in the proportion that each well's acreage factor bears to the sum of the acreage factors of all wells in the pool.

When the tentative allowable received by a well is in excess of its known producing ability, the well shall be classed as a marginal well and its allowable limited to its known producing ability. The sum of the difference between the tentative allowables and the limited allowables of all marginal wells on the proration schedule shall be reallocated to the non-marginal wells by application of the same formula. If such reallocation shall result in placing any other well within the marginal classification, the difference between the tentative allowable and the limited allowable of such marginal well shall be redistributed by application of the same formula until no well has received an allowable in excess of its known producing ability.

Any well having a calculated allowable less than that of the largest allowable assigned a marginal well shall be assigned an allowable equal to the largest marginal allowable; provided that the allowable so assigned shall not be greater than the well's ability to produce. If the allowable so assigned is greater than the well's ability to

produce, the well shall be limited to its ability to produce. All wells with allowables so assigned shall be classified as marginal wells.

RULE 10: The calculated deliverability at the "deliverability pressure" shall be determined in accordance with the provisions of Order R-333-C.

Balancing of Production:

RULE 11: Underproduction: The hours of 7 o'clock a. m., M. S. T. February 1, and 7 o'clock a. m., M. S. T., August 1, shall be known as balancing dates and the periods of time bound by these dates shall be known as gas proration periods. In order to effectively administer the prorationing of gas in the Aztec-Pictured Cliffs Pool, it is advisable to have a portion of each proration period include both summer and winter months. Therefore, the first proration period shall commence on March 1, 1955, and shall continue for a period of eleven months until February 1, 1956. Future proration periods shall commence on the dates set out above. The amount of current gas allowable remaining unproduced at the end of each proration period shall be carried forward to and may be produced during the next succeeding proration period in addition to the normal gas allowable for such succeeding period; provided, however, that whatever amount thereof is not made up within the first succeeding proration period shall be cancelled.

If it appears that such continued underproduction has resulted from inability of the well to produce its allowable, it may be classified as a marginal well and its allowable reduced to the level of the well's ability to produce.

If, at the end of a proration period a marginal well has produced more than the total allowable assigned a non-marginal unit of corresponding size and deliverability, such marginal well shall be reclassified as a non-marginal well and its allowable prorated accordingly.

If, during a proration period a marginal well is reworked or recompleted in such a manner that its productive capacity is increased to an extent that said well should be reclassified as a non-marginal well, the reclassification shall be effective on the first day of the proration month following the date of recompletion.

The Secretary-Director may reclassify a well at any time if production data or deliverability tests reflect the need for such reclassification.

RULE 12: Overproduction: A well which has produced a greater amount of gas than was allowed during a given proration period shall have its allowable for the first succeeding proration period reduced by the amount of such overproduction and such overproduction shall be made up within the first succeeding proration period. If, at any time, a well is overproduced an amount equivalent to six times its current monthly allowable, said well shall be shut-in during the current month.

The Commission may allow overproduction to be made up at a lesser rate than would be the case if the well were completely shut-in if, upon public hearing after due notice, it is shown that complete shut-in of the well would result in material damage to said well.

Granting of Allowables:

RULE 13: No gas well shall be given an allowable until Form C-104 and

Form C-110 have been filed, together with a plat showing acreage attributed to said well and the locations of all wells on the lease.

RULE 14: Allowables to newly completed gas wells shall commence

(a) on the date of connection to a gas transportation facility, such date to be determined from an affidavit furnished to the Commission (Box 697, Aztec, New Mexico) by the purchaser.

(b) the latest filing date of Form C-104, C-110 or the above described plat, or

(c) a date 45 days prior to the date upon which the well's initial deliverability and shut-in pressure test is reported to the Commission on Form C-122-A in conformance with the provisions of R-333-C,

whichever date is the later.

No well shall be assigned an allowable unless a deliverability test, taken in conformance with the provisions of Order R-333-C has been submitted.

Deliverability tests shall be taken and calculated in conformance with Order R-333-C, the provisions of Rule 10 of this order and the testing schedule provisions of Order R-333-C.

A change in a wells deliverability due to retest or test after recompletion or workover shall become effective the first of the month following receipt and approval of Form C-122-A for such test. Such tests shall be taken in accordance with Order R-333-C.

Deliverability tests taken during 1954 shall be used in calculating allowables for the proration period commencing March 1, 1955. Subsequent annual tests shall be used in calculating allowables for proration periods commencing during the next ensuing year.

Reporting of Production:

RULE 15: The monthly gas production from each well shall be metered separately and the production therefrom shall be reported to the Commission on Form C-115, and such report shall be postmarked on or before the 24th day of the month immediately following the month in which the gas reported was produced. The operator shall show on such report the disposition of the gas produced.

Each purchaser or taker of gas in the Aztec Pictured Cliffs Gas Pool shall submit a report to the Commission, and such report shall be postmarked on or before the 15th day of the month immediately following the month in which the gas was purchased or taken. Such report shall be filed on Form C-111 or Form C-114, whichever is applicable, and the wells shall be listed in approximately the same order as they are found listed on the proration schedule.

Forms C-111 and C-114 as referred to herein shall be submitted in triplicate, the original being sent to the Commission at Box 871, Santa Fe, New Mexico, remaining copies will be sent to Box 697, Aztec, New Mexico and Box 2045, Hobbs, New Mexico, respectively.

Forms C-115 shall be submitted in accordance with Rule 1114 of the Commission's Rules and Regulations.

The full production of gas from each well shall be charged against the well's allowable regardless of the disposition of the gas; provided, however, that gas used in maintaining the producing ability of the well shall not be charged against the allowable.

RULE 16: The term "gas purchaser" as used in these rules, shall mean any "taker" of gas either at the wellhead or at any point on the lease where connection is made to facilitate the transportation or utilization of gas. It shall be the responsibility of said "taker" to submit a nomination in accordance with Rules 7 and 8 of this order.

RULE 17: No gas, either dry gas or casinghead gas, produced from the Aztec-Pictured Cliffs Gas Pool, except that gas used for "drilling-in" purposes, shall be flared or vented unless specifically authorized by Order of the Commission after notice and hearing.

SPECIAL RULES AND REGULATIONS FOR THE SOUTH BLANCO-PICTURED CLIFFS GAS POOL

Well Spacing and Acreage Requirements for Drilling Tracts:

RULE 1: Any well drilled a distance of one mile or more from the outer boundary of the South Blanco-Pictured Cliffs Gas Pool shall be classified as a wildcat well. Any well drilled less than one mile from the outer boundary of said pool shall be spaced, drilled, operated and prorated in accordance with the regulations in effect in the South Blanco-Pictured Cliffs Gas Pool.

RULE 2: Each well drilled or recompleted within the South Blanco-Pictured Cliffs Gas Pool shall be located on a tract consisting of not less than a quarter section of approximately 160 surface contiguous acres substantially in the form of a square which shall be a legal subdivision (quarter section) of the U. S. Public Land Surveys.

RULE 3: "Any well drilled within the defined limits of the South Blanco-Pictured Cliffs Gas Pool shall be located on a designated drilling tract consisting of not less than a quarter section which is a legal subdivision of the U. S. Public Lands Survey, such quarter section to contain approximately 160 surface contiguous acres and to be substantially in the form of a square. Such well shall be located at least 990 feet from the outer boundary of said quarter section, provided, however, that a tolerance of 200 feet is permissible."

RULE 4: The Secretary-Director of the Commission shall have authority to grant exception to the requirements of Rules 2 and 3 where application has been filed in due form and such exception is required because of conditions resulting from previously drilled wells in the area or, in the case of Rule 3, the necessity for exception is based upon topographic conditions.

Applicants shall furnish all operators of leases offsetting the lease containing subject well a copy of the application to the Commission, and applicant shall include with his application a list of names and addresses of all such operators, together with a written statement that all such operators have been properly notified by registered mail. The Secretary-Director of the Commission shall wait at least 20 days before approving any such exception, and shall approve such exception only in the absence of

objection of any offset operators. In the event an operator objects to the exception, the Commission shall consider the matter only after proper notice and hearing.

RULE 5: The provision of Statewide Rule 104, Paragraph (k), shall not apply to the South Blanco-Pictured Cliffs Gas Pool.

Gas Proration and Allocation:

RULE 6: (A) The acreage allocated to a gas well for proration purposes shall be known as the gas proration unit for that well. For the purpose of gas allocation in the South Blanco-Pictured Cliffs Gas Pool, a standard proration unit shall consist of approximately 160 surface contiguous acres substantially in the form of a square which shall be a legal subdivision (quarter-section) of the U. S. Public Land Survey; provided, however, that a non-standard proration unit may be formed after notice and hearing by the Commission or under the provisions of Paragraph (B) of this Rule.

The allowable production from any non-standard gas proration unit as compared with the allowable production therefrom if such tract were a standard unit shall be in the ratio which the area of the non-standard proration unit bears to a standard proration unit of 160 acres, subject to the provisions of Rule 9 of this order. Any gas proration unit containing between 158 and 162 acres shall be considered to contain 160 acres for the purpose of computing allowables.

(B) The Secretary of the Commission shall have authority to grant an exception to Rule 6 (a) without Notice and Hearing where application has been filed in due form and where the following facts exist and the following provisions are complied with:

1. The proposed non-standard proration unit consists of less than 160 acres or where the unorthodox size or shape of the tract is due to a variation in legal subdivision of the U. S. Public Land Surveys.

2. The non-standard gas proration unit consists of contiguous quarter-quarter sections and/or lots.

3. The non-standard gas proration unit lies wholly within a single governmental section.

4. The entire non-standard gas proration unit may reasonably be presumed to be productive of gas.

5. The applicant presents written consent in the form of waivers from:

   (a) all operators owning interests in the section in which any part of the non-standard gas proration unit is situated and which acreage is not included in said non-standard gas proration unit.

(b) all operators owning interests in acreage offsetting the non-standard unit.

6. In lieu of paragraph 5 of this rule, the applicant may furnish proof of the fact that said offset operators were notified by registered mail of his intent to form such non-standard gas proration unit. The Secretary of the Commission may approve the application if, after a period of 30 days following the mailing of said notice, no operator has made objection to formation of such non-standard gas proration unit.

RULE 7: At least 30 days prior to the beginning of each gas proration period, the Commission shall hold a hearing after due notice has been given. The Commission shall cause to be submitted by each gas purchaser "Preliminary Nominations" of that quantity of gas which each purchaser in good faith actually desires to purchase within the ensuing proration period, by months, from the South Blanco-Pictured Cliffs Gas Pool. The Commission shall consider the "Preliminary Nominations" of purchasers, actual production, and such other factors as may be deemed applicable in determining the amount of gas that may be produced without waste from said pool within the ensuing proration period. "Preliminary Nominations" shall be submitted on Form C-121-A as prescribed by the Commission.

RULE 8: In the event a gas purchaser's market shall have increased or decreased, purchaser may file with the Commission prior to the 10th day of the month a "Supplemental Nomination" showing the amount of gas the purchaser actually in good faith desires to purchase during the ensuing proration month from the South Blanco-Pictured Cliffs Gas Pool. The Commission shall hold a public hearing between the 13th and 20th days of each month to determine the reasonable market demand for gas from said pool for the ensuing proration month, and shall issue a proration schedule setting out the amount of gas which each well may produce during the ensuing proration month. "Supplemental Nominations" shall be submitted on Form C-121-A as prescribed by the Commission.

Included in the monthly proration schedule shall be (a) a summary of the total pool allocation for that month showing nominations, and adjustments made for underage or overage applied from a previous month, (b) a tabulation of the net allowable and production for the second preceding month together with a cumulative overage or underage computation, (c) a tabulation of the current and net allowables for the preceding month, (d) a tabulation of current monthly allowable for the ensuing proration month, and (e) a tabulation of the acreage and deliverabilities assigned each well, and the factors assigned each well for use in calculating individual well allowables. The Commission shall include in the proration schedule the gas wells in the South Blanco-Pictured Cliffs Pool delivering to a gas transportation facility, or lease gathering system, and shall include in the proration schedule of said pool any well which the Commission finds is being unreasonably discriminated against through denial of access to a gas transportation facility which is reasonably capable of handling the type of gas produced by such well. The total allowable to be allocated to said pool each month shall be equal to the sum of the preliminary or supplemental nominations, whichever is applicable together with any adjustment which the Commission deems advisable.

If, during a proration month, the acreage assigned a well is increased, the operator shall notify the Secretary-Director in writing of such increase. The increased allowable assigned the gas proration unit for the well shall become effective on the first day of the month following receipt of the notification by the Director. All Communications shall be mailed to the Director, at Box 871, Santa Fe, New Mexico.

RULE 9: The monthly gas allocation to the South Blanco-Pictured Cliffs Gas Pool shall be divided and allocated among the wells connected to a gas transportation facility in the following manner:

The product obtained by multiplying each well's acreage factor by the calculated deliverability (expressed as MCF per day) for that well shall be known as the "AD" factor for that well. The acreage factor shall be determined to the nearest hundredth of a unit by dividing the acreage within the proration unit by 160. The "AD" factor shall be computed to the nearest whole unit.

A tentative allocation shall be made by dividing seventy-five percent (75%) of the pool allocation among the wells in the proportion that each well's "AD" factor bears to the sum of the "AD" factors of all wells in the pool.

The remaining twenty-five percent (25%) of the pool allocation shall be divided among wells in the proportion that each well's acreage factor bears to the sum of the acreage factors of all wells in the pool.

When the tentative allowable received by a well is in excess of its known producing ability, the well shall be classed as a marginal well and its allowable limited to its known producing ability. The sum of the difference between the tentative allowables and the limited allowables of all marginal wells on the proration schedule shall be reallocated to the non-marginal wells by application of the same formula. If such reallocation shall result in placing any other well within the marginal classification, the difference between the tentative allowable and the limited allowable of such marginal well shall be redistributed by application of the same formula until no well has received an allowable in excess of its known producing ability.

Any well having a calculated allowable less than that of the largest allowable assigned a marginal well shall be assigned an allowable equal to the largest marginal allowable; provided that the allowable so assigned shall not be greater than the well's ability to produce. If the allowable so assigned is greater than the well's ability to produce, the well shall be limited to its ability to produce. All wells with allowables so assigned shall be classified as marginal wells.

RULE 10: The calculated deliverability at the "deliverability pressure" shall be determined in accordance with the provisions of Order R-333-C.

Balancing of Production:

RULE 11: Underproduction: The hours of 7 o'clock a. m., M. S. T., February 1, and 7 o'clock a. m., M. S. T., August 1, shall be known as balancing dates and the periods of time bound by these dates shall be known as gas proration periods. In order to effectively administer the prorationing of gas in the South Blanco-Pictured Cliffs Pool, it is advisable to have a portion of each proration period include both summer and winter months. Therefore, the first proration period shall commence on March 1, 1955, and shall continue for a period of eleven months until February 1, 1956. Future proration periods shall commence on the dates set out above. The amount of current gas allowable remaining unproduced at the end of each proration period shall be carried forward to and may be produced during the next succeeding proration period in addition to the normal gas allowable for such succeeding period; provided, however, that whatever amount thereof is not made up within the first succeeding proration period shall be cancelled.

If it appears that such continued underproduction has resulted from inability of the well to produce its allowable, it may be classified as a marginal well and its allowable reduced to the level of the well's ability to produce.

If, at the end of a proration period a marginal well has produced more than the total allowable assigned a non-marginal unit of corresponding size and deliverability, such marginal well shall be reclassified as a non-marginal well and its allowable prorated accordingly.

If, during a proration period a marginal well is reworked or recompleted in such a manner that its productive capacity is increased to an extent that said well should be reclassified as a non-marginal well, the reclassification shall be effective on the first day of the proration month following the date of recompletion.

The Secretary-Director may reclassify a well at any time if production data or deliverability tests reflect the need for such reclassification.

RULE 12: Overproduction: A well which has produced a greater amount of gas than was allowed during a given proration period shall have its allowable for the first succeeding proration period reduced by the amount of such overproduction and such overproduction shall be made up within the first succeeding proration period. If, at any time, a well is overproduced an amount equivalent to six times its current monthly allowable, said well shall be shut-in during the current month.

The Commission may allow overproduction to be made up at a lesser rate than would be the case if the well were completely shut-in if, upon public hearing after due notice, it is shown that complete shut-in of the well would result in material damage to said well.

Granting of Allowables:

RULE 13: No gas well shall be given an allowable until Form C-104 and Form C-110 have been filed, together with a plat showing acreage attributed to said well and the locations of all wells on the lease.

RULE 14: Allowables to newly completed gas wells shall commence

(a) on the date of connection to a gas transportation facility, such date to be determined from an affidavit furnished to the Commission (Box 697, Aztec, N. M.) by the purchaser,

(b) the latest filing date of Form C-104, C-110 or the above described plat, or

(c) a date 45 days prior to the date upon which the well's initial deliverability and shut-in pressure test is reported to the Commission on Form C-122-A in conformance with the provisions of R-333-C,

whichever date is the later.

No well shall be assigned an allowable unless a deliverability test, or a potential test taken in conformance with the provisions of Order R-333-C has been submitted.

Deliverability tests shall be taken and calculated in conformance with Order R-333-C, the provisions of Rule 10 of this order and the testing schedule provisions of Order R-333-C.

A change in a wells deliverability due to retest or test after recompletion or workover shall become effective the first of the month following receipt and approval of Form C-122-A for such test. Such tests shall be taken in accordance with Order R-333-C.

Deliverability tests taken during 1954 shall be used in calculating allowables for the proration period commencing March 1, 1955. Subsequent annual tests shall be used in calculating allowables for proration periods commencing during the next ensuing year.

Reporting of Production:

RULE 15: The monthly gas production from each well shall be metered separately and the production therefrom shall be reported to the Commission on Form C-115, and such report shall be postmarked on or before the 24th day of the month immediately following the month in which the gas reported was produced. The operator shall show on such report the disposition of the gas produced.

Each purchaser or taker of gas in the South Blanco-Pictured Cliffs Gas Pool shall submit a report to the Commission and such report shall be postmarked on or before the 15th day of the month immediately following the month in which the gas was purchased or taken. Such report shall be filed on either Form C-111 or Form C-114, whichever is applicable, and the wells shall be listed in approximately the same order as they are found listed on the proration schedule.

Forms C-111 and C-114 as referred to herein shall be submitted in triplicate, the original being sent to the Commission at Box 871, Santa Fe, New Mexico, remaining copies will be sent to Box 697, Aztec, New Mexico and Box 2045, Hobbs, New Mexico, respectively.

Forms C-115 shall be submitted in accordance with Rule 1114 of the Commission's Rules and Regulations.

The full production of gas from each well shall be charged against the well's allowable regardless of the disposition of the gas; provided, however, that gas used in maintaining the producing ability of the well shall not be charged against the allowable.

RULE 16: The term "gas purchaser" as used in these rules, shall mean any "taker" of gas either at the wellhead or at any point on the lease where connection is made to facilitate the transportation or utilization of gas. It shall be the responsibility of said "taker" to submit a nomination in accordance with Rules 7 and 8 of this order.

RULE 17: No gas, either dry gas or casinghead gas, produced from the South Blanco-Pictured Cliffs Gas Pool, except that gas used for "drilling-in" purposes, shall be flared or vented unless specifically authorized by order of the Commission after notice and hearing.

The following provisions shall apply to the Aztec Pictured Cliffs Gas Pool, the Fulcher Kutz-Pictured Cliffs Gas Pool and the South Blanco-Pictured Cliffs Gas Pool.

PROVIDED FURTHER, That in filing Form C-101, "Notice of Intention to Drill or Recomplete", or USGS Form 9-331-a, (whichever is applicable), all operators shall

strictly comply with the applicable provisions of Rule 104 (b). Accompanying the above form shall be a plat of the acreage contained in the proration unit, together with a complete list of all working interest owners designating the acreage they hold within the communitized area dedicated to the well.

PROVIDED FURTHER, That failure to comply with the provisions of this order or the rules contained herein shall result in the cancellation of allowable assigned to the affected well. No further allowable shall be assigned to the affected well until all rules and regulations are complied with. The Secretary-Director shall notify the operator of the well and the purchaser, in writing, of the date of allowable cancellation and the reason therefor.

PROVIDED FURTHER, That all transporters of gas or users of gas shall furnish connection notices to the Commission in accordance with the provisions of Rule 14, as soon as possible after the date of connection.

DONE at Santa Fe, New Mexico on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JOHN F. SIMMS, Chairman

E. S. WALKER, Member

W. B. MACEY, Member and Secretary

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BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

IN THE MATTER OF:

CASE NO. 1461

TRANSCRIPT OF HEARING

May 28, 1958

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I N D E X

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
MAY 28, 1953

IN THE MATTER OF:

CASE NO. 1461 Application of A. A. Greer, et al., for an exception to the acreage factors established by Order No. R-565-C for certain wells in San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order granting an exception to the acreage factors provided in the Special Rules and Regulations for the Aztec-Pictured Cliffs Gas Pool and Fulcher Kutz-Pictured Cliffs Gas Pool, as set forth in Order No. R-565-C for one well in the Aztec-Pictured Cliffs Gas Pool and eight wells in the Fulcher Kutz-Pictured Cliffs Gas Pool which were drilled on 40-acre spacing prior to the establishment of 160-acre spacing in the aforementioned pools.

BEFORE:

Elvis A. Utz, Examiner

T R A N S C R I P T O F P R O C E E D I N G S

MR. UTZ: The hearing will come to order, please. The Examiner realizes that a number of you have time problems here. The fact remains that too many people have time problems and everybody can't be first. So, after Case 1461 we will take a very short Case 1463, and then we will go back in order. The next case after that will be Case 1448, which is the Ambassador case. We will do the best we can to get you out as fast as we can.

MR. PAINE: Application of A. A. Greer, et al., for an exception to the acreage factors established by Order No. R-565-C for certain wells in San Juan County, New Mexico.

MR. VERITY: George Verity, appearing for the applicants.

MR. BUELL: Guy Buell, for Pan American Petroleum Corporation.

MR. UTZ: Any other appearances in this case? If not, the proponents may proceed.

MR. VERITY: Your Honor, this application is for an exception to the acreage attribution factor of Order No. R-565-C and a sequence order of A, B and C. I think C is the one that is actually applicable. The situation in San Juan County Pictured Cliffs formation is such that prior to the time that there was any spacing order there at all, the wells covered by this application were drilled on tracts of less than 160 acres, many of them on 40 acres, and such drilling was, of course, at that time in all respects proper. There was no order against it -- there was no application for any order against it, and then on June 22nd, 1948, the Commission promulgated Order No. 748, which order -- and if there are no objections, I want to introduce a copy of it at this time into evidence or make reference into the record which Order in Paragraph E, well generally, which order made a 160-acre spacing unit and in Paragraph E it provided to the following effect, that "for wells hereafter drilled, a general spacing pattern of one centrally located well on a unit of 160 acres, substantially in the shape of a

square, is required to protect the equalities of those having interests in the wells heretofore drilled on 160-acre tracts, for which general spacing pattern the pooling of properties should be encouraged when necessary."

Now, you will notice, Your Honor, that it points out that that is for wells hereafter drilled; the date of such order, as I previously pointed out was June 22nd, 1948. All of the wells that are covered by this application were drilled prior to that time and subsequent to that and on the 23rd of December, 1954 the Commission promulgated Order No. R-565 and at this juncture came along and penalized the wells that were previously drilled lawfully and legally on 160-acres by establishing a set of field rules which made an acreage attribution factor of 1 for 160 acres for a well with 160 acres and a factor of 160 divided into the number of acres if it was less than that. Now, currently and presently all of the wells that we have specifically designated in our application, as well as many other wells in the pool, as well as a few other wells in the pool, cannot continue to operate with an acreage attribution factor of 1 because the penalty puts them down into a bracket of allowable. Where Southern Union Gas Company produces them, the normal procedure is that they overproduce, then the well must be shut in and it just can't be started up again because it has flooded out. I want to introduce, if there is no objection, both this copy of Rule 7[illegible] and copy of Order 7[illegible] and Order R-565-C and call as a witness Mr. Leon Shearn.

MR. UTZ: You want Order R-[illegible]-C as Exhibit B.

MR. VERITY: And [illegible] as Exhibit A.

(Witness sworn)

L. G. STEARNS,

called as a witness, having been first duly sworn on oath, testified as follows:

DIRECT EXAMINATION

BY MR. VERITY:

Q Will you state your name, please?

A L. G. Stearns.

Q Mr. Stearns, are you a partner in the BMMS Company?

A That's right.

Q Does that partnership operate the Brown No. 1 Well located in the northeast, southeast of Section 30, Township 30 North, Range 12 West?

A That's right.

Q And the Brown No. 2 located in the southwest, southwest of Section 29, Township 30 North, Range 12 West?

A That's right.

Q The Wyper No. 2, located in the southwest, southeast of Section 29, 30 North, 12 West?

A That's right.

Q And did you previously operate the Copp No. 1 in the southwest northwest of 29, 30 North, 12 West?

A That's correct.

Q What is the monthly capacity of those wells?

A At the present time?

Q At the present time.

A Well, at the present time, three of them -- two of them are dead and one is producing and one is plugged.

Q The Wyper No. 2 is producing?

A That's correct.

Q What is it capable of making?

A Well, last month during the period that we were allowed to produce, before we went over our allowable, it made two million, six hundred.

Q And that's wide open flow?

A That's right.

Q Now, you say three of these wells are not now producing. Tell us about the Copp No. 1, if you will, please.

A Well, it was -- we were over-produced, and under that acreage we have just forty acres and we had to shut it in and it was shut in for six or eight months and those old wells naturally make a small amount of water, and if you are not producing them more or less steadily, they just go to water.

Q After that well was shut in, did you try to start it again?

A That's right, tried to start it, put a rig over it, but we could see -- under the present setup we could see it was not economically feasible and we were putting too much money in it, so we just plugged it.

Q What is the situation with regard to the Brown No. 1 and No. 2?

A They have a potential of being good wells. If we can get a little relief, we would like to go back in and work them over and put them on the line and try to realize the cost of our investment.

Q Is it the normal course of event in producing these four wells to run them wide open and over-produce them for a period of time?

A That's right.

Q And then they shut them in?

A That's right.

Q If this application is granted and you are given an acreage attribution factor of one, do you plan to go back in and work the Brown No. 1 and 2?

A That is right.

Q Can you do it with an acreage attribution factor of one-fourth?

A It is not possible at all.

Q These wells -- were all these wells drilled prior to June 22nd, 1948?

A They were.

Q When were they drilled? Just the year?

A '46 and 7.

MR. VERITY: That's all.

MR. UTZ: Are there questions of Mr. Stearns?

MR. BUELL: Yes, I have one, Mr. Examiner.

CROSS EXAMINATION

BY MR. BUELL:

Q Mr. Stearns, I am Guy Buell with the Pan American Petroleum Corporation. What would you say lifting costs ran your partnership on the gas wells a month, per well, per month?

A I would say the shape those wells are in that it would probably cost you at least twenty-five, thirty dollars apiece a month. They have to be blown regularly.

MR. BUELL: That's all, Mr. Examiner.

MR. VERITY: One more question.

REDIRECT EXAMINATION

BY MR. VERITY:

Q You are not calculating any workover?

A Absolutely not. That is just barely, as you say, lifting cost, no remedial work.

Q If because of allowable, you have to shut them in, you have to go back in and work them over?

A That's right.

Q And that would be in addition?

A That's right.

MR. BUELL: One more question, Mr. Stearns.

RECROSS EXAMINATION

BY MR. BUELL:

Q This might help us or a later witness might be able to tell us or you might. Could you give us the latest deliverabilities you have in this well in question, the latest deliverability tests, or will another witness have that?

A We can get it out of the proration schedule.

Q Would you mind stating it for the record?

MR. VERITY: We will when we call our other witness.

MR. UTZ: Are there any other questions of Mr. Stearns?

QUESTIONS BY MR. COOLEY:

Q Mr. Stearns, are you testifying to the fact that the allowable will result in premature abandonment in the wells to which you refer? A That's right.

Q Are you testifying as to what amount of allowable has to be assigned to these wells to avoid this premature abandonment?

A Would you state that again, please, sir?

Q What amount of additional allowable is necessary to be assigned to these wells to avoid premature abandonment?

A I would say as long as they are acreage factor of one.

Q Why do you feel that that is the key figure?

A For the simple reason that even with all they would make, it's not too much. To get your money back from a fair rate of interest, it is nip and tuck whether we can do that now. We hate to leave the gas that is remaining in the ground, we hate to walk away and leave it, but as the present setup is, that's about all we can do.

Q Do you feel that the assignment of anything less than the allowable of acreage factor of one to these wells would be sufficient to prevent premature abandonment thereof?

A No, sir. They are so small that the difference between wide open and 50 percent is so small we need every cent we can get.

Q By small, you mean the deliverabilities of the well?

A That's right. They are marginal wells.

Q Do you feel that there is sufficient differences in the producing capacities of these wells, one would be sufficient for others, and half would be sufficient for another?

A No. I think if we could get a full allowable that we would go in there and work over those wells and try to put them back on the line and, as I said, realize our investment.

Q Are the potentials approximately the same on all of these wells?

A Well, I wonder if we could just skip that to Mr. Greer. He has that information. I really don't know.

MR. COOLEY: Will you testify in substance, Mr. Greer?

MR. GREER: Yes.

MR. COOLEY: That's all the questions I have.

QUESTIONS BY MR. UTZ:

Q Mr. Stearns, can you tell me what it cost you per well to operate these wells over the past two or three years?

A Well, the past year and a half it has been nothing for the simple reason that the wells were not producing regularly and

went to water.

Q They have been shut in all the time?

A That's right. With the exception of the Wyper Well, these other wells will have to be worked over before they can be put on the line. The Wyper Well has been producing and is producing.

Q Can you tell me what it cost you per well to operate these wells during the period when they were producing?

A Well, we had a man blow them, and then if you figure that, it is eight blowoffs that we had put in there, I would say it would cost us about twenty-five dollars a month to have those wells blown.

Q Does that include any workovers?

A No.

Q How much would the workover cost on these wells, approximately?

A Well, the workover on the last well that we plugged, because we could see no relief, it cost us approximately twenty-one hundred dollars.

Q And that would be in addition to your, say thirty dollars a month that it costs you to operate them?

A That's right.

Q And how often do you feel that these wells might have to be worked over?

A Well, they are twelve years old, and we have never worked one over until this proration come along and they were shut in.

We have never been in any of them, so they evidently were in fair shape.

Q Your twenty-one hundred dollars would be spread over twelve years?

A Twenty-one hundred dollars was just spent in the last year. You could call it over twelve years, as far as we spent on the well.

Q Do you know how much allowable you would receive for this group of wells with an acreage factor of one?

A Well, on two of them we have 40. Now, that's a quarter, and on two of them we have 50 percent; just double that and four times the other one.

Q You don't have any idea of what the actual figure would be?

A The other witness can give you that.

Q Mr. Stearns, these wells you refer to, have they paid themselves out?

A No, sir, not as a group they have not.

Q How close to it have they come?

A I would say we've paid out about 80 percent.

Q 80 percent. Do you have any idea of the value of the equipment that you have on these wells?

A Yes, sir. We drilled seven wells, and they cost us one hundred six thousand.

Q And that is 80 percent paid for?

A That's correct.

MR. UTZ: Are there any other questions of the witness?

MR. VERITY: I have another question.

REDIRECT EXAMINATION

BY MR. VERITY:

Q Mr. Stearns, you testified it cost you twenty-one hundred dollars to work over a well. Now, you said you only worked that particular well you were referring to one time, and that it had been on production for twelve years?

A That's right.

Q You wouldn't spend that twenty-one hundred dollars over the twelve years, would you, because you don't need to work a well over until it becomes marginal? A That's right.

Q Then, it would be spread back to the time when the well became marginal, -- A That's right.

Q -- and also limit it back to the time when the proration order became stringent? A That's right.

Q How long a period is that? A A year and a half.

Q A year and a half instead of twelve years?

A That's right. We didn't spend a penny on it the first twelve years.

Q Now, is the acreage factor --

A I said twelve years. It would be ten years, '46 to '56, about ten years.

Q If the acreage attribution factor remains where it is

now, a quarter on these wells and half on one of them, I guess, how often would you have to work them over in order to keep them producing?

A Well, we have one producing now, and if it stays the same as it is, that's the way it will be.

Q If you worked the wells you've got there that are presently shut in, if you work them over and put them back on the line, how long would it be subsequent to that until you will have to work them over again?

A Well, if the gas would keep producing from a well, it ought to last a long time.

Q Well, if you overproduced, which it is the normal course of event, and they shut you in, then will you have to work it over?

A No, for the simple reason that we are not going to work it over until we get that factor change.

MR. VERITY: That's all.

RECROSS EXAMINATION

BY MR. BUELL:

Q Mr. Stearns, did I understand you correctly to say that these wells produced for ten or twelve years?

A That's right.

Q And about six or seven of those years would be prior to any kind of proration restriction, wouldn't it?

A That would be right.

Q And did I understand you correctly to say that they were

30 percent paid for?

A That's right. Those records can be produced.

MR. BUELL: That's all.

QUESTIONS BY MR. UTZ:

Q Mr. Stearns, there was a period during the past, well, since the proration where low acreage proration wells received a breaking point allowable, during the period that we had a breaking point in our proration formula, and those wells of low acreage were assigned such a breaking point allowable. Do you recall?

A No, I sure don't.

Q Has the allowable at any time during the proration been sufficient for you to operate these wells with a reasonable profit?

A No.

MR. UTZ: Are there any other questions of the witness? The witness may be excused.

(Witness excused)

ROBERT L. MADDOX,

called as a witness, having been first duly sworn on oath, testified as follows:

DIRECT EXAMINATION

BY MR. VERITY:

Q State your name, Mr. Maddox.

A Robert L. Maddox.

Q Mr. Maddox, are you a partner in MSBW Company?

A I am.

Q Does that company operate the McCarty No. 1 Well in the southwest quarter of the southwest quarter of 28, 30 North, 12 West? A It does.

Q Does it operate the Montano No. 1 in the southeast of the southwest of Section 28, 30 North, 12 West?

A It does.

Q And the Palmer No. 1 in the southwest of the southeast 28, 30 North, 12 West? A 28?

Q Section 28? A Yes.

Q And you -- other than these, are you operating any other wells in the Pictured Cliffs formation in San Juan County, --

A I operate --

Q -- which is on an acreage unit of less than 160?

A Well, one, the Hordge's No. 2.

Q Do you know the location of that?

A That's in the northwest quarter of the southwest quarter of Section 33, Township 30 North, Range 12 West.

Q Do you know when these wells were drilled, all of them that you have mentioned, including the Hordge's No. 2?

A Drilled in 1946.

Q And the others that I named?

A Yes.

Q When were they drilled?

A They were drilled in '47 and early in '48.

Q Were they drilled -- were they all drilled prior to June

22nd, 1948?

A I don't think the McCarty No. 1 was complete at that time.

Q Was it started prior to that?

A It was started, yes.

Q Now, do all of these wells have water in the formation?

A Yes, more or less.

Q Is it routine for the gas company to overproduce them and then shut them in? A Yes.

Q Do you have difficulty in starting these wells up after they have been shut in?

A Well, we have difficulty with a lot of water we've got to take out, and the recent deliverability tests on Hardeys No, 1 we were six days getting water out of the well.

Q After it had been shut in? A Yes.

MR. VERITY: That's all.

MR. BUELL: One question.

CROSS EXAMINATION

BY MR. BUELL:

Q Mr. Maddox, do you experience about the same lifting costs as testified by Mr. Stearns, about twenty-five dollars a month?

A Yes.

MR. BUELL: That's all.

QUESTIONS BY MR. COOLEY:

A Mr. Maddox, would that be your total expenses in regard

to those wells, twenty-five dollars?

A No. I've had maintenance costs in addition to that.

Q What would those amount to, averaged out per well?

A Well, I don't know. I have had to buy about three new siphoning lines, and about each time it cost me around a thousand dollars a well. And I think I've renewed the siphon lines in three wells.

Q Three of nine?

A Three of five wells.

Q Three of five? A Yes.

Q You refired siphon lines? A Yes.

Q Are there any other operating or maintenance expenses which you've encountered in operating these wells or would encounter were you to resume operation of those wells?

A Well, I'm operating those wells now.

Q You are operating all five of your wells?

A Yes. And when they are open on the line -- but from 1947, and Mr. Verity there has the figure, I think I had a gross of around six thousand dollars, wasn't it, for the five wells? So when you figure that you are not getting any more out of wells, you'd better put your money into something else besides the gas well.

Q But your income during, what period was --

A 1947.

Q That was prior to prorationing, wasn't it?

A 1957. My gross was seventy thousand, nine hundred dollars and eighty cents, my operation expenses were fourteen hundred and forty-one dollars and three cents; left a balance of six thousand, four hundred and sixty-four dollars and seventy-seven cents. The tax paid was five hundred and fifty-three dollars and forty cents. Let's see, I got an item of nine hundred forty-two, I haven't got it set down; left me a net of four thousand, nine hundred sixty-nine dollars for the year, approximately a thousand dollars per well.

Q You did not feel that this is sufficient income over and above operating expenses to warrant the operation of these wells?

A Well, we have about one hundred fifteen thousand dollars invested in those wells, and I could have taken that money and put it in a safe rate of interest.

Q Yes, sir, but the money is already spent on these wells, and my question is, what would be necessary -- what amount of allowable would be necessary to make the operation of those wells attractive enough that you don't plug and abandon them? What amount of income?

A I would say we would have to have a factor of one on all of them, and I don't think they should be shut in at any time because that endangers the well.

Q Do you experience the same difficulty when you shut in your wells that they load up? A Yes.

Q And then it is necessary to swab them or work them over?

A I do. Of course, if we are producing them all the time, we can set that in the motor and keep the wells drilled up.

Q Do you have any estimate of what allowable would be assigned to your wells if -- will Mr. Greer testify?

MR. VERITY: That's correct.

Q Can you tell me, Mr. Maddox, what return, net return per well you feel you should have to warrant the operation of your five wells?

A Well, I think at least, for the five wells I should have at least a gross of twelve thousand dollars a year. 2000.00 per.

Q A gross of twelve thousand a year?

A Yes. And I could eventually come out.

Q What do you mean, "Eventually come out?"

A Well, recover the cost that is invested in them.

Q Again, Mr. Maddox, I would like to limit the inquiry as to what income would be necessary over and above your operating expenses to warrant the operation of these wells you've already got your money invested in and you can't get it out?

A Well, I just don't know exactly what you mean.

Q Well, disregard your initial expense in drilling the wells, and tell me what net income over and above operating expenses; considering only your operating and maintenance expenses, not the initial cost of drilling the well and tell me what figures in dollars and cents you feel would be -- would warrant the con-

timued operation of your wells?

A Well, I know this, I can't operate them, and the way I feel about it now, the operation in 1957, where we were only bringing one thousand dollars per well, why with any major overhall, I think I would abandon the well.

Q You would have to abandon the well?

A Yes.

Q Now, a thousand, in your opinion, is insufficient?

A Yes.

Q What figure would afford you sufficient pad there to continue to operate it, if one needs working over to do so?

A In order to recover my original investment?

Q **Please consider --**

A You haven't made any profit until you get it back.

Q I realize that, but please consider it as being total loss, as painful as it may be, and compare the necessary income with the necessary expenses and operation and maintenance of the wells, please.

A Well, I think it should have at least twenty-five hundred dollars per well per year.

Q Just take into contemplation the eventualities of necessary workovers and replacement of equipment today, operating expenses.

A I feel justified in spending a thousand dollars to maintain a well.

Q That's the question I wanted answered.

A Yes.

Q How much allowable per well per year would result in that gross of twenty-five hundred per well?

A Well, the gross is ten cents per thousand, so to get twenty-five hundred per year, why what does that figure out, twenty-five million?

Q Twenty-five million MCF? A Yes.

Q Per year? A Per year.

Q Twenty-five million cubic feet?

A Yes. All those wells wouldn't produce that, but there are two of them that would produce more than that. And on an average of the five wells, why, if I could come out with that average for all of them, I could eventually come out and maintain the well, be justified in maintaining the well.

MR. COOLEY: Thank you, sir.

QUESTIONS BY MR. UTZ:

Q Mr. Maddox,have the five wells in question that you are testifying to paid themselves out yet?

A Just about.

Q Do you know what the value of the equipment that you have in the ground or the salvage value of the equipment, if you would plug the wells, would be?

A I think that would be about absorbed with the cost, if not less than the cost.

Q Just about pay at abandonment?

A You'll be lucky if the salvage paid for the plugging of the well.

Q You actually consider that you don't have any investment in the wells at all?

A I've got it in there, but I can't get it out.

Q From the standpoint of what you have now?

A Yes.

Q So any profit you make above actual operating expenses is a profit, so to speak?

A Yes.

CROSS EXAMINATION (Cont'd)

BY MR. BUELL:

Q I want to be sure I understand Mr. Maddox. Did I understand you to say that your wells were practically paid out?

A They are right close to it. The last time I figured it out I was about to get into the black.

Q Then you have almost gotten your money out of your wells?

A Yes.

Q And in 1957 you made a net profit after taxes of five thousand dollars on these wells?

A Yes.

MR. BUELL: That's all.

MR. UTZ: Any other questions of the witness? If not, the witness may be excused.

(Witness excused)

ALBERT A. GREER,

called as a witness, having been first duly sworn on oath, testified as follows:

DIRECT EXAMINATION

BY MR. VERITY:

Q Will you state your name, please?

A Albert A. Greer.

Q Mr. Greer, are you a graduate geologist?

A Graduate petroleum engineer.

Q Have you testified as a petroleum engineer before the Commission heretofore? A Yes, I have.

Q Are you familiar with the A. A. Greer No. 1 Thompson Well located in the southeast quarter of the southwest quarter of Section 10, 30 North, 11 West?

A Yes, I am.

Q Do you know when that well was drilled?

A The well was completed in September of 1941.

Q Is it located on 40-acres?

A It is located on 40-acres.

Q Now, will you tell us, please, or you have there, I believe, the proration sheet, do you?

A Yes, I have.

Q What is the allowable -- what is the current allowable for the A. A. Greer Thompson No. 1?

A The allowable for the month of April was three hundred eighty-five thousand feet of gas. For the month.

Q In terms of dollars, what does that relate itself to for a month?

A That's about thirty-eight dollars a month gross, and after royalty and taxes would be about, oh, about twenty-five to thirty dollars.

Q What is it,for the Brown No. 1, that is, the BMNS Brown No. 1?

A It is considered a marginal well, allowed to produce all it can produce, which is nothing, because it is dead.

Q Well, if it was reestablished to production and was brought back, then it would have an allowable, would it not?

A That is correct.

Q Probably it would be something comparable to the Greer Thompson No. 1?

A Well, I don't have that figure. I believe Mr. Stearns said what he thought the well would make.

Q Around two million feet open flow?

A I believe it was about two million. I don't recall.

Q Well, at a two million open flow, that would give it an allowable close to what this Thompson No. 1 is, wouldn't it, --

A Well, --

Q -- approximately? A Approximately.

Q What about the Brown No. 2, is it in the same category?

A The Brown No. 2 has an allowable for April of four hundred eighty-two thousand. The well, however, is dead and can't produce it, of course.

Q The Copp No. 1, I believe, has been shut in and abandoned?

A That's correct.

Q What about the Wyper No. 2?

A The Wyper No. 2 had an allowable of eleven hundred seventy-five MCF.

Q What about the Krouse -- George H. Krouse Beck No. 1?

A Allowable two hundred fifty-nine MCF.

Q The MSBW McCarty No. 1?

A Nine hundred twenty-eight MCF.

Q The Montano No. 1?

A Thirteen hundred ninety-six MCF.

Q The Palmer No. 1?

A One million, eight hundred eighty thousand.

Q And the Hordge's No. 2?

A I don't have that.

Q Is the situation with all of these wells such that if they are shut in, the well is liable to go dead?

A That possibility exists, yes.

Q And then is it also customary in this area for these marginal wells like this, to overproduce them for a period and then shut them in?

A That's true, because their allowable is so low that if

they are produced for as long as one month, it means that they are overproduced for several months.

Q And then when you -- they must be shut in for that several months' period?

A That's correct.

Q And then when they endeavor to reestablish them, you have a problem?

A Sometimes you have a problem because they are loaded up with water.

Q Do you know what it costs to operate one of these wells when they reach the marginal point that these wells have?

A I'd say that on an average, from our experience in the area, that the field operating cost would approximate thirty dollars a month. You have a little overhead costs, paper work and such as that. Possibly ten dollars a month. These figures were per well. That's what I would consider direct operating expenses.

Q That doesn't make any allowance for any workover to re-establish it?

A That's correct.

Q Does the cost of keeping one on production increase, the longer the well produces?

A That's true. What a man is faced with, if his well is logged off, is a workover job which can run all the way from five hundred to two thousand dollars; you might say an average of a thousand dollars, and at the time that the operator has to make

the decision as to whether he is going to plug that well or try to continue producing it, is whether he can go in and spend that, say thousand dollars and recover that thousand dollars in a reasonable length of time. Now, just what a reasonable length of time on a workover may vary from person to person. My own personal opinion is that if you have a well that is dead and needs to be worked over and is in this marginal status and it will not pay out its workover cost in say, twenty months, that you have then reached the point at which you need to abandon the well. Now, the cost that you need to consider there is your direct operating expense, which I would estimate about forty dollars a well a month, the interest on the value of the salvage, if there is any, which on some of the wells there is, I believe some of the wells you can salvage casing that will approximate two thousand dollars net recovery out of the salvage operation. At 6 percent interest, that two thousand dollars is one hundred twenty dollars a year, or another ten dollars a month. So we are looking at fifty dollars a month plus a return of the cost of the workover which we will say is, a thousand dollars over ten months is another fifty dollars a month. In other words, one of these operators has a well that is logged off, he's got to see something like a hundred dollars a month net after royalty and taxes before he can go in and work that well over, otherwise, the prudent and practical and economic thing for him to do is to plug the well and, of course, thereby lose gas that might otherwise be recovered; certainly gas recover-

able to him.

Q And that doesn't make any consideration, does it, for the fact that if it is going to be overproduced and has to be shut in for a period that he is liable to repeat the workover?

A That's right. Some of the wells have difficulty in loading up with water, and those particular wells, if you shut them in for six or eight months at a time, it is possible that each time that you go to open those wells up and produce them again, that you may have trouble.

MR. VERITY: I believe that's all.

MR. UTZ: The hearing will be recessed until one-fifteen.

(Recess)

MR. UTZ: The hearing will come to order, please. Are there any questions of the witness?

MR. VERITY: Your Honor, I have another question of this witness.

DIRECT EXAMINATION (CONT'D)

Q Mr. Greer, are you familiar in a general way with the MSBW Company wells up there--

A Yes, I am.

Q -- that we talked about here earlier?

A Yes.

Q Now, those wells have not as yet undergone stoppage of flow of gas as the BIMS Company No. 1, No. 2 and the Copp No. 1. Do you have an opinion as to whether or not they will reach that

point?

A Part of the MSBW wells are better wells than the BMNS Company wells. However, their capacity to produce is declining every year, and it is just, of course, a question of time until the MSBW wells will be in the same critical state that the BMNS Company wells now find themselves in.

Q In other words, then, the BMNS wells, three out of four of them are actually shut in and they have to have workover in order to bring them back up?

A That's correct.

Q And the others are facing the same situation if they don't have some kind of relief that will allow them to produce at such a rate that they wouldn't have to be shut in?

A That's correct.

MR. VERITY: That's all.

MR. UTZ: Are there questions of the witness?

MR. BUELL: I have some, Mr. Examiner.

CROSS EXAMINATION

BY MR. BUELL:

Q Mr. Greer, as a matter of fact, it is just a matter of time until every well in that field stops producing gas, isn't it?

A That's true. The thing that we are asking for is relief for wells that have the ability to produce at this time but are restricted because of proration. Once the wells reach the point that they can't produce, then that is a different question.

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A That's true. The thing that we are asking for is relief for wells that have the ability to produce at this time but are restricted because of proration. Once the wells reach the point that they can't produce, then that is a different question.

Q So your testimony with respect to the MS&W wells could apply to any well in this pool whether it is 140 or 160 acres, couldn't it?

A No. What we are talking about was the MS&W wells that in the course of, say a year or two, they will have the ability to produce, say a hundred and fifty dollars a well a month, but may be restricted because of proration to thirty-five or forty dollars a well a month. That is the substance of our complaint.

Q Mr. Greer, can you agree with me that the purpose of an allocation formula in a pool is to afford each operator an opportunity to produce a proportionate share of gas or other hydrocarbon?

A That is true. I certainly do.

Q With respect to the allocation formula in the Fulcher Kutz Pool and the allocation formula on your Thompson Well in Aztec --

A Yes.

Q -- do you feel that those allocation formulas serve the purpose they were designed for?

MR. VERITY: Just a minute, please. We object to that because we are not in this application attacking the validity of the allocation order. Our contention is that it does not make application to these particular wells, and therefore, we don't think that a proper question.

MR. BUELL: If I may be heard, Mr. Examiner, what they are asking for is an exception to the allocation formula. They

want to place themselves outside the allocation formula, and if the allocation formula serves the purpose for which it was designed and they obtain an exception to it which will result in a bonus to them, it certainly is going to give them more than their fair share of the gas in place. If this formula is serving the purpose for which it was designed, I think it a fair question.

MR. VERITY: We withdraw the objection, Your Honor.

MR. UTZ: You may proceed.

MR. COOLEY: Do you understand the question?

A Yes, I understand it. We spent many hours, weeks, months and period of years talking about that formula before. I know exactly what he is talking about and would be really pleased to give you my thought on it. I believe that that allocation formula as it applies to most of the wells in the pool is about as close as we can get for a practical allocation formula. I think we all know that it is impossible to exactly give to each well the amount of gas for it to ultimately produce that exists under its tract. We did the best we could with that allocation formula, and for the most part it fits pretty well, but when you get to the point as well as decline that a man has to plug his well and is, therefore, denied the right to recover, the gas that is then left under his tract at that point on your allocation formula ceases to perform the job it was designed to do, and as such, I believe that wells which qualify under that exception should be given an exception to the allocation formula and, in fact, withdraw from it.

Q (By Mr. Buell) Mr. Greer, as a matter of fact, if every well whose allowable was reduced due to the allocation formula, such as this group of wells you have, were granted exceptions to the allocation formula, your allocation formula would be meaningless, wouldn't it?

A And it should be meaningless when the wells finally reach the point that they are just barely paying off operating cost. We reached the point where a man is not allowed to produce the gas that is under his tract because he has to plug the well. The well has a capacity to produce, but the Commission denies him the right to take that gas out from under his land.

Q Maybe we can get at it this way, Mr. Greer. Assume for the purpose of this question that this allocation formula in these two pools, a formula which you recommended many times, serves the purpose for which it was designed. If you are granted an exception to that allocation formula, some of the gas that you are going to produce as a result of that exception is going to come from a tract other than a tract upon which the well is located, isn't it?

A If it fits exactly.

Q With the assumption that I asked you to make?

A Yes, sir. But, of course, you made an assumption that is just not quite true.

Q Whether you agree -- if you agree with the assumption, Mr. Greer, I wouldn't have to make it. That is the reason we made the assumption. That would be the case under that assumption.

A Just a minute. Let me answer it. It doesn't quite apply, to this extent. The man has to plug his well and he can't produce the gas that is allocated to him, so it just doesn't operate.

MR. VERITY: Just a minute. Your Honor, we object to the question because he is assuming a state of facts that is not in evidence and which doesn't exist. Therefore, the hypothetical question is improper.

MR. BUELL: Mr. Examiner, that is the first time in all my experience that I have ever heard of objection to a hypothetical question to an expert witness, which Mr. Greer certainly is. I think. I am certainly willing to go on to something else, Mr. Examiner.

MR. UTZ: Do you want a ruling on that? The objection is overruled. If he states a hypothetical question, he can adjust his answer to the hypothetical case.

Q (By Mr. Buell) Which I have and I believe you have answered.

A I will give you the hypothetical answer, that, if a man --

Q No, mine was a hypothetical question.

A If a man could economically produce that gas that is assigned to him, then he is being done justice. As it is, he can't produce it, he has got to plug his well and, therefore, an injustice is done. The gas is left in the ground and the formula does not perform what it was intended to perform.

Q But if he continues to produce his well, complete equality would be done?

A Well, you said something that is impossible.

Q Mr. Greer, let me ask you whether or not in your opinion -- and I want to ask you to assume something else for the purpose of this question. Let's assume that all of these wells requested here today are plugged and abandoned tomorrow. In your opinion, will there be any significantly less ultimate recovery of gas from this pool?

A Yes, sir, there could be, especially in the area in which the BHNS and MSBW wells are located for this reason. They are on the end of a long narrow pool. If all these wells are plugged, then the only possibility of recovering that gas is, of course, from other wells on other tracts, which, of course, were not entitled to the gas in the first place. But if they could recover, of course, there would be a little additional gas recovered from these tracts, but very definitely not as much gas as can be recovered by these particular wells for the reason that we are reaching too long a range; we are talking about maybe two or three miles at which the gas would have to travel.

Q These wells are in a common pool with other wells, are they not?

A They are so located that they are pretty much at the end of the pool, and you are going to have abandoned not just a few wells with producing wells around them, but a whole end of a pool.

Q So let me get this clear now, Mr. Greer. Your testimony is to the effect that if these wells were abandoned tomorrow, there would be a significant decrease in the ultimate recovery of gas from this pool?

A That is correct.

Q You think it would be significant?

A It would be significant insofar as the future production of these wells is concerned, asfar as the future production of the wells could be if allowed to produce. You see, we all realize there on the tail end of production there is not an awful lot of gas left to get, but there is some, so we are not talking about a significant amount of gas in terms of the whole pool, but as far as gas which they could produce in income to the operator, it would be significant.

Q I think I see your point. Actually there is not a significant amount of gas there now, but of that amount a significant amount would be left, is that it, generally?

A In the first place, we are not talking about a large --

Q What wells specifically -- we have mentioned a lot of them -- what wells specifically are in your application and the subject matter of this hearing?

A Well, let's see. We have listed them. Do you want me to read them off?

Q Yes, sir, if you would, in the same order you gave them on your direct. . I tried to follow, you went a little fast.

A We have the Greer No. 1 Thompson in the Aztec Pool.

Q All right, sir.

A In the Fulcher Kutz Pool, I have listed 1, 2, 3, 4, 5, 6, 7 wells. These wells are for the BMAS Company and No. 2 Brown

Q Right.

A And No. 2 Wyper, and for the MSBW Company wells, the No. 1 McCarty, No. 1 Montano, No. 1 Palmer, No. 2 Hordge's.

Q Was that in your application?

MR. VERITY: No, it was not in the application. It was discovered in evidence this morning.

MR. COOLEY: For what purpose was the testimony concerning this well?

MR. VERITY: Well, Paragraph 4 of the application is to the effect that the application should cover other wells similarly situated. These applicants and all individuals or corporations similarly situated are entitled to an order creating exceptions to that portion of Order R-565, which places upon them an acreage attribution factor of less than one.

MR. COOLEY: I believe that would be a statement of what the applicant feels should be, but I don't believe this application so requests it. And the terms of the notice, which I drew, based on the application, I did not interpret Paragraph 4 to request -- the prayer of the application to request relief from the nine wells mentioned; the investment reference was to one in the Pictured-Cliffs Pool and eight in the Fulcher Kutz.

A Another well I have listed is the Krouse Beck No. 1.

MR. BUELL: May I say this for Pan American, I was just trying to get that straight in my own mind, and if the Commission is willing, we certainly have no objection to considering the No. 2 Hordge's and obliterating the necessity for another hearing.

MR. COOLEY: I am sorry, we can't do that.

A Another well I have listed is the Krouse No. 1 Beck, and the last well that was on the application BMNS No. 1 Copp is being plugged and abandoned. Those are the wells.

Q (By Mr. Buell) That Copp Well is plugged and abandoned, is it not, Mr. Greer?

A That's correct.

Q So actually, it is rather meaningless in this hearing, is it not?

A There is no allocation asked for that well.

Q Are you still asking for an exception even if it was plugged and abandoned?

A It is a fine example of what can happen under the formula.

Q The Brown No. 1, I believe when you testified, you said it was marginal, which meant that it has produced all it could produce?

A I don't know exactly the status, other than the well has been dead, and I assumed that was the reason it hadn't produced for several months, and I assumed that was the reason why it has not

been prorated.

Q Then you don't know that actually it was a -- whether or not it was a marginal well when it was producing?

A Well, marginal well under the terms of the Commission's order, I don't know.

Q Well, if it was so classified, it can produce oil -- it can produce, can't it?

A If it was so classified.

Q So actually, you don't need an exception to that.

A I believe here we have the facts, we can quit guessing about it. For the month of January, 1958 it produced thirty-one days, produced two million six hundred and seven thousand cubic feet of gas. Now, if it were given an allowable with the current deliverability test, it would undoubtedly have an **allowable** similar to the No. 2 Brown or less, which means that it would be allowed to produce approximately a fourth or a fifth of what it has a capacity to produce.

Q Is it your testimony now, that based on data that you just examined that this well is not and was not a marginal classified well?

A Well, the current allocation schedule for the month of April, as I examined it, didn't show an allowable for this well. We can estimate what it would have been, and it would have been prorated to one-fourth of what it could have produced, and for all practical purposes, it is a well that we want an exception

granted to.

Q Mr. Greer, have you calculated the allowable which you would expect for these individual wells, assuming that the Commission grants your request?

A Yes, sir.

Q **Start with your No. 1 Thompson.**

A No. 1 Thompson was around thirty-one hundred thousand for the month of April, and if our application is granted, it would receive four times that, which would be approximately nine hundred seventy thousand cubic feet of gas for the month. The **BMNS --**

MR. UTZ: Recheck that slide rule again.

A Thank you. It would be around one thousand, five hundred and forty MCF.

Q What would be on a daily basis assuming it is a thirty-day month?

A Approximately its deliverability about fifty thousand feet a day, forty-seven thousand.

Q Fifty MCF per day?

A Right at fifty MCF a day, and its deliverability -- we might as well talk about it now -- is forty-seven thousand. It would be producing, it wouldn't quit producing its allowable, it would be a marginal well.

Q BMNS Company No. --

MR. COOLEY: Give us that deliverability figure again,

please.

A The one I read from the schedule is forty-seven thousand.

QUESTIONS BY MR. UTZ:

Q That's for the Thompson No. 1?

A Thompson No. 1, yes. BMMS Company No. 2 Brown, I show for April allowable, four hundred, eighty-two thousand; it would be allowed four times as much, or one million eight hundred twenty thousand.

Q One million, eight hundred and twenty thousand.--

A Yes, sir.

Q -- MCF per month?

A One million, eight hundred twenty thousand cubic feet.

Q What would that be on a daily basis, Mr. Greer, please, sir?

A Thirty-day month would be sixty-five thousand. The BMMS Company No. 2.

Q Excuse me just a moment. Did you give the deliverability on the Brown No. 1?

A I don't have it for the Brown No. 1. It wasn't in the schedule.

MR. UTZ: All right, go ahead.

A BMMS Company No. 2 Wyper shows deliverability of one hundred, forty-eight thousand, an allowable for the month of April of eleven seventy-five MCF; it would have twice as much gas allowed to it -- would be two million, three hundred fifty thousand cubic feet for the month, which on a thirty-day basis would be seventy-

eight thousand cubic feet a day.

Q You said twice as much. Is that on 80-acre tract?

A Yes, sir, 80-acre tract.

MR. COOLEY: What is the deliverability on that?

A I show one hundred, forty-eight thousand.

MR. COOLEY: Would it make itself allowable?

A Yes, sir. It would have seventy-eight thousand a day and has a deliverability of one hundred, forty-eight, so it would make it. Krouse No. 1 Beck was allowed two hundred, fifty-nine cubic -- two hundred, fifty-nine thousand. It would receive four times as much, which would be one million, forty thousand cubic feet for the month and on a thirty-day month would be thirty-five thousand cubic feet a day,and it has a deliverability of thirty-seven thousand.

Q All right, sir.

A MSBW Company -- you want all these?

Q Yes, sir, please, if it isn't too much trouble. I don't want to drag it out, but I want to make some comparisons.

A MSBW Company No. 1 McCarty was allowed nine hundred twenty-eight thousand. It would get just twice as much, which would be eighteen hundred, fifty-six thousand, which on a thirty-day basis would be sixty-two thousand cubic feet a day and has a capacity to produce one hundred five.

No. 1 Montano was allowed thirteen ninety-six MCF. It would be allowed two million two hundred thousand, which on a

thirty-day basis would be seventy-four MCF a day.

No. 1 Palmer --

MR. COOLEY: What's its deliverability?

A One hundred thirty-six.

Q What is this next well, Mr. Greer?

A Next one coming up is Palmer; was allowed eighteen hundred eighty MCF for the month, and that would be doubled to thirty-seven sixty MCF, which on a thirty-day basis would be a hundred and twenty-five thousand. It has capacity to produce two hundred sixty-seven thousand.

Q Mr. Greer, actually, as a matter of fact, aren't there some wells in the Fulcher Kutz Pool that have 160-acres assigned to them with comparable allowables and comparable problems to the allowables that your wells have?

A No, sir. If they have one hundred sixty acres assigned to them and allowable, for instance, of only three hundred eighty-five MCF, such as the Greer No. 1 Thompson, then its allowable would have been reduced because of its lower deliverability and it might not have the capacity to produce any more gas, whereas these wells have the ability to produce more gas.

Q Yes, sir.

A So there is a difference.

Q I realize there is a difference, but my question was that there are wells assigned one hundred sixty acres with comparable allowables and comparable problems from the standpoint of

water that you mentioned that you are experiencing at this time. Now, isn't that correct?

A The problems are not comparable in that they don't have the ability to produce that these wells have, so, therefore, they are not comparable.

Q All right, sir, we will exclude deliverability.

A Well, there's -- one of the biggest problems is the ability to produce.

Q Yes, sir, I realize that. But excluding deliverability, there are wells assigned one hundred sixty acres with comparable allowables and comparable problems from the standpoint of water that you've mentioned?

A Those wells, I believe, produce most of the time. They are not shut in because they are over produced. They don't have the same problems from the standpoint of water production.

Q They have a comparable allowable, though?

A But they are not shut in. They are cared for.

Q Yes, sir. Actually, you can look at the April proration schedule and ascertain the fact that they are one hundred sixty acre wells with allowables comparable?

A That's right.

Q Do you happen to know what the average, known average allowable is for the west Fulcher Kutz?

A I would estimate **two-twenty.**

Q Would seventy-eight MCF per day sound about right?

A I don't mean two twenty, I mean two million a month. That sounds about right.

Q Let me ask you this, while you are in your proration schedule there. Would the average deliverability for nonmarginal one hundred sixty-acre wells, would about one hundred fifty-four MCF sound about right?

MR. VERITY: What was the --

Q Average deliverability for a nonmarginal one hundred sixty-acre well.

A That sound about right. For Pulcher Kutz you are talking about?

Q So, actually, Mr. Greer, if your request is approved by the Commission -- for instance, your Brown No. 2, what is it, on forty acres?

A Yes, sir, forty acres.

Q The well on forty acres will be producing about seventy-two or seventy-three percent of the allowable assigned to a well on a hundres and sixty acres, wouldn't it?

A That is correct.

Q With respect to your Wyper No. 2, it is going to be producing about ninety-six percent, almost as much as a well on a hundred and sixty acres, isn't it?

A That's correct.

Q What about your Palmer No. 1?

A It would be produced from three million, seven hundred,

sixty thousand, one hundred twenty-five MCF a day.

Q It will be about one hundred seventy-three percent above the average of a well on one hundred sixty acre unit, wouldn't it?

A No, I believe seventy-three percent above.

Q Not one hundred seventy-three percent, you are right, seventy-three percent, producing seventy-three percent of the average allowable on a one hundred sixty-acre unit?

A That's correct.

Q Would you say that the allowable in this pool is extremely sensitive to deliverability of a well?

A Well, the allowable is the same as -- three-fourths of the allowable is based on deliverability.

Q All right, sir. You mentioned workovers a lot, that you intend to work some of these wells over. Actually, the primary objective of a workover would be to increase your deliverability, wouldn't it?

A No, sir, just to get the water out, to have it logged off. That is the main type of workover that we are speaking of.

Q You didn't contemplate workover to increase deliverability?

A No, sir. That would cost a lot more money than what I talked about.

Q Actually, on an average deliverability basis your wells compare pretty favorably at this time, don't they?

A For the most part, yes. They have the capacity to

produce the same as the other wells. They are just denied the right to produce.

Q Because they are assigned a smaller --

A Smaller. That's correct, too.

Q -- to make it complete?

A To make it complete, yes.

Q So, actually, these allowables that we've compared with the average -- the allowables as a result, if your request is approved, if, due to these workovers, even though it is not intentionally, the deliverability of some of those wells, is improved and , the allowable figure that you estimated here would increase, wouldn't it?

A That's correct.

MR. BUELL: That's all we have, Mr. Examiner.

MR. UTZ: Are there any other questions of the witness?

QUESTIONS BY MR. COOLEY:

Q Mr. Greer, the operating and lifting expenses on all of the eight wells, that is, excluding the Copp No. 1, which is plugged and abandoned, all the wells with the exception of Copp No. 1 are about the same?

A It varies a lot with each operator. Some operators get by for less than others. Some of the people take care of their own wells and don't itemize their cost and so they don't have the same records as other people that hire all their work done. But, in general, I would say that the cost would be about the same.

Q Here is a span here between the allowables that would be assigned to these wells, almost three to one, and the Krouse Beck No. 1, I believe under your calculations would be assigned a thousand and forty MCF?

A Approximately, yes, sir.

Q And the Palmer No. 1 would be assigned three thousand seven hundred and sixty?

A Yes, sir.

Q Still, the operating cost would be approximately the same on those two wells?

A That is correct.

Q In view of this, it must be that the assignment of an acreage factor one would result in assignment of allowables something in excess of what is necessary to warrant the operation of the well, would it not?

A Well, in some cases that's true. I don't believe we could assign or determine a formula which would exactly provide each well, **the** cost of its exact operation.

Q What, in your opinion, is the amount of money that would be necessary to be derived from each of these eight wells to warrant keeping them on production yearly, gross income?

A I believe I said earlier that an operator should have something like a hundred to a hundred and fifteen dollars a month after taxes and royalty at the time that he is faced with the workover to put the well on production, in order to justify the work-

over rather than plugging the well.

Q That is the precise thing I am trying to get at here. Now, we have one hundred fifteen dollars a month, plus taxes and royalty. How much does that amount to?

A Well, on an average lease, say with no override, it would take about a hundred and forty-five dollars a month gross to provide that income.

Q About one hundred forty-five dollars a month?

A Yes.

Q And multiply that by twelve and give me a yearly figure, please.

A Well, I guess seventeen hundred forty dollars.

Q Now, can you convert that hundred and forty-five dollars a month to MCF of gas?

A Yes, sir. Will be approximately a million and a half.

Q Approximately a million and a half?

A Yes, sir.

Q And you feel that you can operate these wells and not be compelled to shut them in with an allowable of something like a million and a half?

A That's true. Of course, as you know, the workover problems vary and it could be that a well would come up for workover with a more serious job, or it would cost more, or another one would cost a little less, but I think on the average that is a pretty reasonable figure.

Q But under your proposal, six out of the eight would receive considerably in excess of a million and a half, wouldn't they?

A Yes, they would. We explored the problem thoroughly and found it very difficult to arrive at some manner of allocating gas to these wells which would serve the purpose. It appeared to us that this is the best approach from an overall standpoint and that certainly any inequalities resulting would be no greater than those already existing under the established allocation formula as it applies to nonmarginal wells.

Q Now, that brings us to the next point. In answer to Mr. Buell's question concerning the ethicacy of the existing proration formula in Aztec-Pictured Cliffs and Fulcher Kutz Gas Pools, I believe it was your answer that the formula, in your opinion, breaks down as the wells decline, is that correct?

A It breaks down when it gets to the point that a certain amount of gas is allocated to a man to produce and yet he can't produce it because he is forced to plug his well and leave the gas in the ground. At that point it very definitely breaks down.

Q Isn't this breakdown to which you refer as a result of the low acreage dedication of these wells rather than the decline of the wells?

A That is correct. The wells have the ability to produce.

Q And it's not the proration formula's fault, if the wells had the acreage to dedicate to them?

A If they had the acreage dedicated to them, had they been drilled after the establishment of one hundred sixty acres, we would not have the problem as to this particular problem.

Q You agree, of course, that the formula was designed to provide the allocation of gas to wells spaced on one hundred sixty acre acres since that is the acreage set up in the pool rules?

A Yes, sir, we talked about it at the time, and there was considerable discussion at that time as to making exception to wells drilled prior to the spacing order, and the final outcome was that the Commission decided not to grant exceptions at that time. Now, we are faced with premature abandonment of these wells, and we feel we have just a little different picture than at the time that the proration formula was adopted.

Q Then, Mr. Greer, what you seek is a minimum allowable, is it not?

A Well, sir, we -- what we seek is to prevent premature abandonment of the wells, and under the present allocation formula they don't get enough gas. And if they were given an allocation factor of one, they would get enough gas and it appears to us that that would solve the problem.

MR. COOLEY: Thank you.

MR. UTZ: Are there any other questions of the witness?

MR. BUELL: I have one more, Mr. Examiner.

RECROSS EXAMINATION

BY MR. BUELL:

Q Mr. Greer, did you hear Mr. Maddox testify this morning?

A Yes, sir.

Q I believe he testified that the five MSBM Company wells netted, in 1957, five thousand dollars?

A I believe that's true.

Q Would you, as an engineer, recommend to -- or would you, as an oil man, abandon five wells that were making five thousand dollars a year?

A No, sir, and I don't believe Mr. Maddox intends to plug them right away, but he has a little foresight that he can see in another year or two that his wells are going to be in the same shape as Mr. Stearns' wells, and he is seeking what I think is proper relief before the problem descends on him and he has to shut down with nothing -- no gas to produce and a decision to make and possibility of a lease to lose and many very serious problems that he is going to be faced with.

Q Mr. Greer, as I recall your answer to my question was that you would not plug nor would you recommend plugging?

A Not at this time, but he is even right now faced with the problem if one of those wells goes dead as to whether he can afford to put it back on production.

Q Yes, sir. And you also said that the MSBM Company's problems were anticipatory. Wouldn't you think, then, that this request at this time is premature?

A No, sir. One of his wells could go dead tomorrow.

Q. Shouldn't he wait a year or two until he has a problem and then come to the Commission with it?

A No, sir. If his well goes dead tomorrow and it doesn't produce for about sixty days and he waits on hearings for the Commission and the land owner cancels his lease, then he has waited too long.

Q I am sure you mentioned this in your direct, Mr. Greer, but let me ask you again, I missed it. Why don't you all produce these wells every day?

A Their allowable was so low that it is almost impossible or impractical for the pipeline company to take such a small amount of gas from the wells and produce them every day, so they take a reasonable amount of gas which is their year's allowable in a few weeks and then shut the wells in.

Q Mr. Greer, how do you reconcile that with your answer with respect to the wells on the 160 acres with comparable allowables that they didn't have your problems because they produced every day if they have a comparable allowable; if they can do it, you can do it, couldn't you?

A Sooner or later they are going to have to be plugged. Maybe not this month, but pretty soon they will have to be plugged because they simply cannot produce. They don't have any gas that they can produce and get out of the ground. We have gas that we can get out of the ground if the Commission will let us do it.

Q Maybe I can get at it this way, Mr. Greer. Is it physi-

cally possible to produce the wells that are the subject matter of this hearing at their allowable rate on a daily basis? Is it physically possible? I don't care what the pipeline does. Is it physically possible?

A It might be physically possible, but it is so impractical that I am sure neither one of the two pipeline companies in the area would attempt it.

Q But it is physically possible?

A It is -- I'd say it is not economically possible.

Q And if they were so produced, you would eliminate a lot of your concern and worries about workovers, would you not?

A No, sir. You would eliminate part of them, but you would not eliminate the fact that you wouldn't have enough money to perform the workover, if it occurred.

Q If the well is never shut in and doesn't load up with water, you don't need to work it over so long as it is producing every day, do you, Mr. Greer?

A If you can afford to have a man out there to blow out the wator, which, of course, some of these wells you can't do that right now.

MR. BUELL: That's all, Mr. Examiner.

: REDIRECT EXAMINATION

BY MR. VERITY:

Q Mr. Greer, the point is that on these wells there is producible gas that is going to have to be abandoned under the

the present situation -- A That is right.

Q -- on the wells; these wells have an acreage factor of less than 1?

A It is unrecoverable, definitely, to the person that owns the well and may be unrecoverable to the entire pool.

Q At least some of it is going to be left in the ground and never recovered?

A That is true.

Q And the man that's got the acreage factor of 1, by the time his well goes dead, it means that there is no gas that can be produced from the formation? A That is true.

Q So we actually have an entirely different situation with regard to applicability of the formula on this well, what you do with 160 acres?

A That's true. When 160 acres reaches the point that it is uneconomic to produce it, it just hasn't got the ability to produce the gas that is under ground, so there is no more recoverable gas.

Q And at the time these people drill these wells, they certainly had a right to assume that they were going to be allowed to produce at such a rate that they could get their gas out of the ground? A That is true.

MR. VERITY: I believe that's all.

One other question.

Q (By Mr. Verity) We've actually got two factors here,

haven't we? One from an economic standpoint you have prematurely abandoned -- A That's right.

Q -- but even over and above that, these wells that cannot produce up to the level required, so that you actually have an overproduction and a required shut-in period. Those wells just can't be produced at all on that basis, can they?

A They have more problems.

Q They are just -- when the situation is such that they are required to shut-in to make up overproduction because of the practical effect that the pipeline company wouldn't take a small allowable, as is accredited to them, then, when they are shut-in, then they are going to water-log, and they can't be revived, isn't that correct?

A They face the hazard of water-log; doesn't mean that every time they will water-log, but they face that hazard.

Q That is the problem, and it is over and beyond the mere economics of a minimum, as Mr. Cooley was referring to?

A That's true.

MR. VERITY: That's all.

QUESTIONS BY MR. UTZ:

Q Mr. Greer, did you recommend that a well in the Fulcher Kutz or Aztec Pool be assigned an allowable of more than the normal allowable because of the well's water-logging problems; the fact that if it was shut in for overproduction, that the well would not come back without possibly swabbing? In other words, do you

think that is the basis for a well producing more than a normal allowable?

A No, sir. It doesn't need to be granted the bonus because it water-logs, doesn't need the bonus.

Q In other words, because some of these wells that you have on your application water-log and will no doubt reduce their allowable and have to be shut-in and would still be water-logged, you don't think they should be allowed more allowable?

A I don't think they should be allowed. In fact, we are not asking for a bonus, we are just asking for what -- a chance to produce what is under our land.

Q There has been suggested here in this hearing that a well with water-log should not even be shut-in?

A That's true. You don't have to give it a bonus not to shut it in, just give it its ability to produce.

Q Mr. Greer, in answer to Mr. Cooley's question, was the one hundred forty-five dollars a month that you spoke of gross income, including royalty, taxes and everything?

A Yes, sir. With that amount of money, it would be a break-even proposition. I would consider four of these particular wells.

Q Do you think that amount of income would take into consideration and give the operator enough cushion, so to speak, that he could anticipate spending a little money if it is necessary?

A That allows a thousand dollars for workover every twenty months and leaving the operator absolutely no net income.

Q Then, it appears that your testimony that fifteen hundred MCF a month would take care of the objectives that you have on the seven wells, or eight wells, including the plugged and abandoned well?

A Well, if each well were allowed to produce that much, it certainly would be a relief to the majority of the wells.

Q Well, my question is, is it enough to prevent premature abandonment of these wells?

A I think it would.

Q Now, how many of these wells are capable of producing that amount of gas, fifteen hundred MCF?

A Excuse me. Could I elaborate on that last question? There is a possibility that you will get a well with a more serious workover job and it might take a little more.

Q Well, how much more?

A Well, that is going to vary with the well. On the average, I think this is reasonably close.

Q Well, let's put the thing on a sound economic basis. Two million a month?

A Well, what I am talking about is that any time -- this is not going to guarantee, but it certainly would go a long ways toward solving the problem.

Q You think two million a month would guarantee it?

A I think two million a months would be more practical to allocate.

Q Now, back to my original question, the last question. How many of these wells are capable of producing fifteen hundred MCF a month? Probably a shorter way to answer, how many of them are not? A All but one.

Q Which well is that?

A Krouse No. 1 Beck.

Q How about the Thompson No. 1?

A That will be awfully close, will be just nip and tuck. That deliverability is calculated against half the shooting pressure and operates against the line pressure a little less than half of its shut-in pressure. Chances are it will just about do it.

Q And the Brown No. 1 will be all right?

A Yes, it would be.

Q The Brown No. 2? A Yes, sir.

Q What was the deliverability on that well, do you know?

A My figures show a hundred and eleven thousand on the Brown No. 2.

Q And the Copp No. 1 is plugged and abandoned, is that right? A Yes, sir.

Q Would you recommend, Mr. Greer, assigning an allowable to these wells in excess of the amount they are capable of producing?

A Well, that happens, of course, all the time, even under the nonmarginal wells. And if they are assigned an allowable now,

they might make it for six months or a year and then drop off. I think that is really not too big a factor to be concerned with.

Q Well, you do not accomplish anything by assigning it any more allowable than it can produce?

A No, that's right.

Q Actually, it has an effect of taking allowable away from other wells that can produce it, does it not?

A Well, I don't know whether it is taking it away from other wells or giving it back where it originally belonged.

Q If the wells don't produce the allowable assigned, it loses it anyway, does it not?

A Oh, sure, that's right.

MR. UTZ: Any other questions of the witness?

MR. COOLEY: Yes, I would like to clarify one point.

QUESTIONS BY MR. COOLEY:

Q Mr. Maddox' testimony, I believe, was concerning five MSBW wells?

A Yes, sir. I think he had another well that is capable of producing more gas.

Q There are two other wells, evidently, which are not the subject of this hearing to which he referred and grouped together with the wells that are the subject of this hearing?

A That's right.

Q The two that are not here included considerably better wells than the three that are included in this application?

A I believe they are. Let me check. I believe they had 160-acre allowable and they had higher allowables, that is correct, so it brought his average production up.

Q Then the average figures that he gave --

A Apply --

Q -- certainly wouldn't apply to these three wells?

A Applied to his operation, not necessarily to the lower wells on the small acreage.

MR. COOLEY: In view of that, Mr. Examiner, I would like to recall Mr. Maddox to the stand as soon as Mr. Greer is dismissed.

MR. UTZ: All right. Are there any other questions of Mr. Greer? If not, the witness will be excused, and Mr. Maddox, would you care to come and resume your position at the stand, please, so we can ask you a couple more questions?

(Witness excused)

ROBERT L. MADDOX,

recalled as a witness, having previously been duly sworn on oath, testified as follows:

QUESTIONS BY MR. COOLEY:

Q Mr. Maddox, can you give us the average income per well on the three wells which are the subject of this hearing? The McCarty No. 1, the Montano No. 1 and the Palmer No. 1, excluding the other two wells to which you referred in your former testimony?

A Well, I can give you the 1957 figures. The Montano No. 1 produced one thousand, seven hundred fifty-two dollars and ninety cents for the year.

Q One thousand what?

A Seven hundred and fifty-two dollars and ninety cents. That was the gross. The Palmer No. 1 produced one thousand, seven hundred and seventy dollars and seven cents. The McCarty No. 1 produced one thousand, ninety-one dollars and seventy cents.

Q Now, do you have all the expenses you incurred on those three wells during the year 1957 itemized too?

A No, I have it all grouped on the five wells.

Q Would the expenses be approximately the same --

A Yes, be about the same.

Q -- per each well?

A The expenses -- operating expenses on the five wells is one thousand, four hundred and forty-one dollars and three cents.

Q I guess -- that was just your operating expenses? Does that include royalty and taxes?

A That is operating expenses. The tax is five hundred, fifty-three dollars and forty cents.

Q Royalty?

A Nine hundred, forty-two dollars and thirty-seven cents.

Q Approximately three thousand dollars total deductions from your net -- A Yes.

Q -- to arrive at your net?

A Yes. Approximately three thousand. Approximately eighteen hundred dollars on the three wells.

Q Approximately eighteen hundred dollars would be deducted from the gross income on the three wells to arrive at your net?

A Yes.

Q And what would that leave you, sir?

A About -- approximately two thousand, eight hundred thirteen dollars.

Q That would give you a net income per well of approximately nine hundred dollars each for the year 1957?

A Yes, that's about it.

MR. COOLEY: That's all the questions I have.

MR. UTZ: Any other questions of Mr. Maddox?

REDIRECT EXAMINATION (Continued)

BY MR. VERITY:

Q Mr. Maddox, you supervise these wells yourself, don't you?

A I have a man hired to wind the meters.

Q But you supervise him, don't you?

A Yes.

Q And you haven't included in those expenses anything for supervision, have you?

A No. This is the actual money that was paid out. I didn't receive anything for supervision.

QUESTIONS BY MR. COOLEY:

Q What do you feel a reasonable charge for your supervision would be?

A I go down there at least once a week, so I am there four or five times a month to the wells. If I have any trouble, I go down and work on the well. Without any trouble, I am there from four to five times a month. You can figure at least five days a month.

Q If you had to employ someone to do this for you, what would it cost?

A I think it would cost me at least seventy-five to one hundred dollars a month.

Q For all three wells?

A For all five wells. I'd say at least twenty dollars on each well.

Q Twenty dollars a well?

A Yes. Sixty dollars for three wells.

Q Sixty dollars for three wells would be seven hundred twenty dollars a year.

A I believe that's very reasonable when you run your car down there and figure your car expenses, which is about twenty miles. Well, it is really more than that. It is seven miles from Aztec. I live at Aztec, so you might say it is a fifteen-mile trip down the east side of the river and fifteen miles down the west side.

Q Mr. Maddox, if you say it is reasonable, I am willing to accept it.

A I am just trying to arrive at what a reasonable charge for supervision would be on these wells, and seven hundred twenty

dollars seems reasonable to me. However, I have no experience with that. Well, I know that isn't too high. Probably have to pay for it if I hired a man.

Q That would reduce your per well income down to around seven hundred each per year? A Yes.

MR. COOLEY: Thank you. That's all the questions I have.

MR. UTZ: Any other questions of Mr. Maddox? If not, the witness may be excused.

A I might add this. The reason this Hordge's No. 1 and Hordge's No. 2 is not included in this petition, the Hordge's was allocated on 160-acres. The Hordge's No. 2 is off proration because it produced, I guess it was less than a million a month; isn't that the rule? And it has been off of proration for about a year. It is on 140-acres.

MR. UTZ: That's a marginal well, then?

A Yes, marginal well.

MR. UTZ: Do you have anything further?

MR. VERITY: I have no further testimony, Your Honor.

MR. UTZ: Any other statements to be made in this case?

MR. BUELL: I have a statement, Mr. Examiner.

MR. COOLEY: Is there any more testimony in this case?

MR. BUELL: Pan American Petroleum Company is in a rather unique position in this hearing in that our position is friendly opposition, if there is such a thing. We realize in some of these older wells that were drilled prior to the statutes

and prior to the rules on small tracts, it certainly is possible that hardships may result. We're friendly to that standpoint in that we understand the general problem. Our opposition is entirely to the method of seeking relief. If the application here today is approved by the Commission and a precedent is set, actually, it means complete abrogation of allocation formula because in any case where a well has an allowable reduced due to the allocation formula, simply obtain an exception, your allocation formula becomes meaningless. The testimony of Mr. Greer showed that in one case one of the wells in question, if the Commission approves it, would produce 73 percent more gas than the average 160-acre gas well. I don't believe that could be classified as equity by any one of the statutes of New Mexico. Article 65-3-14 contemplated such a situation as we have here, and in Section D thereof, it reads this way: "Minimum allowable for some wells may be advisable from time to time, especially with respect to wells already drilled when this act takes effect; to the end that the production will repay reasonable lifting cost and thus prevent premature abandonment and resulting waste."

Actually, it seems that the statute contemplated the very situation that we are faced with here, and it would seem to us that the more equitable way to approach the problem would be on an individual well basis under the statutory provisions. Certainly that -- even that method, to some extent, if granted, is going to distort and amend the allocation formula, but it

wouldn't result in a complete abrogation of it as this request here today will. The extra gas that is going to be assigned under either method is going to come from some place. It is going to be taken away from the wells to which it is currently assigned under the allocation formula and given to these other wells as exceptions. Certainly the record is crystal clear with respect to the three MSBW Company wells. They have no problem there. It is down the road. Their own witness frankly and honestly admitted that, so certainly no consideration at all should be given those three wells. With respect to the others, it is Pan American's recommendation that this request be denied in its entirety.

MR. WADE: Your Honor, I would like to make some response to that. On every point, as a matter of fact. To start with, the applicants in this case have found themselves with a lot of friends, all of which want to see them not get a relief to a situation that they all admit should be relieved. You will probably recall that the Commission on its own motion set this inequity down for hearing and suggested that it be handled on a matter of minimum allowables, and then a whole host of friends came in and said, "We feel terribly sorry for you. We realize that your situation and plead is great, but we can't see the word minimum allowable used because it is going to cause us trouble all over the state of New Mexico." And so in order to try to get along with as many people as possible, we dismissed that application, or rather we requested that the Commission dismiss it, and

we filed this one. And we would like to point out, Your Honor, in response to statements made by counsel that quite the contrary to what he says, that this is going to reabrogate the proration formula. It is not going to do that at all. We are talking about that small and very limited class of wells that were drilled prior to June 22, 1948 when the 160-acre unit size was promulgated in Order No. 748. Now, we think we are entitled to this order on two different things. We first think we are entitled to it because -- due to the fact that at the time we drilled these wells there was not one suggestion that there was anything wrong with drilling them on 40-acres, and we had a perfect right to assume that when we drilled those wells on 40-acre tracts that the Commission or others would come along later and say, "We are going to penalize you because you have fallen below what we believe is the proper unit and, therefore, we are not going to give you what should be an average factor of production, but we are going to let you fall below that." There is nothing on record at the time these wells were drilled. We think that that is improper, and that they have the right to produce a reasonable amount of the gas that is in place and is underneath it, and we think that it is not going to be unfair to the others to allow these wells to produce a sufficient amount so that they can do what they had the right to assume could be done at the time that they staked and drilled the wells.

In addition to that, we believe that purely from a stand-

point of premature abandonment, which counsel would like to suggest we are entitled to it on. We think we are entitled to it on that, but we don't think we have to put a tag on it that says "minimum allowable" because we know that there are other people just like him that are very friendly to us and realize we have a problem. And it is not fair to make us go away and leave all the gas in the ground. But they just don't want to see it done in this fashion, so we say we are entitled to the relief that everybody seems to grant and agree that we should get on some means. We say that we are entitled to it and that the proper and the best way to allow it is to give us an allocation factor of 1 which we think we are entitled to because we drilled our well in a proper unit in the first place and, therefore, Your Honor, we think we are entitled to this order. One more thing in response to that. He is disturbed about the fact that one of these wells is going to make more than the normal allowable. Let me point out to the Commission that ~~that is~~ the reason that well has got a little more allowable, if you give it an acreage factor of 1, is because it has a very high deliverability factor and there are some wells in this pool that are making ten times what the average is, and counsel was restrained about the fact that this one would make a little bit more than the average. It's got its deliverability under this 40-acres, but it cannot recover the gas that is under its 40-acres unless it is given an acreage attribution factor of 1. We say there is a grave injustice that has been committed against these wells, and at this late date

these applicants are asking that they be given some relief from that injustice, and they say that the best way for this Commission to do that is by granting them the acreage attribution factor of 1.

MR. BUELL: Mr. Examiner, I firmly realize that you wouldn't want to get into a statement -- answering a statement situation, but I would ask leave to clear up one or two things. Mr. Verity inferred that we admitted that relief was indicated in these wells, Frankly, based on the data I have seen here today, I don't believe I could sincerely admit that nor do we admit that. I will frankly admit that we are opposed, as a matter of fact, of principal, to a minimum allowable on a state-wide basis, but I would again point out that the statute contemplates an individual well basis so that all of the problems, all of the facts to a peculiar individual well can be considered and equity done. I'll admit that we were one of the friends that he mentioned that were opposed to a state-wide minimum allowable, and just like I stated at the outset, if there was such a thing as friendly opposition, that is what ours was. Apparently, there isn't such a thing.

MR. VERITY: Your Honor, I take no exceptions to his last statement.

MR. UTZ: Mr. Woodruff.

MR. WOODRUFF: Mr. Woodruff with El Paso Natural Gas Company. The problem we are facing here today, apparently, is handling the pioneers of development in the San Juan Basin area. The condition is not uncommon with what is found in the development

of a petroleum reservoir, or initial development, and later found to be on a smaller acreage basis than is found that the fiel can be economically and adequately developed on. In such instances, it is not uncommon to give consideration to such a well, and that is often done and normally done in my experience by the assignment of additional acreage factor to a well. I can give one instance which, while it is an oil reservoir, that has been true in Texas where we started off with a 40-acre allocation and later ended up with 160. And in that particular pool the 40-acre wells were given the same allowables as 80-acre wells. We believe that the approach of the applicant in this case for increased acreage allocation is the appropriate approach. The assignment of a minimum allowable on a poolwide basis would do more to disrupt the allocation of gas in accordance with existing rules than their proposal which would prevail for these specific wells having small acreage allocation, having been drilled prior to the institution of 160-acre spacing.

We would urge the Commission to give serious consideration to increasing the unit for any well to prevent the premature abandonment of that well where such unit is for a well drilled prior to the institution of 160-acre in the pools in question.

MR. COOLEY: Let me direct one question to Mr. Woodruff. You're taking two of the three alternates; assigning an acreage factor of 1; second, the assignment or the establishment of a poolwide minimum allowable. What is the position of your company with

regard to well by well minimum allowable as Mr. Buell interprets the statute?

MR. WOODRUFF: I believe the Commission has the authority to commission well by well relief where the facts justify it, and I would see no objection in an approach on a well by well basis.

MR. UTZ: Any other statements?

MR. COOLEY: Off the record.

(Discussion off the record)

MR. VERITY: Comes now the applicant and moves to delete the BMNS Company's Copp No. 1 Well in the southwest of the northwest of Section 29, 30 North, Range 12 West for the reason that the same has been plugged and abandoned subsequent to the filing of this application. Applicant also moves to amend its application with regard to MSBW Palmer No. 1 Well to show that the same is located in Section 28, 30 North, 12 West rather than 38.

MR. UTZ: Is there objection to the amendment as stated? If not, it will be so amended. Any other statements in this case?

MR. COOLEY: Mr. Examiner, I would like to read into the record a telegram this Commission has received from Aztec Oil & Gas Company and I quote: "RE CASE 1461. AZTEC OIL & GAS COMPANY CONCURS IN APPLICATION OF A. A. GREER ET AL FOR AN EXCEPTION TO THE ACREAGE FACTORS ESTABLISHED BY ORDER R-565-C FOR CERTAIN WELLS IN SAN JUAN COUNTY, NEW MEXICO. AZTEC OFFSETS MOST OF THE WELLS INVOLVED IN THE APPLICATION -- IN THE APPLICANT'S APPLICATION AND HAS SEVEN PICTURED CLIFFS WELLS DRILLED ON A 40-ACRE BASIS PRIOR TO

ORDER 748 THAT HAVE AN ACREAGE FACTOR OF LESS THAN ONE. SIX OF THESE AZTEC WELLS HAVE BEEN SHUT IN FOR EXTENDED PERIODS OF TIME DUE TO OVERPRODUCTION, AND SOME RELIEF SHOULD BE GRANTED TO PREVENT PREMATURE ABANDONMENT.

AZTEC OIL & GAS CO QUILMAN B. DAVIS.

MR. UTZ: Any other statements? If not, the case will be taken under advisement.

C E R T I F I C A T E

STATE OF NEW MEXICO)
: ss
COUNTY OF BERNALILLO)

I, J. A. TRUJILLO, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me in stenotype and reduced to typewritten transcript by me and/or under my personal supervision, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal, this, the 16th day of June, 1958, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

Joseph A. Trujillo
Notary Public

My Commission Expires:

October 5, 1960.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 1761, heard by me on May 28, 1958.

..... Examiner
New Mexico Oil Conservation Commission

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