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phiction, Transcript,
all Exhibits, Etc.

CASE 23461 Application of PAM M.
for an order pooling all mineral
interests in the Basin-Dakota.

Copy to be
sent to all
interested parties
via G. H. Hinton

PAN AMERICAN PETROLEUM CORPORATION

P. O. Box 480, Farmington, New Mexico
December 22, 1961

File: H-1388-400.1

Subject: NMOCC Case No. 2346
Order No. R-2052
Crawford Gas Unit "B" No. 1
Basin Dakota Field
San Juan County, New Mexico

New Mexico Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Gentlemen:

In compliance with the conditions of Case No. 2346, Order No. R-2052, we are listing below an itemized schedule of well costs for the Crawford Gas Unit "B" No. 1.

Drilling Costs

Day Work - Drilling Contract	\$ 1,657.93	
Turnkey Contract	31,713.00	
Truck and Service Equipment	2,485.40	
Bits and Equipment Rental	308.86	
Well Surveys and Test Services	271.92	
Acidizing, Shooting and Perforating	6,502.17	
Cementing Casing	2,297.08	
Geological and Engineering	135.15	
Material and Supplies - Other	1,199.23	
Other Labor - Company	282.02	
Other Labor - Contract	880.04	
Other Drilling Costs	<u>214.44</u>	\$47,947.24

Well Equipment

Well Head	\$ 897.74	
Casing	8,780.22	
Tubing	4,128.89	
Valuation Reserve	(16.51)	
Noncontrollable Tangible Material	166.86	
Construction Costs	<u>201.80</u>	14,159.00

December 22, 1961
File: H-1388-400.1

Lease Equipment

Pipe	\$	385.40	
Valuation Reserve		(261.43)	
Noncontrollable Material		370.06	
Value		<u>338.00</u>	\$ 832.03


Overhead Charges

Field	\$	125.93	
District		37.74	
Administrative		152.75	
Miscellaneous Charges and Credits		(35.16)	<u>281.26</u>

Total Costs as of November 30, 1961 \$63,219.53

Yours very truly,

PAN AMERICAN PETROLEUM CORPORATION


T. M. Curtis
District Superintendent

GLH:ep

P. S. Upon dedication of this well to a gas contract, additional expenditures amounting to approximately \$5,000 will be required to install water distillate knockout, stock tanks, necessary lines, etc.

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
AUGUST 9, 1961

EXAMINER HEARING

IN THE MATTER OF:
CASE 2346

TRANSCRIPT OF HEARING

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO



BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
AUGUST 9, 1961

IN THE MATTER OF:

Application of Pan American Petroleum
Corporation for an order pooling all
mineral interests in the Basin-Dakota
Gas Pool in the S/2 of Section 24,
Township 29 North, Range 12 West, San
Juan County, New Mexico

Case 2346

BEFORE:

Daniel S. Nutter, Examiner

EXAMINER HEARING

MR. NUTTER: Case 2346.

MR. MORRIS: Application of Pan American Petroleum
Corporation for a force pooling order.

MR. BUELL: For Pan American Petroleum Corporation,
Cuy Buell. Associated with me, Mr. Charles Malone, of the firm
of Atwell and Malone of Roswell.

GEORGE W. EATON, JR.,
called as a witness herein, having been first duly sworn on oath,
was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BUELL:

Q Mr. Eaton, would you state your complete name, by whom

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you are employed, in what capacity, and at what location, please.

A My name is George W. Eaton, Jr.; and I am employed by Pan American Petroleum Corporation in Farmington, New Mexico; and I am Senior Petroleum Engineer.

Q Mr. Eaton, you have testified at prior Commission Hearings and your qualifications as a Petroleum Engineer are a matter of public record, are they not?

A Yes, sir; they are.

(Whereupon Petitioner's Exhibit 1 marked for identification.)

Q (By Mr. Buell) Mr. Eaton, let me direct your attention, now, to what is marked as Pan American's Exhibit 1. What does that Exhibit reflect?

A Exhibit 1 is a map of a portion of the Basin-Dakota Pool in San Juan County, New Mexico. On Exhibit 1, I have colored the Dakota wells in that particular area involved in red. The specific area covered by Exhibit 1 is the vicinity of Township 29 North, Range 12 West.

Q The specific acreage in question in this Hearing is the south half of Section 24 and the Township and Range you just mentioned?

A Yes, sir: that is true.

Q How have you designated the acreage in question on your Exhibit 1?

A The acreage in the south half of Section 24 of Township



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29 North, Range 12 West is outlined in red.

Q What is the significance, Mr. Eaton, of the various colored portions of the acreage within your red boundary?

A These various colors indicate different interests that exist within that south half section of 24.

Q How many separate tracts, area wise, do we find in the south half?

A Geologically, there are actually 8 separate tracts in the south half Section 24. You will note that there are only six colors. That means that there are really 6 basic leases involved.

Q In other words, I see two blue tracts, the ownership under those two blue tracts, although separate, area wise is the same?

A Yes, sir.

Q Mr. Eaton, has Pan American made a diligent effort to voluntarily farm the standard 320 acre units?

A Yes, sir; they have.

Q Have their efforts in this regard been completely successful?

A No, sir; not 100 per cent successful.

Q At the present time, how many outstanding interests do we have?

A There is one outstanding royalty, and one outstanding working interest at the present time.



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Q Now, with respect to the working interests, who have voluntarily agreed to form this unit, have they all agreed that Pan American should be the operator?

A Yes, sir; they have.

Q Is it your recommendation to this Commission that Pan American be designated as operator in the pooling order that we are requesting to be issued?

A Yes, sir. It is my recommendation that Pan American be named operator in such a pooling order.

Q Mr. Eaton, are you recommending to the Commission here, today, that a penal provision be included in this pooling order?

A Yes, sir; I am.

Q What type of recommendation are you making?

A It's my recommendation that a penalty equal to 50 per cent of the drilling and operating costs be assessed against those working interests who elect to pay their share of such costs out of production rather than in cash at the time they are billed for it --

Q In other words, as I understand your recommendation, even a bond consenting working interest owner, a working interest owner that does not sign the unitization agreement, he could still elect to pay in cash, and there would be no penalty?

A That is true, as long as the working interest is willing to pay his share of costs in cash when billed, and not to pay it out of production from the well, then no penalty would be assessed.



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Q And certainly, you are not including in your recommendation that any penalty apply to any royalty owner?

A No, sir, by no means would it ever apply to a royalty owner.

Q Why do you recommend a penalty for a working interest owner who desires to pay his share instead of in cash, out of production?

A In the drilling of any well, there are certain inherent risks involved that make it highly desirable to have each of the working interest owners who are liable for part of those costs to pay in cash at the time billed.

Q Mr. Eaton, when you mentioned inherent risks, it automatically comes to my mind things like blowouts, lost circulation, trouble that had a lot of additional expense to the drilling of a well. Do you have any other type risks than that, other than the ones we normally think of when we start to drill a well?

A Mr. Buell, I believe that any time that any equipment is run into a well there is risk attached to it. By that, I mean, a bit, drill pipe, drill collars, packers, tubing, anything that might be run into a well involves some degree of risk. I might give an example of some of these unusual things that can happen: At the present time, Pan American has a well with which we had no trouble whatsoever until it reached a depth of about 5,000 feet, at which time, a drive shaft or power shaft on the rig, itself, broke. The well was down at that point with drill pipe in the



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hole for about 36 hours while that rig was being repaired. And since that time, or during that time, the drill pipe and drill collar became stuck at the bottom of the hole, and subsequently the pipe shot off, backed off a few hundred feet above TD; and at the present time, we have still not been able to fish that portion of the tube that is still left in the bottom of the hole out. It looks like to me that we will probably wind up abandoning that hole. That is just an example of what can happen, some of the risks involved.

Q And all of that was really due to a minor, expense wise, break in equipment?

A Yes, sir; it certainly had nothing to do with the geology of the area, of the possibility of lost circulation, blow-out, or even a dry hole.

Q Is a penalty provision of the type you have recommended, is it common and customary in the industry among operators, even when they are voluntarily putting their acreage together?

A Yes, sir; it certainly is. Pan American is a party to a number of unit operating agreements in the San Juan Basin Area, some of which Pan American operates, some of which it is a non-operator. Without failure, each of these voluntary unit operating agreements provide for some penalty to be assessed against those who do not elect to share in cash the cost of the development operation. The normal provision in those operating agreements is for 150 per cent recovery. I am familiar with a few of the more



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recent ones which provide for 200 per cent recovery.

Q Actually Mr. Eaton, the operating agreement executed by the consenting working interest owners, with respect to this unit, provides for a penalty of 100 per cent if any of the consenting working interest owners elect to pay out of his share of production rather than in cash; am I correct?

A That is quite true. The penalty is a hundred per cent. That means that those that pay in cash actually recover 200 per cent.

Q Where are you recommending the well be located in the south half of 24, Mr. Eaton, to serve this pooled unit?

A The well will be located in the Northwest Quarter, Southwest Quarter of Section 4, or specifically, it will be located 810 feet from the west line, and 1450 feet from the south line of Section 24.

Q Is that an orthodox location under the Basin-Dakota Gas Pool Rules?

A Yes, sir; it is.

Q In your opinion, Mr. Eaton, in this area of the Basin-Dakota Pool, will one well effectively and efficiently drain in excess of 320 acres?

A Yes, sir; it will.

Q So you would then feel that if this acreage in question in the south half of 24 is not pooled and correlative rights have to be protected by drilling more than one well, it would be



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economic waste?

A Yes, sir. Certainly more than one well on that half section would result in economic waste. On the other hand, a well is needed on that particular half section to protect correlative rights.

Q Do you base that statement on the fact of the completed Dakota-Gas Wells, according to your Exhibit No. 1, almost surround the south half?

A Yes, sir; I do.

Q So it is then your opinion, is it not, that the recommendation you are making here today the pooling of all the interests in the south half of Section 24 into a standard 320 acre gas unit will protect correlative rights as well as prevent waste?

A Yes, sir; that is my opinion.

Q Do you have anything else that you would like to add, Mr. Eaton?

A No, sir; I don't believe so.

MR. BUELL: That is all that we have at this time, Mr. Chairman.

MR. NUTTER: Are there any questions?

Q (By Mr. Morris) Mr. Eaton, you testified one royalty interest and one working interest is yet outstanding.

A Yes, sir.

Q What is the extent of each of those interests in the 320 acres?



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A The outstanding royalty interest and the working interest both cover the same acreage. That acreage consists of the Northwest Quarter Southeast Quarter, the Northeast Quarter Southwest Quarter, the Southwest Quarter Southwest Quarter, and the west half Southeast Southwest Quarter of Section 24.

Q Is that the red acreage?

A Yes, sir; that is the red acreage, and the green acreage.

Q And who owns those interests, or is it too diversified to give?

A No, sir. I believe I can break that down for you. In the Northwest Quarter Southeast Quarter, the outstanding working interest amounts to a quarter of a four fifths working interest under lease to National Drilling Company. In the remainder of that acreage, the red acreage on Exhibit 1, National Drilling owns a quarter working interest. The royalty interest is somewhat divided. I might sum it up by saying that it is owned by the Crawfords as a group. In addition, the Turner Securities owns a royalty interest under the Northwest Quarter Southeast Quarter, amounting to one fifth of one eighth.

Q Now, it is my understanding that there is litigation pending that may affect certain interests in the south half of Section 24. Are you familiar with that?

A Not to any detail; no, sir. I am aware that there is litigation involved in this acreage.

Q Do you feel that the outcome of that litigation would in



any way affect it, or anyway should affect the order of the Commission that would be entered in this case today?

A No, sir. I believe that regardless of the outcome of that litigation that all interest royalties will be protected by the issuance of a force pooling order. As we mentioned previously, we are not asking for a penalty to be assessed against anyone who will elect to pay his portion of the development and operating costs in cash. We are only asking for a penalty to be assessed against those who elect to pay their portion of the costs out of production from the well; and so if, at any time, a working interest is required through this litigation, then the person acquiring that working interest would have an election to pay at that time with regard to whether he desires to pay in cash or whether he wishes to suffer that penalty.

Q If the well had already been drilled successfully, and there was an election not to pay cash ahead of time, would that in any way affect the amount of risk?

A It would be allocated to that particular proportional interest only in this respect. His risk would already have been taken.

Q That is right; but if that person would not have the election until after the well had been drilled, it might pose a nice problem.

A He would have available a lot more facts with which to work than we do at this time prior to the actual drilling of the

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well, it's true. He could certainly put a pencil to the costs involved with a lot more accuracy than we can by guessing what is going to occur. In fact, I'd say he'd be in a better position.

Q If the Commission entered an order, such as you are requesting, granting a 50 per cent penalty provision to non-consenting interests that do not elect to pay their share in advance, do you feel that it would be fair to assess that penalty to a working interest that did not have the option of making their election until after the well had been drilled?

A Yes, sir; I think that is fair. As I had mentioned before, actually he would be in a very good position because he knows what the actual costs involved are. And if they are excessive, and perhaps he would elect to not pay up in cash, take it out of production. If they are normal, he probably would elect to pay in cash, but at least, he would know what they were, exactly.

Q Mr. Eaton, I don't know whether you ever got around to the point of saying whether you felt there was any dry hole risk in a well to be drilled in the south half of Section 24.

A I don't believe I ever stated whether or not I thought so. For the record, I will state I think the risk is very small for getting an actual dry hole.

Q But, there are other inherent risks?

A Other inherent risks other than actual geology that concern whether or not the well is a dry hole; mechanical risks,



rather than geological risks.

MR. MORRIS: Mr. Examiner, I have a communication that I would like to read parts of into the record at a later time bearing upon the portion of certain royalty interests in the south half of Section 24, for consideration, and the subject of my questions to Mr. Eaton.

MR. NUTTER: Very good.

MR. MORRIS: I have no further questions. Thank you.

MR. NUTTER: Mr. Eaton, you said that Pan American had made a diligent effort to handle that acreage on a community basis. Will you outline those efforts that Pan American has made?

THE WITNESS: Yes, sir. Unit, or communitization agreements have been drawn and submitted to all parties of interest. We have received executed copies, or have indicated that we will, from all owners of interest except this royalty interest and this working interest that I just mentioned.

MR. NUTTER: Does the royalty interest have to be pooled, or is there a pooling clause in the lease?

THE WITNESS: No, sir. It has to be pooled.

MR. NUTTER: The ones that you haven't received the communitization from, have you actually received a negative communication from them?

THE WITNESS: We have received a negative communication from the royalty owner. We have received no notice whatsoever from the working interests, although the working interest has been

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given ample time to make a reply.

Q Now, this working interest is that quarter interest that you said was owned by National Drilling Company?

A National Drilling Company.

Q And you have not received a reply from them?

A No, sir.

Q Has any effort been made to contact them personally?

A Yes, sir; several times.

Q But they just haven't made up their mind, yet?

A Just move slow.

Q I see. Now, how much of the working interest, here, does Pan American actually own at this time, themselves?

A Pan American owns a working interest under — Would it be permissible for me to just name the color?

A Yes, because the colors are part of the record, too.

A Pan American owns working interests under all tracts except those colored blue and yellow; and in addition to that, Pan American is designated operator of that Quarter Quarter Section being Northwest Southwest Quarter. Pan American does not actually own the working interests under that particular tract.

Q You said Pan American owns the working interest, however, they don't own 100 per cent of the working interest in the red, do they?

A No, sir; nor in the green.

MR. BUELL: He said, "We own a working interest."



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Q (By Mr. Nutter) Now, you own 100 per cent of the working interest in the brown?

A Yes, sir; and Pan American owns 100 per cent of the working interest in the purple, that is it. Would you like for me to go to each one of these tracts. I'll tell you exactly what my records indicate. What Pan American owns, in some cases, is a little bit involved.

A Well, I think we have got the description of what we want here. Now Mr. Eaton, the New Mexico statutes provide that the Commission can on a forced pooling order provide or pay 50 per cent penalty for the risk involved. However, wouldn't you think that that risk that is involved could also include the risk of a dry hole?

A Yes, sir; I certainly do.

Q With this 50 per cent?

A Yes, sir; I certainly do.

Q Now, I have noticed that the weather bureau in some cities has been getting pretty classy in making their predictions of rain or shine; and they will say, "It has a 10 per cent chance, or a 90 per cent chance that it won't rain." What is your estimate in per cent of chances that you will get a producing well here?

A I am not the weather bureau, but I will say this: The chances are very good that we will get a producing well. As you can see from Exhibit 1, the Dakota Well is in practically all



directions from that location. In fact, there is one on the north half of Section 4. In addition, a well that is drilling, and data on which will be available prior to the time that this well is drilled, I am sure, is Pan American Gallegos Canyon Unit No. 93, which is in the Southwest Quarter Northwest Quarter of Section 36, right in Township 29 North, Range 12 West; so by the time we get ready to drill this well in the south half of Section 24, we'll have total wells, practically all the way around it and adjacent to Section 24.

Q So, you would say the weather outlook here is favorable?

A Yes, sir; I would say that.

Q You cited this one incident where the shaft on the drilling rig broke, or something, and the pipe got stuck in the hole.

A Yes.

Q Do things like this happen actually very often, Mr. Eaton?

A No, not too frequently. It's just one of those things that can happen. I cited it as an example of what risks are involved when material or equipment of any kind is run into a hole, but it doesn't necessarily have to be the risk of a geologic dry hole, but there are mechanical aspects of the actual drilling and completion operations that are also risky. All things don't occur often.

Q Well, do you think that if the risk of a dry hole is



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eliminated that the risk of these mechanical failures is such that a 50 per cent penalty is appropriate?

A Yes, sir; for the reason: We are not asking that a penalty be assessed against any one working interest unless he elects to ride the well down and take his, or pay his part out of production from the well. If he's willing to pay up in cash at the time drilled, regardless of whether the well has been drilled or is in the prospective stage of drilling, and pays in cash, then no penalty would be assessed against that person. Only in the case that he intends to ride the well down and pay his part of production from the well do I think that a penalty is justified.

Q And this 50 per cent penalty you feel is justified for mechanical risk.

A Yes, sir.

Q And eliminates the possibility of a dry hole?

A Yes, sir. It is a common industry use, too. It certainly is not an unusual thing that we are recommending here. It's a portion of almost every unit operating agreement, whether it be for a propration unit or a federal unit covering many sections such as, for example, the Gallegos Canyon Unit. The operating agreement for Gallegos Canyon Unit provides for a 150 per cent recovery for those who don't consent and elect to pay this cash at the time billed.

Q Well, at the time the Gallegos Canyon Unit was written,



there was probably some geological risk, wasn't there?

A Yes, sir; but the provision regarding the penalty still prevails even today, when geological risk is no greater than in the case of the well in the south half of Section 24.

MR. NUTTER: Are there any further questions?

MR. MORRIS: One more question.

Q (By Mr. Morris) Mr. Eaton, do you have a location in mind for the well that will be drilled in this Unit?

A Yes, sir. It will be 810 feet from the west line and 1450 feet from the south line.

Q 810 from the west line and --

A 1450 --

Q -- from the --

A -- line.

Q Thank you, sir.

MR. NUTTER: If there are no further questions --

MR. BUELL: I have two.

MR. NUTTER: Mr. Buell.

Q (By Mr. Buell) Mr. Eaton, I want the record to be crystal clear in this regard: With respect to any party who requires, subsequent to the drilling of this well, a working interest, either throughout or in any way, any factors that have occurred, or any contingencies that have become a reality, all of those factors will inure to the benefit of this after acquiring working interest ownership.

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A Yes, sir.

Q And I feel this way: Unfortunately, in my opinion, that is the case.

A Yes, sir.

Q Mr. Eaton, we talked a lot about a risk and penalty for a dry hole. In the event there is a dry hole, is there any penalty?

A No, sir.

MR. BUELL: That is all.

Q (By Mr. Nutter) Mr. Eaton, what is your estimated cost for drilling this well?

A About \$70,000.00 drilling equipment.

Q Has a AFE already been prepared on this well?

A Yes, sir.

Q And the total is approximately \$70,000.00?

A Yes, sir. Actually, I believe the drilling costs estimated about \$65,000.00, but there will be a five to \$6,000.00 lease equipment involved.

MR. NUTTER: Are there any further questions of Mr. Eaton? You may be excused.

Mr. Morris, do you have something?

MR. MORRIS: Yes, sir; I do. I have a letter from Mr. William J. Cooley, attorney for the Crawford Interest that has been mentioned today, and I would like to offer his letter as part of the record in this case.



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To paraphrase, summarize Mr. Cooley's letter: He refers to a lawsuit presently pending against Cause No. 4687 Civil, in the United States District Court for the District of New Mexico, concerning the acreage colored red and green on Pan American's Exhibit. The Crawford Interests apparently are contesting the Pan American ownership of the lease on that acreage, and to read a paragraph of Mr. Cooley's letter:

"As attorney for James E. Crawford, et al, I am authorized to state that my clients have no objection to a force pooling order on the south half of Section 24, provided said order is conditioned upon the outcome of said United States District Court Case No. 4687, and provided further that your order does not contain any risk penalty provision."

I will offer the letter as part of the record.

MR. NUTTER: Does anyone have anything further they wish to offer in Case 2346?

MR. BUELL: Mr. Examiner, I might just state in closing that I don't see anything inconsistent in Mr. Cooley's letter with regard to his clients, the Crawfords, and our recommendation. In the event they would prevail in this litigation and become a working interest owner, if they elect to pay in cash, there will be no penalty. They will have the same option that all the current working interest owners have either to elect to pay in cash or assume a penalty and pay out of production. They will have the benefit in all probability. I do not know how long it



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will be before the suit is settled, but they will have the benefit of any after-acquired billing to the drilling of the well. They will be in a better position to evaluate their working position than any of us are now. So, there is no way, in my opinion, that they can be adversely affected by the order we are asking here today.

MR. NUTTER: When is Pan American planning to drill the well?

MR. BUELL: Mr. Eaton, do you have any information on that?

MR. EATON: No, sir; I sure don't.

MR. BUELL: I think we will drill it immediately, Mr. Examiner. Other than offering our Exhibit 1 formally, that is all I have.

MR. NUTTER: Pan American's Exhibit 1 will be entered into evidence.

(Whereupon Pan American's Exhibit 1 received in evidence.)

MR. NUTTER: Does anyone have anything further in this case? We will take the case under advisement.

(Whereupon the Hearing of Case No. 2346 was concluded.)



**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. 2346
Order No. R-2052**

**APPLICATION OF PAN AMERICAN
PETROLEUM CORPORATION FOR AN
ORDER POOLING A 320-ACRE GAS
PRODUCTION UNIT IN THE BASIN-
DAKOTA GAS POOL, SAN JUAN
COUNTY, NEW MEXICO.**

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on August 9, 1961, at Santa Fe, New Mexico, before Daniel S. Nutter, 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 29th day of August, 1961, the Commission, a quorum being present, having considered the application, the evidence adduced, and the recommendations of the Examiner, Daniel S. Nutter, 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 applicant, Pan American Petroleum Corporation, seeks an order pooling all mineral interests in the Basin-Dakota Gas Pool in the S/2 of Section 24, Township 29 North, Range 12 West, NMPM, San Juan County, New Mexico.

(3) That the applicant has attempted to secure the consent of all mineral interest owners in the proposed production unit to the voluntary pooling of their interests, but that the consent of all such owners could not be obtained.

(4) That in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said production unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in the Basin-Dakota Gas Pool, the subject application should be approved.

-2-

CASE No. 2346
Order No. R-2052

(5) That Pan American Petroleum Corporation, a working interest owner in said unit, proposes to drill a Dakota well 1450 feet from the South line and 810 feet from the West line of said Section 24.

(6) That Pan American Petroleum Corporation should be designated the operator of the unit.

IT IS THEREFORE ORDERED:

(1) That all mineral interests in the Basin-Dakota Gas Pool in the S/2 of Section 24, Township 29 North, Range 12 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a 320-acre gas proration unit in said pool. Said unit shall be dedicated to a well located 1450 feet from the South line and 810 feet from the West line of said Section 24.

(2) That Pan American Petroleum Corporation is hereby designated as the operator of said unit.

(3) That the proportionate share of the costs of development and operation of the pooled unit shall be borne by each consenting working interest owner in the same proportion to the total costs that his acreage bears to the total acreage in the pooled unit.

(4) That the proportionate share of the costs of development of the pooled unit shall be paid by each non-consenting working interest owner and shall be determined as follows:

a. Each non-consenting working interest owner may elect to pay his share in advance of the drilling of the well, in which event his share shall be a pro rata amount of the total well costs based on acreage ownership.

b. Each non-consenting working interest owner may elect not to pay his share in advance of the drilling of the well, in which event his proportionate share of the total well costs, based on acreage ownership, plus 5 percent of such amount, as a charge for supervision, plus 15 percent of such amount, as a charge for risk, shall be paid out of production attributable to his interest.

PROVIDED HOWEVER, That if, as the result of litigation or settlement thereof, after the effective date of this order, any person is determined to be the owner of a working interest in the subject unit, he may elect to pay in cash his proportionate share of the total well costs, whether or not the well has already been drilled, and no additional charges for supervision or risk shall be made.

If the well has already been drilled at the time of such determination and if any such person elects not

-3-

CASE No. 2346
Order No. R-2052

to pay his share in cash, his proportionate share of the total well costs, plus 5 percent of such amount, as a charge for supervision, shall be paid out of production attributable to his interest, but no charge shall be made for risk. If the well has not been drilled at the time of such determination, the provisions of paragraph (4) b above shall be applicable.

The election to pay a proportionate share of total well costs in cash or out of production shall be made within a reasonable time after such determination of ownership.

(5) That any well costs or charges for supervision and risk which are to be paid out of production shall be withheld only from the working interests' share of production from the pooled unit. No costs or charges shall be withheld from production attributable to royalty interests.

(6) That any unsevered mineral interest shall be considered a seven eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(7) That Pan American Petroleum Corporation shall furnish the Commission with an itemized schedule of well costs within 90 days after completion of the subject well.

(8) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



EDWIN L. MECHEM, Chairman



H. S. WALKER, Member



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

esr/

GOVERNOR
EDWIN L. MECHEM
CHAIRMAN

State of New Mexico
Oil Conservation Commission

LAND COMMISSIONER
E. S. JOHNNY WALKER
MEMBER



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

P. O. BOX 871
SANTA FE

August 29, 1961

Mr. Guy Buell
Pan American Petroleum Corporation
P. O. Box 1410
Fort Worth, Texas

Re: Case No. 2346
Order No. R-2052
Applicant:
Pan American Petroleum Corp.

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Commission order recently entered in the subject case.

Very truly yours,

A. L. PORTER, Jr.
Secretary-Director

ir/

Carbon copy of order also sent to:

Hobbs OCC x

Artesia OCC

Aztec OCC c

OTHER Atwood & Malone - Roswell, N.M.

Mr. Wm. J. Cooley - Farmington, N.M.

Byram

OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

Date 8/10/61

ASE 2346

Hearing Date 9am 8/9/61

My recommendations for an order in the above numbered cases are as follows: DSN (2) SF

Enter an order force-pooling all mineral interests in the Basin Dakota Pool underlying the $5/2$ of Section 24, T24N, R12W, S.J. Co. New Mexico to form a standard 320 acre unit for said pool to be dedicated to a well to be drilled 1450' FSL and 810' FWL of said Sec. 24.

* Provide that Pan American Petr Corp shall be the operator of the unit. Make ~~the~~ provision that royalty interests shall not be affected by pay-out of the well, but that any working interest owner who does not pay his proportionate share of the cost of the well shall in advance shall pay his pro rata share of the well costs out of production and his share shall be based upon an acreage allocation of ^{actual} well costs plus 5% for supervision and 15% for risk.

* Provide also that Pan Am Staff Member shall furnish the Commission with a full accounting of all well costs within 90 days after completion of the well.

to pay costs of well drilled

to pay costs of well drilled

Case 2346

PAN AMERICAN PETROLEUM CORPORATION

P. O. Box 480, Farmington, New Mexico
July 26, 1961

File: N-290-986.510.1

Subject: Application to Force Pool Dakota
Rights Under Crawford Gas Unit
S/2 Section 24, T-29-N, R-12-W
San Juan County, New Mexico

Mr. A. L. Porter
Secretary-Director
New Mexico Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Dear Sir:

As requested by your letter to our Fort Worth Office,
dated July 21, 1961, we are furnishing addresses of interest
owners listed in our letter dated July 5, 1961, File: GWK-
245-986.510.1 X 400, which requested a hearing to force pool
the Dakota rights under the Crawford Gas Unit.

Yours very truly,

PAN AMERICAN PETROLEUM CORPORATION

T. M. Curtis
T. M. Curtis
District Superintendent

CKD:en
Attach.

*Docketed
Mailed
7/28/61*

ATTACHMENT

Pan American Petroleum Corporation
P. O. Box 1410
Fort Worth 1, Texas

National Drilling Company, Inc.
c/o Diversa, Inc.
633 Meadows Building
Dallas 6, Texas

Redfern and Herd Inc. et. al.
P. O. Box 1747
Midland, Texas

Burrell H. and Dyvena Crawford
Bloomfield, New Mexico

J. E. and Hazel L. Crawford
Bloomfield, New Mexico

Weldon and Ila Mae Julander
1200 East 22nd Street
Farmington, New Mexico

Carl E. and Paulene E. Maxey
P. O. Box 108
Lubbock, Texas

Milton I. Thomas
Bloomfield, New Mexico

Turner Securities
1057 Main Avenue
Durango, Colorado

United States Geological Survey
P. O. Drawer 1657
Roswell, New Mexico

Case 2346

PAN AMERICAN PETROLEUM CORPORATION

OIL AND GAS BUILDING

FORT WORTH, TEXAS

ALEX CLARKE, JR.
DIVISION ENGINEER

July 5, 1961

File: GWK-245-986.510.1 x 400

Subject: Application to Force Pool Dakota
Rights under Crawford Gas Unit
S/2, Section 24, T-29-N, R-12-W
San Juan County, New Mexico

Mr. A. L. Porter
Secretary-Director
New Mexico Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Dear Sir:

It is respectfully requested that a hearing be set at the earliest possible date to consider Pan American Petroleum Corporation's application to force pool the Dakota interests of all those interest owners in the S/2 of Section 24, T-29-N, R-12-W, San Juan County, New Mexico, who have refused to voluntarily pool their interests for the purpose of drilling a Dakota well in the S/2 of said Section 24.

The following is a list of all interest holders in Dakota rights underlying the S/2 of Section 24, T-29-N, R-12-W, San Juan County, New Mexico.

Pan American Petroleum Corporation
National Drilling Company, Inc.
Redfern and Herd Inc. et. al.
Burrell H. Crawford and wife, Dyvena Crawford
J. E. Crawford and wife, Hazel L. Crawford
Weldon Julander and wife, Ila Mae Julander
Carl E. Maxey and wife, Paulene E. Maxey
Milton I. Thomas
Turner Securities, a general partnership
United States of America

Yours very truly,

Am Ensh

CRM:ts

*Requested
acknowledged
7/21/61
JH*

*Reckle
Mickel
7/28/61*

No. 22-61

DOCKET: EXAMINER HEARING - WEDNESDAY - AUGUST 9, 1961

9:00 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or
Elvis A. Utz, as Alternate Examiner:

- CASE 2345: Application of Continental Oil Company for the establishment of Special Rules and Regulations for the Rattlesnake-Pennsylvanian Pool, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the establishment of special Rules and Regulations for the Rattlesnake-Pennsylvanian Pool in San Juan County, New Mexico, including a provision establishing 80-acre proration units for said pool.
- CASE 2346: Application of Pan American Petroleum Corporation for an order pooling all mineral interests in the Basin-Dakota Gas Pool in the S/2 of Section 24, Township 29 North, Range 12 West, San Juan County, New Mexico.
- CASE 2347: Application of Pan American Petroleum Corporation for two non-standard oil proration units, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the establishment of two non-standard oil proration units in the Totah-Gallup Oil Pool, San Juan County, New Mexico, one unit consisting of the East 82.56 acres and one unit consisting of the West 82.56 acres of that portion of the N/2 of Section 14, Township 29 North, Range 14 West, lying South of the mid-channel of the San Juan River, to be dedicated to applicant's Navajo Tribal "H" Well No. 11, located 2090' from the North line and 1840' from the East line of said Section 14, and to applicant's Navajo Tribal "H" Well No. 12, located 1850' from the North line and 810' from the West line of said Section 14, respectively.
- CASE 2348: Application of The British-American Oil Producing Company for an amendment of Order No. R-1638. Applicant, in the above-styled cause, seeks an amendment of Order No. R-1638, which order established special rules and regulations for the operation of the West Bisti Pressure Maintenance Project, in the Bisti-Lower Gallup Oil Pool, San Juan County, New Mexico, to grant top unit allowables to injection wells in said pressure maintenance project.
- How much did they ask?*

- CASE 2349: Application of Socony Mobil Oil Co., Inc. for an exception to Rule 303 (a), Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Rule 303 (a) to permit commingling of the production from the Blinebry Gas, Tubb Gas, Brunson, Drinkard, Hare, Wantz Abo, Paddock, Penrose-Skelly, McCormick and undesignated San Andres Pools on its E. O. Carson lease in Township 21 South, Range 37 East, Lea County, New Mexico. Applicant proposes to allocate production on the basis of quarterly well tests and to meter top allowable wells.
- CASE 2350: Application of Socony Mobil Oil Co., Inc. for an exception to Rule 303 (a), Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Rule 303 (a) to permit commingling of the production from the Terry-Blinebry and Wantz Abo Pools, and from other zones which may become productive on its Stephens Estate lease, comprising the SW/4 of Section 24, Township 21 South, Range 37 East, Lea County, New Mexico. Applicant proposes to allocate production on the basis of quarterly well tests and to meter top allowable wells.
- CASE 2351: Application of Socony Mobil Oil Co., Inc. for an exception to Rule 303 (a), Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Rule 303 (a) to permit commingling of the production from the Blinebry Gas, Tubb Gas and Drinkard Pools on its S. E. Long lease comprising the SE/4 of Section 11, Township 22 South, Range 37 East, Lea County, New Mexico. Applicant proposes to allocate production on the basis of quarterly well tests.
- CASE 2352: Application of Socony Mobil Oil Co., Inc. for an exception to Rule 303 (a), Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Rule 303 (a) to permit commingling of the production from the Blinebry Gas, Tubb Gas, Drinkard, Paddock and Penrose-Skelly Pools on its Cordelia-Hardy lease, comprising the NW/4 of Section 29, Township 21 South, Range 37 East, Lea County, New Mexico. Applicant proposes to allocate production on the basis of quarterly well tests and to meter top allowable wells.
- CASE-2353: Application of Socony Mobil Oil Co., Inc. for an exception to Rule 303 (a), Lea County, New Mexico. Applicant, in the

CASE 2353: (Cont.)

above-styled cause, seeks an exception to Rule 303 (a) to permit commingling of the production from the Blinebry Gas, Tubb Gas, Brunson, Drinkard, Penrose-Skelly and Paddock Pools on its Brunson-Argo lease, comprising the NE/4 of Section 9 and the NW/4 of Section 10, all in Township 22 South, Range 37 East, Lea County, New Mexico. Applicant proposes to allocate production on the basis of quarterly well tests and to meter top allowable wells.

CASE 2354:

Application of Socony Mobil Oil Co., Inc. for permission to dispose of produced formation water, Lea County, New Mexico. Applicant, in the above-styled cause, seeks permission to dispose of produced formation water into the Pennsylvanian Bough "C" formation through its Santa Fe "B" Well No. 1, located in the SW/4 of Section 28, and through its Santa Fe "E" Well No. 1, located in the NE/4 of Section 29, all in Township 9 South, Range 36 East, Lea County, New Mexico.

CASE 2355:

Application of H. L. Brown, Jr. and Clem E. George for establishment of special rules and regulations in the Bluit-Wolfcamp Gas Pool, Roosevelt County, New Mexico. Applicants, in the above-styled cause, seek the establishment of special rules and regulations in the Bluit-Wolfcamp Gas Pool, Roosevelt County, New Mexico, including a provision for 320-acre units in said pool.

No. 22-61

DOCKET: EXAMINER HEARING - WEDNESDAY - AUGUST 9, 1961

9:00 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

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CASE 2346: Application of Pan American Petroleum Corporation for an order pooling all mineral interests in the Basin-Dakota Gas Pool in the S/2 of Section 24, Township 29 North, Range 12 West, San Juan County, New Mexico.

CASE 2347: Application of Pan American Petroleum Corporation for two non-standard oil proration units, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the establishment of two non-standard oil proration units in the Totah-Gallup Oil Pool, San Juan County, New Mexico, one unit consisting of the East 82.56 acres and one unit consisting of the West 82.56 acres of that portion of the N/2 of Section 14, Township 29 North, Range 14 West, lying South of the mid-channel of the San Juan River, to be dedicated to applicant's Navajo Tribal "H" Well No. 11, located 2090' from the North line and 1840' from the East line of said Section 14, and to applicant's Navajo Tribal "H" Well No. 12, located 1830' from the North line and 810' from the West line of said Section 14, respectively.

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- CASE-2353: Application of Socony Mobil Oil Co., Inc. for an exception to Rule 303 (a), Lea County, New Mexico. Applicant, in the

CASE 2353: (Cont.)

above-styled cause, seeks an exception to Rule 303 (a) to permit commingling of the production from the Blinebry Gas, Tubb Gas, Brunson, Drinkard, Penrose-Skelly and Paddock Pools on its Brunson-Argo lease, comprising the NE/4 of Section 9 and the NW/4 of Section 10, all in Township 22 South, Range 37 East, Lea County, New Mexico. Applicant proposes to allocate production on the basis of quarterly well tests and to meter top allowable wells.

CASE 2354:

Application of Socony Mobil Oil Co., Inc. for permission to dispose of produced formation water, Lea County, New Mexico. Applicant, in the above-styled cause, seeks permission to dispose of produced formation water into the Pennsylvanian Bough "C" formation through its Santa Fe "B" Well No. 1, located in the SW/4 of Section 28, and through its Santa Fe "E" Well No. 1, located in the NE/4 of Section 29, all in Township 9 South, Range 36 East, Lea County, New Mexico.

CASE 2355:

Application of H. L. Brown, Jr. and Clem E. George for establishment of special rules and regulations in the Bluitt-Wolfcamp Gas Pool, Roosevelt County, New Mexico. Applicants, in the above-styled cause, seek the establishment of special rules and regulations in the Bluitt-Wolfcamp Gas Pool, Roosevelt County, New Mexico, including a provision for 320-acre units in said pool.

ATWOOD & MALONE
LAWYERS

JEFF D. ATWOOD (1883-1980)
ROSS L. MALONE
CHARLES F. MALONE
E. KIRK NEWMAN
RUSSELL D. MANN
PAUL A. COOTER
BOB F. TURNER

TELEPHONE MAIN 2-6221
ROSWELL PETROLEUM BUILDING
ROSWELL, NEW MEXICO

AUGUST
2nd
1961

New Mexico Oil Conservation Commission
Post Office Box 871
Santa Fe, New Mexico

Re: Case No. 2346 - Application for Pan
American Petroleum Corporation

Gentlemen:

We are resident counsel for Pan American Petroleum Corporation in the captioned case and as such wish to enter our appearance therein. It is anticipated that the presentation of the case before the Commission will be made by Mr. Guy Buell, an employee of Pan American Petroleum Corporation and a member of the State Bar of Texas.

Very truly yours,

ATWOOD & MALONE

By: 

P
C

*

v

Cc: Mr. J. K. Smith
Mr. Guy Buell

VERITY, BURR & COOLEY
ATTORNEYS AND COUNSELLORS AT LAW
SUITE 152 PETROLEUM CENTER BUILDING
FARMINGTON, NEW MEXICO

GEO. L. VERITY
JOEL S. BURR, JR.
WM. J. COOLEY

August 7, 1961

TELEPHONE 325-1702

Mr. A. L. Porter
Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Dear Mr. Porter:

Re: Case No. 2346
Application of Pan American
Petroleum Corporation for
force pooling in the S 1/2
of Section 24, Township 29 N.,
Range 12 West, N.M.P.M., in
San Juan County, N. M.

This is to advise that there is an unusual situation with respect to the above referenced case inasmuch as there is presently pending Cause No. 4687-Civil, in the United States District Court for the District of New Mexico, the basic issue of which is the validity of a certain oil and gas lease presently held by Pan American Petroleum Corporation covering the following described property belonging to James E. Crawford, et al, to-wit:

Section 24, Township 29 North, Range 12 West,
N.M.P.M., in San Juan County, New Mexico:

Northeast Quarter of the Southwest Quarter
(NE $\frac{1}{4}$ SW $\frac{1}{4}$);
Northwest Quarter of the Southeast Quarter
(NW $\frac{1}{4}$ SE $\frac{1}{4}$);
Southwest Quarter of the Southwest Quarter
(SW $\frac{1}{4}$ SW $\frac{1}{4}$);
West Half of the Southeast Quarter of the
Southwest Quarter (W $\frac{1}{2}$ SE $\frac{1}{4}$ SW $\frac{1}{4}$), excepting and
excluding the surface rights only in a 5-acre
tract conveyed to Casimiro Saiz, as is fully
described and shown in that certain deed re-
corded in Book 207, at Page 154 of the records
of San Juan County, New Mexico.


Page #2
Mr. A. L. Porter
Oil Conservation Comm.
8/7/61

As attorney for James E. Crawford, et al, I am authorized to state that my clients have no objection to a force pooling order on the South 1/2 of Section 24, provided said order is conditioned upon the outcome of said United States District Court Case No. 4687, and provided, further, that your order does not contain any risk penalty provision.

There are only two possible decisions that the United States District Court could hand down in the above referenced case: ie. (1) that the above described acreage is subject to a valid lease presently held by Pan American Petroleum Corporation, in which case your order would have the effect of pooling the Crawford royalty only; or, (2) that the above described acreage is not presently subject to a valid oil and gas lease, in which case your order should make the usual provisions with regard to unleased lands and provide that the recoupment of costs by Pan American Petroleum Corporation should be had only out of 7/8ths of the production attributable to the above described lands.

Assuming that your order will contain provisions substantially the same as those set forth above, I am of the opinion that it is to the best interests of all concerned to proceed with the pooling of this acreage in order to prevent further drainage by offset wells.

Yours very truly


William J. Cooley

WJC/m

DEARNLEY-MEIER REPORTING SERVICE, Inc.

ALBUQUERQUE, NEW MEXICO

PHONE CH 3-6691

PAGE

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
AUGUST 9, 1961

EXAMINER HEARING

IN THE MATTER OF:
CASE 2346

TRANSCRIPT OF HEARING



BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
AUGUST 9, 1961

IN THE MATTER OF: -----

Application of Pan American Petroleum
Corporation for an order pooling all
mineral interests in the Basin-Dakota
Gas Pool in the S/2 of Section 24,
Township 29 North, Range 12 West, San
Juan County, New Mexico

Case 2346

BEFORE:

Daniel S. Nutter, Examiner

EXAMINER HEARING

MR. NUTTER: Case 2346.

MR. MORRIS: Application of Pan American Petroleum
Corporation for a force pooling order.

MR. BUELL: For Pan American Petroleum Corporation,
Guy Buell. Associated with me, Mr. Charles Malone, of the firm
of Atwell and Malone of Roswell.

GEORGE W. EATON, JR.,
called as a witness herein, having been first duly sworn on oath,
was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BUELL:

Q Mr. Eaton, would you state your complete name, by whom

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CM 3-6691

ALBUQUERQUE, NEW MEXICO



you are employed, in what capacity, and at what location, please.

A My name is George W. Eaton, Jr.; and I am employed by Pan American Petroleum Corporation in Farmington, New Mexico; and I am Senior Petroleum Engineer.

Q Mr. Eaton, you have testified at prior Commission Hearings and your qualifications as a Petroleum Engineer are a matter of public record, are they not?

A Yes, sir; they are.

(Whereupon Petitioner's Exhibit 1 marked for identification.)

Q (By Mr. Buell) Mr. Eaton, let me direct your attention, now, to what is marked as Pan American's Exhibit 1. What does that Exhibit reflect?

A Exhibit 1 is a map of a portion of the Basin-Dakota Pool in San Juan County, New Mexico. On Exhibit 1, I have colored the Dakota wells in that particular area involved in red. The specific area covered by Exhibit 1 is the vicinity of Township 29 North, Range 12 West.

Q The specific acreage in question in this Hearing is the south half of Section 24 and the Township and Range you just mentioned?

A Yes, sir: that is true.

Q How have you designated the acreage in question on your Exhibit 1?

A The acreage in the south half of Section 24 of Township



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6693

ALBUQUERQUE, NEW MEXICO

29 North, Range 12 West is outlined in red.

Q What is the significance, Mr. Eaton, of the various colored portions of the acreage within your red boundary?

A These various colors indicate different interests that exist within that south half section of 24.

Q How many separate tracts, area wise, do we find in the south half?

A Geologically, there are actually 8 separate tracts in the south half Section 24. You will note that there are only six colors. That means that there are really 6 basic leases involved.

Q In other words, I see two blue tracts, the ownership under those two blue tracts, although separate, area wise is the same?

A Yes, sir.

Q Mr. Eaton, has Pan American made a diligent effort to voluntarily farm the standard 320 acre units?

A Yes, sir; they have.

Q Have their efforts in this regard been completely successful?

A No, sir; not 100 per cent successful.

Q At the present time, how many outstanding interests do we have?

A There is one outstanding royalty, and one outstanding working interest at the present time.



Q Now, with respect to the working interests, who have voluntarily agreed to form this unit, have they all agreed that Pan American should be the operator?

A Yes, sir; they have.

Q Is it your recommendation to this Commission that Pan American be designated as operator in the pooling order that we are requesting to be issued?

A Yes, sir. It is my recommendation that Pan American be named operator in such a pooling order.

Q Mr. Eaton, are you recommending to the Commission here, today, that a penal provision be included in this pooling order?

A Yes, sir; I am.

Q What type of recommendation are you making?

A It's my recommendation that a penalty equal to 50 per cent of the drilling and operating costs be assessed against those working interests who elect to pay their share of such costs out of production rather than in cash at the time they are billed for it --

Q In other words, as I understand your recommendation, even a bond consenting working interest owner, a working interest owner that does not sign the unitization agreement, he could still elect to pay in cash, and there would be no penalty?

A That is true, as long as the working interest is willing to pay his share of costs in cash when billed, and not to pay it out of production from the well, then no penalty would be assessed.

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CN 3-6691

ALBUQUERQUE, NEW MEXICO



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

Q And certainly, you are not including in your recommendation that any penalty apply to any royalty owner?

A No, sir, by no means would it ever apply to a royalty owner.

Q Why do you recommend a penalty for a working interest owner who desires to pay his share instead of in cash, out of production?

A In the drilling of any well, there are certain inherent risks involved that make it highly desirable to have each of the working interest owners who are liable for part of those costs to pay in cash at the time billed.

Q Mr. Eaton, when you mentioned inherent risks, it automatically comes to my mind things like blowouts, lost circulation, trouble that had a lot of additional expense to the drilling of a well. Do you have any other type risks than that, other than the ones we normally think of when we start to drill a well?

A Mr. Buell, I believe that any time that any equipment is run into a well there is risk attached to it. By that, I mean, a bit, drill pipe, drill collars, packers, tubing, anything that might be run into a well involves some degree of risk. I might give an example of some of these unusual things that can happen: At the present time, Pan American has a well with which we had no trouble whatsoever until it reached a depth of about 5,000 feet, at which time, a drive shaft or power shaft on the rig, itself, broke. The well was down at that point with drill pipe in the



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hole for about 36 hours while that rig was being repaired. And since that time, or during that time, the drill pipe and drill collar became stuck at the bottom of the hole, and subsequently the pipe shot off, backed off a few hundred feet above TD; and at the present time, we have still not been able to fish that portion of the tube that is still left in the bottom of the hole out. It looks like to me that we will probably wind up abandoning that hole. That is just an example of what can happen, some of the risks involved.

Q And all of that was really due to a minor, expense wise, break in equipment?

A Yes, sir; it certainly had nothing to do with the geology of the area, of the possibility of lost circulation, blow-out, or even a dry hole.

Q Is a penalty provision of the type you have recommended, is it common and customary in the industry among operators, even when they are voluntarily putting their acreage together?

A Yes, sir; it certainly is. Pan American is a party to a number of unit operating agreements in the San Juan Basin Area, some of which Pan American operates, some of which it is a non-operator. Without failure, each of these voluntary unit operating agreements provide for some penalty to be assessed against those who do not elect to share in cash the cost of the development operation. The normal provision in those operating agreements is for 150 per cent recovery. I am familiar with a few of the more



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recent ones which provide for 200 per cent recovery.

Q Actually Mr. Eaton, the operating agreement executed by the consenting working interest owners, with respect to this unit, provides for a penalty of 100 per cent if any of the consenting working interest owners elect to pay out of his share of production rather than in cash; am I correct?

A That is quite true. The penalty is a hundred per cent. That means that those that pay in cash actually recover 200 per cent.

Q Where are you recommending the well be located in the south half of 24, Mr. Eaton, to serve this pooled unit?

A The well will be located in the Northwest Quarter, Southwest Quarter of Section 4, or specifically, it will be located 810 feet from the west line, and 1450 feet from the south line of Section 24.

Q Is that an orthodox location under the Basin-Dakota Gas Pool Rules?

A Yes, sir; it is.

Q In your opinion, Mr. Eaton, in this area of the Basin-Dakota Pool, will one well effectively and efficiently drain in excess of 320 acres?

A Yes, sir; it will.

Q So you would then feel that if this acreage in question in the south half of 24 is not pooled and correlative rights have to be protected by drilling more than one well, it would be



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economic waste?

A Yes, sir. Certainly more than one well on that half section would result in economic waste. On the other hand, a well is needed on that particular half section to protect correlative rights.

Q Do you base that statement on the fact of the completed Dakota-Gas Wells, according to your Exhibit No. 1, almost surround the south half?

A Yes, sir; I do.

Q So it is then your opinion, is it not, that the recommendation you are making here today the pooling of all the interests in the south half of Section 24 into a standard 320 acre gas unit will protect correlative rights as well as prevent waste?

A Yes, sir; that is my opinion.

Q Do you have anything else that you would like to add, Mr. Eaton?

A No, sir; I don't believe so.

MR. BUELL: That is all that we have at this time, Mr. Chairman.

MR. NUTTER: Are there any questions?

Q (By Mr. Morris) Mr. Eaton, you testified one royalty interest and one working interest is yet outstanding.

A Yes, sir.

Q What is the extent of each of those interests in the 320 acres?



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A The outstanding royalty interest and the working interest both cover the same acreage. That acreage consists of the Northwest Quarter Southeast Quarter, the Northeast Quarter Southwest Quarter, the Southwest Quarter Southwest Quarter, and the west half Southeast Southwest Quarter of Section 24.

Q Is that the red acreage?

A Yes, sir; that is the red acreage, and the green acreage.

Q And who owns those interests, or is it too diversified to give?

A No, sir. I believe I can break that down for you. In the Northwest Quarter Southeast Quarter, the outstanding working interest amounts to a quarter of a four fifths working interest under lease to National Drilling Company. In the remainder of that acreage, the red acreage on Exhibit 1, National Drilling owns a quarter working interest. The royalty interest is somewhat divided. I might sum it up by saying that it is owned by the Crawfords as a group. In addition, the Turner Securities owns a royalty interest under the Northwest Quarter Southeast Quarter, amounting to one fifth of one eighth.

Q Now, it is my understanding that there is litigation pending that may affect certain interests in the south half of Section 24. Are you familiar with that?

A Not to any detail; no, sir. I am aware that there is litigation involved in this acreage.

Q Do you feel that the outcome of that litigation would in



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any way affect it, or anyway should affect the order of the Commission that would be entered in this case today?

A No, sir. I believe that regardless of the outcome of that litigation that all interest royalties will be protected by the issuance of a force pooling order. As we mentioned previously, we are not asking for a penalty to be assessed against anyone who will elect to pay his portion of the development and operating costs in cash. We are only asking for a penalty to be assessed against those who elect to pay their portion of the costs out of production from the well; and so if, at any time, a working interest is required through this litigation, then the person acquiring that working interest would have an election to pay at that time with regard to whether he desires to pay in cash or whether he wishes to suffer that penalty.

Q If the well had already been drilled successfully, and there was an election not to pay cash ahead of time, would that in any way affect the amount of risk?

A It would be allocated to that particular proportional interest only in this respect. His risk would already have been taken.

Q That is right; but if that person would not have the election until after the well had been drilled, it might pose a nice problem.

A He would have available a lot more facts with which to work than we do at this time prior to the actual drilling of the



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well, it's true. He could certainly put a pencil to the costs involved with a lot more accuracy than we can by guessing what is going to occur. In fact, I'd say he'd be in a better position.

Q If the Commission entered an order, such as you are requesting, granting a 50 per cent penalty provision to non-consenting interests that do not elect to pay their share in advance, do you feel that it would be fair to assess that penalty to a working interest that did not have the option of making their election until after the well had been drilled?

A Yes, sir; I think that is fair. As I had mentioned before, actually he would be in a very good position because he knows what the actual costs involved are. And if they are excessive, and perhaps he would elect to not pay up in cash, take it out of production. If they are normal, he probably would elect to pay in cash, but at least, he would know what they were, exactly.

Q Mr. Eaton, I don't know whether you ever got around to the point of saying whether you felt there was any dry hole risk in a well to be drilled in the south half of Section 24.

A I don't believe I ever stated whether or not I thought so. For the record, I will state I think the risk is very small for getting an actual dry hole.

Q But, there are other inherent risks?

A Other inherent risks other than actual geology that concern whether or not the well is a dry hole; mechanical risks,



rather than geological risks.

MR. MORRIS: Mr. Examiner, I have a communication that I would like to read parts of into the record at a later time bearing upon the portion of certain royalty interests in the south half of Section 24, for consideration, and the subject of my questions to Mr. Eaton.

MR. NUTTER: Very good.

MR. MORRIS: I have no further questions. Thank you.

MR. NUTTER: Mr. Eaton, you said that Pan American had made a diligent effort to handle that acreage on a community basis. Will you outline those efforts that Pan American has made?

THE WITNESS: Yes, sir. Unit, or communitization agreements have been drawn and submitted to all parties of interest. We have received executed copies, or have indicated that we will, from all owners of interest except this royalty interest and this working interest that I just mentioned.

MR. NUTTER: Does the royalty interest have to be pooled, or is there a pooling clause in the lease?

THE WITNESS: No, sir. It has to be pooled.

MR. NUTTER: The ones that you haven't received the communitization from, have you actually received a negative communication from them?

THE WITNESS: We have received a negative communication from the royalty owner. We have received no notice whatsoever from the working interests, although the working interest has been

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given ample time to make a reply.

Q Now, this working interest is that quarter interest that you said was owned by National Drilling Company?

A National Drilling Company.

Q And you have not received a reply from them?

A No, sir.

Q Has any effort been made to contact them personally?

A Yes, sir; several times.

Q But they just haven't made up their mind, yet?

A Just move slow.

Q I see. Now, how much of the working interest, here, does Pan American actually own at this time, themselves?

A Pan American owns a working interest under — Would it be permissible for me to just name the color?

A Yes, because the colors are part of the record, too.

A Pan American owns working interests under all tracts except those colored blue and yellow; and in addition to that, Pan American is designated operator of that Quarter Quarter Section being Northwest Southwest Quarter. Pan American does not actually own the working interests under that particular tract.

Q You said Pan American owns the working interest, however, they don't own 100 per cent of the working interest in the red, do they?

A No, sir; nor in the green.

MR. BUELL: He said, "We own a working interest."



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Q (By Mr. Hutter) Now, you own 100 per cent of the working interest in the brown?

A Yes, sir; and Pan American owns 100 per cent of the working interest in the purple, that is it. Would you like for me to go to each one of these tracts. I'll tell you exactly what my records indicate. What Pan American owns, in some cases, is a little bit involved.

A Well, I think we have got the description of what we want here. Now Mr. Eaton, the New Mexico statutes provide that the Commission can on a forced pooling order provide or pay 50 per cent penalty for the risk involved. However, wouldn't you think that that risk that is involved could also include the risk of a dry hole?

A Yes, sir; I certainly do.

Q With this 50 per cent?

A Yes, sir; I certainly do.

Q Now, I have noticed that the weather bureau in some cities has been getting pretty classy in making their predictions of rain or shine; and they will say, "It has a 10 per cent chance, or a 90 per cent chance that it won't rain." What is your estimate in per cent of chances that you will get a producing well here?

A I am not the weather bureau, but I will say this: The chances are very good that we will get a producing well. As you can see from Exhibit 1, the Dakota Well is in practically all



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directions from that location. In fact, there is one on the north half of Section 4. In addition, a well that is drilling, and data on which will be available prior to the time that this well is drilled, I am sure, is Pan American Gallegos Canyon Unit No. 93, which is in the Southwest Quarter Northwest Quarter of Section 36, right in Township 29 North, Range 12 West; so by the time we get ready to drill this well in the south half of Section 24, we'll have total wells, practically all the way around it and adjacent to Section 24.

Q So, you would say the weather outlook here is favorable?

A Yes, sir; I would say that.

Q You cited this one incident where the shaft on the drilling rig broke, or something, and the pipe got stuck in the hole.

A Yes.

Q Do things like this happen actually very often, Mr. Eaton?

A No, not too frequently. It's just one of those things that can happen. I cited it as an example of what risks are involved when material or equipment of any kind is run into a hole, but it doesn't necessarily have to be the risk of a geologic dry hole, but there are mechanical aspects of the actual drilling and completion operations that are also risky. All things don't occur often.

Q Well, do you think that if the risk of a dry hole is



eliminated that the risk of these mechanical failures is such that a 50 per cent penalty is appropriate?

A Yes, sir; for the reason: We are not asking that a penalty be assessed against any one working interest unless he elects to ride the well down and take his, or pay his part out of production from the well. If he's willing to pay up in cash at the time drilled, regardless of whether the well has been drilled or is in the prospective stage of drilling, and pays in cash, then no penalty would be assessed against that person. Only in the case that he intends to ride the well down and pay his part of production from the well do I think that a penalty is justified.

Q And this 50 per cent penalty you feel is justified for mechanical risk.

A Yes, sir.

Q And eliminates the possibility of a dry hole?

A Yes, sir. It is a common industry use, too. It certainly is not an unusual thing that we are recommending here. It's a portion of almost every unit operating agreement, whether it be for a protraction unit or a federal unit covering many sections such as, for example, the Gallegos Canyon Unit. The operating agreement for Gallegos Canyon Unit provides for a 150 per cent recovery for those who don't consent and elect to pay this cash at the time billed.

Q Well, at the time the Gallegos Canyon Unit was written,

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there was probably some geological risk, wasn't there?

A Yes, sir; but the provision regarding the penalty still prevails even today, when geological risk is no greater than in the case of the well in the south half of Section 24.

MR. NUTTER: Are there any further questions?

MR. MORRIS: One more question.

Q (By Mr. Morris) Mr. Eaton, do you have a location in mind for the well that will be drilled in this Unit?

A Yes, sir. It will be 810 feet from the west line and 1450 feet from the south line.

Q 810 from the west line and --

A 1450 --

Q -- from the --

A -- line.

Q Thank you, sir.

MR. NUTTER: If there are no further questions --

MR. BUELL: I have two.

MR. NUTTER: Mr. Buell.

Q (By Mr. Buell) Mr. Eaton, I want the record to be crystal clear in this regard: With respect to any party who requires, subsequent to the drilling of this well, a working interest, either throughout or in any way, any factors that have occurred, or any contingencies that have become a reality, all of those factors will inure to the benefit of this after acquiring working interest ownership.

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A Yes, sir.

Q And I feel this way: Unfortunately, in my opinion, that is the case.

A Yes, sir.

Q Mr. Eaton, we talked a lot about a risk and penalty for a dry hole. In the event there is a dry hole, is there any penalty?

A No, sir.

MR. BUELL: That is all.

Q (By Mr. Nutter) Mr. Eaton, what is your estimated cost for drilling this well?

A About \$70,000.00 drilling equipment.

Q Has a AFE already been prepared on this well?

A Yes, sir.

Q And the total is approximately \$70,000.00?

A Yes, sir. Actually, I believe the drilling costs estimated about \$65,000.00, but there will be a five to \$6,000.00 lease equipment involved.

MR. NUTTER: Are there any further questions of Mr. Eaton? You may be excused.

Mr. Morris, do you have something?

MR. MORRIS: Yes, sir; I do. I have a letter from Mr. William J. Cooley, attorney for the Crawford Interest that has been mentioned today, and I would like to offer his letter as part of the record in this case.



To paraphrase, summarize Mr. Cooley's letter: He refers to a lawsuit presently pending against Cause No. 4687 Civil, in the United States District Court for the District of New Mexico, concerning the acreage colored red and green on Pan American's Exhibit. The Crawford Interests apparently are contesting the Pan American ownership of the lease on that acreage, and to read a paragraph of Mr. Cooley's letter:

"As attorney for James E. Crawford, et al, I am authorized to state that my clients have no objection to a force pooling order on the south half of Section 24, provided said order is conditioned upon the outcome of said United States District Court Case No. 4687, and provided further that your order does not contain any risk penalty provision."

I will offer the letter as part of the record.

MR. NUTTER: Does anyone have anything further they wish to offer in Case 2346?

MR. BUELL: Mr. Examiner, I might just state in closing that I don't see anything inconsistent in Mr. Cooley's letter with regard to his clients, the Crawfords, and our recommendation. In the event they would prevail in this litigation and become a working interest owner, if they elect to pay in cash, there will be no penalty. They will have the same option that all the current working interest owners have either to elect to pay in cash or assume a penalty and pay out of production. They will have the benefit in all probability. I do not know how long it

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will be before the suit is settled, but they will have the benefit of any after-acquired billing to the drilling of the well. They will be in a better position to evaluate their working position than any of us are now. So, there is no way, in my opinion, that they can be adversely affected by the order we are asking here today.

MR. NUTTER: When is Pan American planning to drill the well?

MR. BUELL: Mr. Eaton, do you have any information on that?

MR. EATON: No, sir; I sure don't.

MR. BUELL: I think we will drill it immediately, Mr. Examiner. Other than offering our Exhibit 1 formally, that is all I have.

MR. NUTTER: Pan American's Exhibit 1 will be entered into evidence.

(Whereupon Pan American's Exhibit 1 received in evidence.)

MR. NUTTER: Does anyone have anything further in this case? We will take the case under advisement.

(Whereupon the Hearing of Case No. 2346 was concluded.)



STATE OF NEW MEXICO)
COUNTY OF BERNALILLO) ss.

I, MICHAEL P. HALL, Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF, I have affixed my hand and notary seal this 9th day of August, 1961.

Michael P. Hall
Court Reporter - Notary Public

My Commission expires:
June 20, 1965.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 2346 heard by me on 8/9, 1961.
[Signature], Examiner
New Mexico Oil Conservation Commission

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