

CASE NO. 21 - CONTINUED TO AUGUST 29, 1940.

ORDER OF PROCEDURE TO CONSIDER THE
ADOPTION OF A FINAL ORDER GOVERNING
GAS-OIL RATIOS IN THE VARIOUS PRO-
DUCING FIELDS IN NEW MEXICO.

1. GOVERNOR MILES OPENS MEETING AND MAKES SUCH REMARKS AS HE DEEMS APPROPRIATE.
2. COMMISSIONER WORDEN ANNOUNCES, "THIS CASE WAS CONTINUED TO THIS DATE, AND THE COMMISSION IS READY TO PROCEED," AND ASKS, "WHAT IS YOU GENTLEMEN'S PLEASURE?" (AT THIS POINT ANNOUNCEMENT SHOULD BE MADE THAT THE OPERATORS IN LEA COUNTY WILL NOW BE HEARD AND AT THE END OF THE HEARING FOR LEA COUNTY THE OPERATORS OF EDDY COUNTY WILL BE HEARD AND THOSE FROM ANY OTHER PRODUCING AREA IN THIS STATE).

CASE NO. 21

BEFORE THE OIL CONSERVATION COMMISSION
FOR THE STATE OF NEW MEXICO

RECESSED HEARING RELATIVE TO ADOPTING
A FINAL ORDER GOVERNING GAS-OIL RATIOS
IN THE VARIOUS PRODUCING FIELDS IN
NEW MEXICO

THE CAPITOL, SANTA FE, NEW MEXICO,
AUGUST 29, 1940

Fursuant to recess taken on August 12, 1940, hearing
in the above entitled matter was resumed in the Hall of the
House of Representatives, Capitol Building, Santa Fe, New Mexico,
at the hour of ten o'clock A. M. of August 29, 1940, the
Commission sitting as follows:

Hon. Frank Worden, Commissioner of Public Lands, Secretary
Hon. A. Andreas, State Geologist, Member
Hon. Carl B. Livingston, Attorney for Commission.

APPEARANCES:

<u>NAME</u>	<u>COMPANY</u>	<u>ADDRESS</u>
Harry Leonard	Leonard Oil Co.	Roswell, New Mexico
W. E. Hubbard	Humble Oil Co.	Houston, Texas
R. S. Dewey	" " "	Midland, Texas
J. O. Seth	Stanolind O. & G. Co.	Santa Fe, New Mexico
G. H. Card	" " " " "	Fort Worth, Texas
E. L. Griffith	Atlantic Rfg. Co.	Odessa, Texas
Edgar Kraus	" " "	Carlsbad, New Mexico
D. R. McKeithan	Phillips Pet. Co.	Bartlesville, Okla.
C. A. Daniels	" " "	Amarillo, Texas
A. E. Willig	The Texas Co.	Fort Worth, Texas
H. L. Cole, Jr.	" " "	" " "
Glenn Staley	Lea County Operators	Hobbs, New Mexico
F. W. Brigance	Rowan Drilling Co.	Fort Worth, Texas
R. G. Schuehle	Shell Oil Co.	Midland, Texas
W. K. Davis	El Paso Natural Gas	Jal, New Mexico
Floyd Brett	Repollo Oil Co.	Hobbs, New Mexico
J. B. Kennedy	" " "	Midland, Texas
R. C. DeWoody	Great Western Prod. Inc.	Odessa, Texas
George P. Livermore	" " " "	Odessa, Texas
S. P. Hannifin	Magnolia	Roswell, New Mexico
Ed Downing	"	Kermit, Texas
E. W. Childers	Tide Water Assoc.	Midland, Texas
C. C. Cragin	El Paso Natural Gas Co.	El Paso, Texas
C. F. Hedrick	Texas Pacific Coal & Oil	Midland, Texas
H. L. Johnston	Continental Oil Co.	Hobbs, New Mexico
E. C. Arnold	U.S.G.S.	Roswell, New Mexico
J. N. Dunlavey	Skelly Oil Co.	Hobbs, New Mexico
Colin C. Rae	" " "	Tulsa, Oklahoma
Lloyd L. Gray	Gulf Oil Corp.	Tulsa, Oklahoma
R. S. Christie	Amerada Pet. Corp.	Fort Worth, Texas

The hearing was called to order by Mr. Worden, who announced that the Governor being absent, the meeting would proceed without him, and that the Commission was ready to hear from those present.

BY MR. LIVINGSTON: As you all know, this meeting was continued on the 12th of August to the 29th of this month, and in order to clarify the purpose of this hearing, and in order to proceed, permit me to announce this is a continuation of the hearing held on the 12th of August for the purpose of adopting a final gas-oil ratio order for the various fields in the state.

At the last meeting it developed that not all of the areas wanted the same kind of order; apparently Lea County wanted one, Eddy County another; so, therefore, the procedure should be as follows:

Lea County should be heard first as to any testimony or suggested changes in the proposed order pending before the Commission. After Lea County is heard, then anything Eddy County has to offer in the way of testimony or suggestions, should be presented to the Commission; and anything from any other part of the state should then be presented.

Now, if there is any testimony to be presented in behalf of Lea County, please present it and let Mr. Worden swear in the witnesses. To save unduly lengthening the record, this proposed order is already in the record. Any exceptions or suggestions should be offered, but the proposed order itself is already in the record.

BY MR. C. C. CRAGIN: I would like to have the record show that the El Paso Natural Gas Company has filed five copies of a report supporting our request for certain exemptions from the existing temporary order, if it is made permanent, and from this recommended order, if it is adopted.

BY MR. SETH: Stanolind has filed a request for the exemption of five wells producing gas, the gas from which is being sold

to Mr. Cargin's company, requesting that they be exempted from the temporary order and this order. We wish to have that made a part of the record, so that if any rule is adopted as to advertising, these exemptions may be granted. In that connection, I would like to suggest to the Commission the possibility that the rule should be modified to some extent so that a hearing could be ordered whenever the Commission thought it necessary; to have a hearing on each exemption would require a lot of time and expense of advertising, and some method could be worked out so that the Commission could order a hearing whenever it was thought necessary.

LLOYD L. GRAY.

being sworn to tell the truth, the whole truth and nothing but the truth, offered the following testimony on behalf of the Gulf Oil Corporation:

BY MR. GRAY: I think I agree with what Judge Seth just stated with reference to Paragraph 26, and I have a statement I would like to read into the record:

BEFORE THE OIL CONSERVATION COMMISSION
IN THE MATTER OF CASE 21
REGARDING THE ESTABLISHMENT OF MAXIMUM GAS-OIL RATIOS AND
THE CONTROL OF PRODUCTION OF GAS FROM THE VARIOUS
POOLS IN THE STATE OF NEW MEXICO

Statement of the Gulf Oil Corporation

The Gulf Oil Corporation urges that the proposed gas-oil ratio order as read into the record by R. S. Schuehle at the hearing held on July 29, 1940, be accepted without change and approved by the Commission as soon as possible. It is also urged that no blanket exception or exemption be allowed since there is danger that such action would nullify all of the conservation measures provided in the proposed order. Likewise there is danger that such blanket exception or exemption would nullify all of the remedial and conservation work which the operators of oil properties have so heartily cooperated in performing at great expense. This would be waste in every sense of the word and would cause irrecoverable

loss of oil underground.

It is recommended that exemption be granted to individual wells or properties only, after the owner has submitted to the Commission adequate proof that the well or property is producing from a predominantly gas-bearing reservoir or that it is subject to paragraph 27 of the proposed order.

It is recognized that the El Paso Natural Gas Company is faced with a serious situation in that it is connected to wells having a potential capacity of many times the available market, but that the proposed order if applied before designating that certain reservoirs are predominantly gas bearing, would reduce the available gas to approximately one-fourth of the El Paso's requirements. To remedy this situation it is recommended that concurrently with the promulgation of the gas-oil ratio order a temporary order be made designating the following areas as predominantly gas bearing:" (At this point

Mr. Gray displayed a map and made the following statement:)

The area south and west of that red line (indicating on map, which was displayed but not offered in evidence) is the area I will describe. According to the best information I have, the forty acres in yellow are connected at the present time with the El Paso Natural Gas, so that they are high pressure wells.

"All of Township 26 South, Range 37 East; all of Township 26 South, Range 36 East; all of Township 25 South, Range 36 East, except the north tier of sections; the west half of west half of Sections 7 and 18; all of Section 19; the west half of Section 20; all of Sections 28, 29, 30, 31, 32 and 33, Township 25 South, Range 37 East. It is believed that most engineers and geologists agree that the area described is predominantly gas bearing, and since during the year 1939 slightly in excess of 80% of El Paso Natural Gas Company's takes were from that area, it should satisfy El Paso's objection and make available to it a sufficient supply of gas. In recommending that the above described area be temporarily

designated as predominantly gas bearing, it is not intended that it be temporary to the extent that it would need to be renewed from proration period to proration period, but should remain in force only until an investigative body can pass upon and present evidence to the Commission as to which reservoirs should be designated as predominantly gas bearing.

The foregoing has to do with the control of gas production and gas-oil ratios in oil reservoirs. Another somewhat related subject, the control of the production of natural gas from gas reservoirs, also demands attention. For several years there has grown up the practice of unequal gas withdrawals from certain wells in the southern portion of Lea County. The practice has been discriminatory, inequitable and conducive to underground waste. In addition, the potential capacity of natural gas wells in that area, namely, the Lynn, Cooper, Jal, Eaves, Rhodes, Langlie, Mattix and Skelly pools is many times the available gas market. For these reasons it is recommended that as soon as practicable a hearing be called for the purpose of receiving evidence regarding a proration plan for natural gas in those pools. This is in accordance with the first paragraph of Section 10, Chapter 72 of the Session Laws of New Mexico, 1935, in which it is provided that, 'Included in the power given to the commission is the authority: to collect data; to make investigations and inspections; to examine properties, leases, papers, books and records; to examine, check, test and gauge oil and gas wells, and tanks, plants, refineries, and all means and modes of transportation and equipment; to hold hearings; to provide for the keeping of records and the making of reports, and for the checking of the accuracy thereof; to limit and prorate production of crude petroleum oil and natural gas; to require either generally or in particular areas certificates of clearance or tenders in connection with the transportation of crude petroleum oil or any products thereof, or both such oil and products.'

It is recommended that no changes be made in the wording

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of Paragraph 22 which would change the meaning of that paragraph as read into the record by Mr. Schuele. This paragraph which controls the amount of gas which may be produced from gas wells in a reservoir not designated as predominantly gas-bearing, might be termed the most important from the standpoint of conservation of any paragraph in the recommended order. All the conservation effected by all of the other paragraphs could be entirely dissipated if the provisions of Paragraph 22 were not included. It is quite obvious that the savings of gas and reservoir energy made possible by extensive remedial work might easily be lost and vast quantities of oil might be forever trapped within the reservoir if wells producing gas only from that reservoir are allowed to produce without restriction.

Since no reference was made in the call of the hearing to changing the size of units producing gas only from an oil reservoir, it is assumed that no evidence will be received on this subject. Insofar as the size of the unit in reservoirs predominantly oil bearing is concerned, it is believed that the hearings conducted during 1935 & 1936 included adequate evidence on the subject and that 40 acres is adequate and proper, whether the well produce oil or be a gas well in an oil reservoir. With reference to the size of the unit in areas designated as predominantly gas bearing, it is recommended that this subject be included in the Call for the hearing with reference to the proration of natural gas.

Respectfully submitted

GULF OIL CORPORATION

(Signed) S. G. Sanderson
General Superintendent"

LLG:WAG
8-27-40

BY MR. CRAGEN: Representing the El Paso Natural Gas Company, we request that you completely ignore that recommendation, or adjourn until we have time to study it.

I swear we have done our best to try to cooperate, and after months and months and months they spring this thing on us when it calls for time to study it. They have ignored two

very important facts. First, contractual obligations of our company; and, second, they have utterly ignored the drainage of gas acreage we own and that other people own that would cut the take of gas down to roughly three thousand feet per well.

Mr. Hanson, representing the United States Government, said he certainly would protest that if it was put into effect. In this area here (indicating on map) in which we own five thousand acres of government gas rights, if that recommendation is put into effect, would completely drain the gas out of that area, less the three thousand odd feet in dozens and dozens of wells. What is the reason we ask the Commission to ignore that request completely, or that we be given a hearing on it.

You can question anything but our good faith in this matter, and I am going to briefly outline our situation, indicating we are at least in the best of faith.

We have in that area contracts that have in excess of fifteen years to run, on which we pay two cents a thousand for gas. We have many contracts that have five years to run on which we pay two cents for gas. The area outlined there is largely an area in which we pay, under contract, five cents a thousand for gas for sour gas and six cents for sweet gas. We are drawing up right now plans for the construction of a pressure station of sixty thousand capacity, to cost two hundred thousand dollars. Under our contractual obligations -- obviously if ratable take is put into effect we would increase the two cent gas and decrease the five and six cent gas, and we would not have to pay two hundred and fifty thousand dollars to complete a station right now. That is why we say nobody could question our good faith because ratable take would save us plenty of money.

We are facing existing contracts; we are facing a very definite decision of the Supreme Court in the Panhandle case, that we cannot divide up a market. These contracts were made in 1928 when there was no market. The Texas Company, the Continental Company, the Stanolind stuck their necks out and

took very firm obligations to drill a volume of wells and didn't know whether our company could market it or not. Our company risked six million dollars to start with, and today we have an investment of thirty million dollars, because those companies and our company created those markets, and if it were not for the risk they took and we took, there would not be any market. We have had this thing up for months upon months, and here at the eleventh hour they come along with a proposal that was never discussed with anybody, and it strikes me, if they treat the gas business that way, we ought at least to be given a hearing.

BY MR. GRAY: I am sorry Mr. Cragin takes that attitude. It was my view we were being quite generous with that territory from which the El Paso Natural Gas takes more than eighty per cent. We are not up here to argue about contracts. When we first started proration, there were also oil contracts that were ignored. That proposition is not the same as on the Panhandle proposition. It is an entirely different setup on the Panhandle as here. What we are talking about at the present time is a gas-oil ratio order. All we need do to be reasonable is to exempt an area sufficient to produce all the gas necessary for the market and that should satisfy immediate needs. We can later take care of a permanent setup. The order should indicate the areas that are to be exempted.

BY MR. SEETH: I think there is a lot of merit in Mr. Cragin's statement. I don't believe the call was for a determination of whether or not a certain area is a gas pool rather than an oil pool -- I don't believe that is within the scope of the call, and I don't believe that can be determined at this hearing. I think the matter here is a hearing for a gas-oil ratio order, and the exemption of a particular area or the determination of whether it is a gas pool or an oil pool is an entirely separate matter, and if brought up at all, it should be brought up on a separate and distinct call.

BY MR. RAE (Skelly): We have a number of gas wells in this particular area to the south, and naturally we realize there is a considerable unratable take in some of the wells which are selling seven million feet a day. We feel the suggestion made by the Gulf is fair and reasonable. What we are interested in is conservation. We have a great many state land leases in the Mattix Pool. We have leases not far away from the El Paso's, and where they have taken four million feet of gas the bottom hole pressure on the leases show a decline of about forty pounds a month. This is not a suggestion to consider what is gas and what is oil areas. I don't see how the Commission could consider, at this hearing, and make a determination as between gas and oil areas. And I feel the suggestion made by the Gulf leaves the gas company open to run their affairs to the south, and if the royalty owners are satisfied, what is being done may not be the business of the oil companies, still it must look this way: There are state leases that are suffering from the large volume of gas being taken out of adjacent leases. Certainly I don't see how the Commission can decide those leases are in a gas belt or an oil belt unless there is some evidence put in to show you do have a fair division line. We are certainly vitally concerned when bottom hole pressure goes off forty to fifty pounds. We are vitally concerned from the standpoint of conservation. We certainly think, after all the years that withdrawals have been made -- the total of the past years is 135,000,000 feet -- it is up to the point where some control should be exercised. We do not desire to do injury to the El Paso. We all appreciate that the gas market has expanded, and that sooner or later the gas will be depleted. We are concerned about the future. Are we going to sit back, on state leases, and have no sale for gas and have a few leases, owned by one particular company, drain everything? We doubt if the people who wrote the state law of New Mexico planned to let three or four leases drain the entire area. The State of

New Mexico and every government institution, when they see the records, would say there should be some fair division. It is a thing that is serious, and Mr. Gray's letter recommends a method of operation which means that gas wells will drain the reservoir to about the same extent the oil wells do. I don't think geologists can clearly separate gas and oil wells -- they are pretty much intermingled -- nobody knows until the wells -- the reservoirs are proven. Many gas zones produce oil on the edges. I would say it is a very serious condition to see large volumes of gas taken out through oil fields, through leases, that lowers the reservoir pressure and cause a lack of recovery of the oil. It certainly is not fair to let one well take out two million feet, and another well have no market at all. We think, from a strict construction of the rules -- all of the rules were approved -- worked on for months in some instances, and everybody said they were satisfied -- then they were written for presentation to the Commission -- surely after all these months of work, they should be approved when there is no objection by anyone but the Gas Company. I think the oil operators feel they should be put through as originally recommended.

As far as Mr. Seth's statement is concerned, if the Commission is going to let eighty or a hundred acres be classified as gas areas, you might as well throw conservation measures out of the window and say you cannot make any effort to correct waste and see that all get a fair share. At this time the oil operators are not telling the gas operators how to run their business. They are making a fair subdivision -- that gas wells be allowed to drain the reservoir to about the same degree that oil wells do. I don't think there is anything unreasonable about that.

So far as the size of the unit is concerned, the unit for the oil area has been forty acres. A good many wells have been plugged back and made into gas wells eventually. That is

going to prolong the life of El Paso's area. If you are going to establish the size of the unit, and I don't see any necessity to do that, unless you recognize the fact that the state at this time does not require gas to be taken ratably. Many wells take ten times their share, and many wells are not producing at all. Why should an operator complete a well when he has no market?

We feel the Commission should give fair consideration to the fact that the rules have been approved by the operators.

So far as the Skelly Oil Company is concerned, we will object to any allowance given gas wells up through the Mattix area, where, at the present time, pressure is going off fast. Some of those leases are state leases. Surely the state is concerned about the recovery of oil on their own leases. We feel that through that area the gas wells must be restricted. If they are not, we would say all the gas-oil ratio talk is of no benefit to anybody.

BY MR. CRAGIN: We are talking about this area north of this suggested line between gas and oil areas. About forty million feet a day, on an average, we are taking in this Hobbs plant recently constructed. They are blowing in the air seventy million feet a day. Who is wasting the pressure, us or the oil operators? They are dissipating this energy about two for one in the production of oil. How do they do it? Eight million feet a day they burn in a flare, and there has been as many as two hundred flares a day burning. This recommendation ignores the extent to which the energy is being dissipated by oil operators, and not the gas.

BY MR. RAE: Speaking of casing head gas, that is turned over to the El Paso Natural, and the residue is blown in the air at their plant. If they can make a market by boosting it in the line, the oil operators would approve, but no individual operator could do that. That is primarily the work of a casing head plant, which the El Paso has. Surely, if there is any steps to be taken in regard to that, it is the duty of the El Paso to take more of the gas that is blown in the air.

That is what the El Paso could do by putting a booster plant in, and use that. It is going to prolong the life of the field. It is to their advantage to do so. So far as the gas that is blown in the air at the casing head plants, probably in time the El Paso will gradually take care of that. We are all in the same boat, trying to conserve, and to make as much money as we can. I would gladly see the El Paso make progress, and we would be glad to make some ourselves. If anybody can see the trend of the times, they know we will approach a time when probably some further steps will have to be taken.

I have heard talk of the Consolidated Gas case. I have been involved in cases where that question was involved, and many capable lawyers and the Federal Courts have construed the statutes in regard to that. That is a case where the gas company owned 80% of the acreage, and other people demanded a share in the market. In that case they could not make the Consolidated share their market. That has nothing to do with waste of reservoir energy in the oil pools. It has nothing to do with every operator being given a fair share of the gas and oil under their tract, which the State of New Mexico has done so far as the oil is concerned, but not the gas.

BY MR. GRAY: I would like to ask a question in reference to that.

In that case the Consolidated controlled 80% of the acreage?

BY MR. RAE: 80% of the proven acreage, and their take a day was 20%?

BY MR. GRAY: That 80%, taking their market, was only about 20% produced?

BY MR. RAE: That is right.

BY MR. GRAY: It was a very different proposition. They were not draining other areas?

BY MR. RAE: That is right. I might say further, in the Henderson case, the Federal Court, in the State of Texas, had a right to, and Henderson was compelled to share the market with other

wells. In the State of Texas, in the sour gas areas, the state does have the right to prorate gas.

BY MR. GRAY: As far as we are concerned, we certainly do not want to make it difficult for the El Paso Natural Gas Company. They have gone into this area and have made a market. In exempting this particular area where, in 1939 their takes amounted to 80% or more of the total takes of the El Paso Natural, it was assumed that would take care of their needs. Mr. Cragin mentioned a section that should be exempted from any gas-oil ratio control, a section that is essentially gas. I believe the Yates area, ranging from Monument clear to the state line to the south, is actually predominantly gas bearing, and could at this time be exempted from the gas order. The only difficulty is to determine which wells should be exempted.

BY MR. CRAGIN: I want to go on record as stating we subscribe 100% to the fact that no one should be permitted to draw four or five million feet a day from a well and surrounding areas draw nothing because they do not have a market. I don't want to have anybody have the impression we have any other idea than just that. But if you are going to divide the area by arbitrary line, we are entitled to draw gas equal to the amount of gas being drained from the surrounding areas. If this recommendation is considered, we would like the opportunity of offering an amendment to paragraph -- 23 I think it is -- 22 and 23, that would permit an operator to draw off gas from any area in proportion to the acreage that gas is being withdrawn and the production of oil, in the surrounding areas.

BY MR. GRAY: Mr. Chairman: There is a map here -- I didn't intend it to be an exhibit -- it is merely information as I have been able to obtain it. The yellow areas on this map I believe are connected to the El Paso Natural Gas Company's lines and are producing at this time. The green areas are units which have, in the past, produced into the El Paso lines, but during 1940 have not sufficiently produced, and apparently are wells that cannot now produce against pressure resistance to go into the

the line. The red areas are entirely my own recollection, and that might not be too good, of gas wells which are not connected to the line. There is a red area along the township line of Township 24 between Ranges 36 and 37 -- I think possibly that is the area Mr. Rae talked about -- I will insert that in red.

About the unratable taking of gas: Where those yellow units are, units capable of producing gas, one may not produce any, the second produces 184,000 cubic feet, the next one produces 165,000 feet, and to the west of that one unit produces 206,000 feet. That means that within an area, none of the units more than a mile apart, there is a difference between the the number of thousands of feet taken of as much as 206,000 million feet during the first seven months of 1940.

BY MR. WILLIG (The Texas Company): You filed this map for the record?

BY MR. GRAY: I had not intended to because I was not entirely sure of all of the information. Some of the information came from Mr. Staley's office.

BY MR. WILLIG: There is one thing I misunderstood: The description of that line -- I believe your red area included the $W\frac{1}{2}W\frac{1}{2}$ of Sections 7 and 18, Township 25, Range 37?

BY MR. GRAY: I don't believe that particular description is very important. I meant to include the $W\frac{1}{2}W\frac{1}{2}$ of Sections 7 and 18. However, through an error of the draftsman, the line was drawn through the middle of the sections, and so far as I am concerned, that line is not definite enough to make any difference.

BY MR. WILLIG: I would like to file, for The Texas Company, a request for exemptions for fifteen wells, all of which lie in the area suggested as a gas reservoir. These requests for exemptions are filed under separate covers, and each folder has a description and history of the well --

BY MR. DIVERMORE: I would like the wells by name.

BY MR. WILLIG: (Reading) "Subject: Application for exception to New Mexico Conservation Commission Order No. 250 and Final Order in this cause proposed for adoption on August 29, 1940,

Covering The Texas Company

K. L. Parker No. 1 - Eaves Pool
C. W. Shepherd No. (a) 1 - Jal Field
C. W. Shepherd No. (b) 1 - Jal Field
C. W. Shepherd No. (b) 2 - Jal Field
C. W. Shepherd No. (b) 3 - Jal Field
C. W. Shepherd No. (b) 4 - Jal Field
W. T. Lanehart No. 1 - Langlie Field
C. C. Cagle No. (a) 1 - Rhodes Field
C. C. Cagle No. (a) 2 - Rhodes Field
C. C. Cagle No. (b) 1 - Rhodes Field
C. C. Cagle No. (b) 2 - Rhodes Field
H. G. Moberly No. (b) 1 - Rhodes Field
W. H. Rhodes No. (a) 1 - Rhodes Field
W. H. Rhodes No. (a) 2 - Rhodes Field
State of N.K. "Y" No. 1 - Rhodes Field

BY MR. GRAY: Luckily all of those wells are in the area south and west of the red line?

BY MR. WILLIG: Yes.

BY MR. LIVERMORE: I would like to request permission to mail an application, at a later date, for exemptions on the same grounds as The Texas Company have, for the Great Western Producers, for State No. 1, in Sec. 16, due to the fact that well is offset by three wells which are asked to be exempted in The Texas Company's application, which are either direct or diagonal offsets of the Great Western Producers' State A-1.

BY MR. LIVINGSTON: You will file the usual request?

BY MR. LIVERMORE: I will file a short letter by mail, but I want that request in the record.

BY MR. WILLIG: I would like to ask it be made a part of the record that the wells for which The Texas Company is asking exemptions, all produce from the upper gas horizons, mentioned in that application.

BY MR. LIVINGSTON: Will you clarify this for the Commission, your requests for exemptions are from the existing order, and not under the proposed order?

BY MR. WILLIG: It covers both.

BY MR. HUGH JOHNSTON (The Continental): As there are many points in the recommendation submitted by the Gulf this morning that are ~~new~~ in addition to the original recommendations made by the Operators Committee of Lea County at this past hearing -- some of those points, we feel, might be a matter of opinion

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so far as the experts are concerned, and not being an expert myself, it is impossible for me, representing The Continental Oil Company, to defend their interests, and we respectfully request this hearing be continued until such time as we have an opportunity to study the additional points brought out by the Gulf's recommendations.

BY MR. RAE: From the state lease record I have made a tabulation of takes of gas, by wells, which will help to give a picture of the extent, in the Mattix pool, they are draining the surrounding properties. I call attention particularly to wells in the Mattix Pool where over 4,000,000 feet of gas has been taken out. and I simply -- that is a tabulation that can be checked with the state lease records, and will help to give the Commission a picture of how important it is to the oil pool at this time to regulate the take of gas from wells within those oil areas, and the Commission can study the takes of gas over for themselves.

Mr. Cragin mentioned one other thing, and there has been considerable talk about contracts. We all realize how fortunate the companies are that made contracts at high prices for a considerable share of the market. We wish we had some too. But I think it is recognized by lawyers -- I am not a lawyer -- that any contracts made to sell oil or gas are always subject to state regulations. Any state law will take precedence over contracts, consequently I think argument or mention of contracts is entirely out of place here. As the Commission will remember, from the record, and as Mr. Gray pointed out, there were many contracts to sell large volumes of oil, guarantees for a large daily take. Those contracts became null and void when the state started to prorate.

BY MR. LIVINGSTON: Is it your desire to introduce the tabulation?

BY MR. RAE: It is a subject which can be checked from the state lease record.

BY MR. GRAY: There is one error pointed out by Mr. Willig, but I really see no difference whether that line is a quarter of a

quarter of a mile farther west or not. With reference to Mr. Johnston's request that the Commission further defer the promulgation of an order on gas-oil ratios, this particular subject has been studied for over a year. At the present time there is nothing in the Gulf's statement requesting a change in the proposed order submitted by the operators of Lea County. We merely have gone ahead and designated a particular area which immediately would be exempted from that order, for the purpose of clarification entirely. So that everything in this recommendation is beyond the proposed order as submitted by the Committee at the last hearing held on July 29th.

BY MR. CRAGIN: In answer to Mr. Gray's questioning the propriety of my mentioning contracts, I would like to have the record show those contracts are practically completely in interstate commerce, and as such, under the jurisdiction of the Federal Departments.

BY MR. JOHNSTON: It was our understanding that the original recommendations as submitted to the Commission, had to do entirely with gas-oil ratios. In so far as a definition of gas reservoirs is concerned, that would be a matter entirely up to the Commission, and is not a point to be argued before the Commission this morning. We are probably unprepared for this argument, which is our reason for making the request that the hearing be continued, provided these arguments go into the record as supporting or defining gas reservoirs or oil reservoirs. So far as the original recommendations are concerned, we are not objecting to those, although we do not subscribe to them entirely, but we were willing to go along as the original recommendations were written, but if these points brought up here this morning are to be considered by the Commission in arriving at their permanent order, we would like, as stated a minute ago, an opportunity to study those points and be able to submit whatever we might feel necessary to protect our interests.

BY MR. LIVINGSTON: Gentlemen, if you are through with your discussion as to Lea County, and so far the matters have been largely discussions and arguments -- if there is any further evidence to be introduced, it might now be introduced, and if you are through with Lea County for the time being, Eddy County should be heard, and then any other producing areas in the state.

BY MR. HUBBARD: Inasmuch as primarily the hearing, as I understood it, this morning was to discuss certain specific recommendations for the taking of gas-oil ratios, and their use after taken, I would like, in behalf of the Humble Oil Company, to urge the adoption of these rules as written.

In addition, we would like to urge upon the Commission, as the Gulf has urged, as I take it, that further hearings be held to consider the whole question of allocation of predominantly gas areas. We also would recommend to the Commission that the call for further hearings be so worded as to take in their scope the allocation of gas areas. We agree with Judge Seth that probably this hearing is not broad enough to discuss those matters. We had some objections, but --

BY MR. CHRISTIE: In so far as the gas-oil ratio order is concerned, we favor the adoption of the suggested or proposed recommendations, with the possible exception of Sec. 22. I think that is probably one section the Commission might need more evidence to support, whether a gas unit should not be larger than forty acres. In other words, if an operator had a tract larger than forty acres, whether on those tracts he might not be entitled to drain 160 acres, or 640 acres with one well -- that he would not be compelled to drill a well on each forty acres to offset oil wells. So far as the other conditions are concerned, we favor their adoption. We don't see any necessity for a continuance of the hearing so far as the gas-oil ratios are concerned. An analysis of Mr. Staley's report on remedial work being done, will show a great deal of good is being done. We think the order should be made permanent as soon as possible

so that this work will continue.

BY MR. KEITHAN (Phillips Petroleum Company): We would like to urge that the general rules as proposed be adopted, and that any special matters, as to gas-oil reservoirs, be taken up for hearing at a later date. We have certainly now all discussed the general rules, and I think the order should be made as soon as possible.

BY MR. CRAGIN: It seems to me the only thing before this Commission in the call for this hearing is the question of the recommended rules for the permanent order as applying to gas-oil ratios and certain exemptions. Other matters should be set for special hearings at some later date.

BY MR. DEWOODY: On March 5, 1940, George Livermore, of the Great Western, requested exemptions as to gas-oil ratios on wells Nos. 1, 2 and 3 located in the N $\frac{1}{2}$ of Sec. 32, Township 23 South, Range 37 East, which wells are operated by the Great Western Producers, Inc. The application for exemption was made by letter to the Hon. John E. Miles. Attached to this letter is a case history of the three wells involved, along with the engineer's report substantiating the claim for exemption. On March 15, 1940, the Oil Conservation Commission granted the exemptions to Order No. 238, by letter to Mr. Livermore. Copies of this information and the reports above mentioned were published on June 7, 1940, by the Lea County Operators Committee in the engineering report entitled "Results of the Gas-Oil Ratio Survey and all Exemptions to the Gas-Oil Ratio Orders Nos. 238 and 250. Inasmuch as ample publicity has been given as to the exemptions to the gas-oil ratio orders on the above mentioned wells, and they have been presented to the Oil Conservation Commission, and since the Oil Conservation Commission has granted temporary exemptions to the orders Nos. 238 and 250, we urge and request that the exemptions be granted under the permanent gas-oil ratio order which is to be written.

BY MR. LIVINGSTON: Anything further for Lea County? If not, is

there anything to be presented for Eddy County?

BY MR. HUGH JOHNSTON: (Representing Continental and Loco Hills Operators Committee) Due to conditions beyond our control, in Loco Hills they have been unable to make the necessary survey to determine the Gas-Oil ratios and other factors to be considered in their recommendations to the Commission for a permanent order affecting Eddy County. In view of that fact, we respectfully request the hearing for Eddy County be continued approximately thirty days, at which time we feel we will be able to get the necessary information to make the recommendations. I have a letter here from the Secretary of the Loco Hills Operators Executive Committee, which I would like to leave with the Commission.

BY MR. WARDEN: You want that to appear in the record?

BY MR. JOHNSTON: Yes, if the Commission please.

EDDY COUNTY EXHIBIT No. 1

"August 27, 1940

State Oil Conservation Comm.,
Santa Fe,
N. M.

Gentlemen:

At a meeting of the Executive Committee of the Loco Hills Operators Committee, last night, it was decided that in view of the fact that we have been unable to run oil with any regularity due to pipe line congestion and hence unable to take gas oil ratios and bottom hole pressures with any regularity, to ask for an extension of time in which to make our recommendations for this area.

Thanks to the cooperation of the various purchasing companies and the Texas, New Mexico Pipe Line Company, this pipe line congestion has been eliminated by the laying of a 6" line by the Texas New Mexico Pipe Line Co. and we expect to commence taking gas oil ratios and bottom hole pressures in the near future.

With the above facts in mind we respectfully ask that the Commission grant a stay of 30 days in the hearings for this

field, or until September 29, as we feel that by this time we will have sufficient data to make intelligent recommendations.

Yours very truly,

Loco Hills Operators Executive Comm.

by (Signed) Fred Brainard Sec."

BY MR. LIVINGSTON: Is there anything further from any other producing area in the state which has not been heard from?

The Commission has authorized me to announce that the hearing is closed insofar as Lea County is concerned, but continued to November 15th, 1940, at ten o'clock A. M. at the Capitol, for the purpose of hearing from Eddy County and other areas in the state having producing wells, other than Lea County. The operators of Eddy County have requested additional time in order to complete bottom hole pressure surveys, and it is believed they will be ready by November 15th. The Commission, therefore, announces that the case is, for the purposes named, closed as to Lea County, and recessed as to Eddy County and to other areas, other than Lea County, to November 15th, 1940, at ten o'clock, A. M.

C E R T I F I C A T E

I hereby certify that the foregoing and attached twenty and one-half pages of typewritten matter are a true, correct and complete transcript of the shorthand notes made by me on the 29th day of August, 1940, at the recessed hearing before the Oil Conservation Commission in Case No. 21, and by me extended into typewriting.

Witness my hand this 6th day of September, 1940.

Esther Barton