CASE 608

YOST: Swearing in of two witnesses and qualifying both witnesses.

YOST: Mr. Macey in connection with Case 608 at the December hearing you made reference to a list of wells of various depth ranges ~~which were~~ compiled by the Commission staff. That list was never introduced in evidence in this case, nor given an exhibit number. Is this the list to which you have reference?

MACEY: Yes.

YOST: I would like to have that Exhibit marked as Exhibit 1

(Marked Exhibit 1)

YOST: In connection with this list of wells, you wrote a form letter to all of the operators requesting ~~them~~ information on well costs. Do you have a copy of that letter with you?

MACEY: Yes.

(Marked Exhibit 2)

YOST: At the January hearing of the Commission it was stated that a tabulation of these well costs was to be submitted to all of the operators. Do you have a copy of the tabulation with you?

MACEY: Yes.

(Marked Exhibit 3)

YOST: Is this tabulation exactly correct?

MACEY: No - there are some minor mistakes in addition.

YOST: Would you mind - for the benefit of the audience correcting those mistakes so that everyone will have the correct figures?

(MACEY CORRECTS THE FIGURES)

YOST: Mr. Rhodes, in connection with the tabulation which is marked Exhibit 3, ~~have you~~ have you prepared a graph showing those various well costs and depths?

RHODES: Yes, I have.

YOST: I would like that graph marked as Exhibit 4. (Marked) Will you explain what the black circles represent?

RHODES: The graph is plotted with the depth in thousand foot increments ~~being horizontal~~. The well cost in hundred thousand increments vertically. The cost and depth ~~point~~ of each well was plotted on the graph in

accordance with the information which we received from the operators.

YOST: Adjacent to each black circle in pencil is a number. What does that number represent?

RHODES: That number corresponds to the well number [redacted] on the tabulation.

YOST: I notice that you also have some black circles with red centers in each depth bracket. What does that indicate?

RHODES: The black circle with the red center is the average [redacted] in each depth bracket of the wells drilled in that bracket. For example we totalled the cost of all the wells drilled in the 6 to 7 thousand bracket. We also totalled the total depths of all the wells drilled in this bracket and obtained an average cost at an average depth [redacted] in each bracket. The black circle with the red center is this average point, [redacted].

YOST: I notice that in the 5 to 6 thousand foot bracket you have three wells which have red circles around them. What do those indicate?

RHODES: Those wells were eliminated from the average for that depth bracket because it was found, upon examination, that the costs of drilling these wells was very excessive due to mechanical difficulties and blowouts. It was not our intention to include [redacted] in the tabulation that [redacted] but rather to use an average well in each case.

[redacted]

YOST: Will you tell the Commission what the red line on the graph indicates?

RHODES: The red line is an average of all of the points and is a curve drawn as uniformly as possible through each one of the points or as near as possible to the points.

YOST: In some instances the curve misses some of the points and in other places it goes exactly through the point. Is that correct?

RHODES: Yes.

YOST: In connection with this exhibit did you determine what the average payout for an average well in each depth bracket was?

RHODES: We determined the [redacted] payout of [redacted] well in each bracket below 5,000 feet.

YOST: How did you go about this calculation?

RHODES: In determining the average payout in each bracket we made a number of assumptions. First of all we assumed that the average well in the 5 to 6 thousand foot bracket would be drilledto the midpoint of that bracket, for example the 5 to 6 thousand foot bracket the average depth used was 5500 feet. We determined the cost of an average well drilled to the midpoint of each depth bracket, and came up with the following costs at the following depths:

At 5500 feet the average cost was $82,650.00

6 to 7,000 feet $104,250.00

7 to 8,000 feet $126,100.00

8 to 9,000 feet $148,100.00

9 to 10,000 feet $169,900.00

10 to 11,000 feet $194,000.00

11 to 12,000 feet $230,750.00

12 to 13,000 feet $280,000.00

13 to 14,000 feet $344,650.00

YOST: Now, from those costs you determined the payout, is that correct?

RHODES: That is correct.

YOST: How did you go about that calculation?

RHODES: We assumed that the well was producing under the present allowable system with the proportional factors as they are at present. We also assumed that oil was valued at $2.69 per barrel and that the operator had a 7/8 interest in that oil. [redacted] we determined the payout of each depth bracket in terms of years.

YOST: Will you read to the Commission the payouts which you [redacted] in each depth bracket starting at the 5 to 6 thousand foot bracket?

RHODES: The payout 5 to 6,000 feet - 1.782 years

6 to 7,000 feet - 1.709

7 to 8,000 feet - 1.562

8 to 9,000 feet - 1.437

9 to 10,000 feet - 1.301

10 to 11,000 feet - 1.208

11 to 12,000 feet - 1.183

12 to 13,000 feet - 1.209

13 to 14,000 feet - 1.254

YOST: Did you then average those payouts?

RHODES: Yes we did and the average payout of the wells drilled from 5,000 to 14,000 was 1.406 years.

YOST: In connection with these payouts you used the proportional factors which are presently in effect, is that correct?

RHODES: Yes.

YOST: In connection with this graph have you prepared [redacted] proportional factors?

RHODES: Yes.

YOST: How did you arrive at the new proportional factors?

RHODES: In arriving at the new proportional factors we reversed [redacted] the mathematical calculation used to determine the original payouts, using an average payout of 1.406 years which we found to be the average under the present allocation system. We calculated the number of barrels of oil which each well would have to produce each day in order to return enough money to the operator [redacted] to pay out in 1.406 years. We then assumed the present normal unit allowable of 40 barrels and from that we determine what the factor should be.

YOST: You used the same basic assumptions in determining the new factors as you did in arriving at the payouts under the present system?

RHODES: Yes. We used 365 days per year - oil at $2.69 per barrel with a 7/8 interest.

YOST: Will you tell the Commission what the new factors you arrived at are?

RHODES: Yes, they are as follows:

5 to 6,000 feet - 1.70

6, to 7,000 feet - 2.15

7 to 8,000 feet - 2.60

8 to 9,000 feet - 3.05

9 to 10,000 feet - 3.50

10 to 11,000 feet - 4.00

11 to 12,000 feet - 4.75

12 to 13,000 feet - 5.80

13 to 14,000 feet - 7.15

YOST: Do you have a graph comparing the proposed factors with the present factors?

RHODES: Yes (Refer to Exhibit 5)

YOST: Now in connection with the zero to 5,000 bracket, did you determine what the payout was on wells in this bracket?

RHODES: We determined an average point at a depth of 3601 feet the cost to average $41,800.00

YOST: You obtained that point by averaging all of the wells in the zero to 5,000 bracket as to cost and depth? Isthat correct?

RHODES: Yes.

YOST: What point did you use in determining the payout of wells in that depth bracket?

RHODES: We examined the production records and the allowables assigned the wells upon which we requested cost information and found that only one well drilled to a depth less than 3,000 feet was capable of producing the present top unit allowable of 40 barrels per day. Therefore we decided to average the cost of the wells and the depth of the wells in the 3 to 4,000 foot bracket and average the cost and depth of the wells in the 4 to 5,000 foot bracket.

YOST: What were these averages for these brackets?

RHODES: The average cost of the 15 wells in the 3 to 4,000 bracket was $44,091.00 at an average depth of 3612 feet. The average of wells in the 4 to 5,000 foot bracket was $50,252.00 at an average depth of 4420 feet. We then assumed that the average well drilled in the 3 thousand to 5 thousand bracket all of which have a standard unit allowable of 40 barrels would be drilled to 4,000 feet and we determined what that [redacted] would be.

YOST: What was the cost of the well drilled at 4,000 feet?

RHODES: The cost is $47,500.00

YOST: What is the payout under the present allocation system assuming the same factors that you assumed on the other depth brackets?

[redacted]

RHODES: The payout on this well costing $47,500.00 at 4,000 feet is 1.382 years.

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO
at
Santa Fe, New Mexico
December 17, 1953

In the Matter of:	
Application of the Oil Conservation Commission upon its own motion for an order revising Rule 505, Paragraph (b), of the Commission's Rules and Regulations, pertaining to proportional factors used in allocating oil allowables.	Case No. 608

(Notice of Publication read by Mr. Graham).

MR. GRAHAM: Mr. Macy, do you have a preliminary statement to make?

MR. MACY: At the request of the Commission the Commission staff has compiled a list of wells and the various depth ranges that were drilled during the year 1953. These wells were all considered to be an average well in the pool. They were picked solely because they involved normal completion practices; didn't have any fishing jobs or lengthy day work. It is the intention to obtain this list of wells in order to get cost figures to determine the relationship between the cost of drilling wells in the various depth ranges. There is a lot of wells on this list. It is - - there are upwards of 25 in the zero to five thousand bracket, and at the most 15 each of the other brackets, wherein some cases it was not possible for us to get 15 wells in the deeper brackets, because there had not been that many wells drilled. I would like to introduce this list of wells into the record, and suggest that we supply the operators with a copy of this list and contact each operator and request that

the cost information be obtained on each well, if possible.

MR. SPURRIER: Is there any objection to the introduction of this list into testimony? Without objection it will be admitted. Does anyone have a comment at this time on this case?

MR. CHRISTIE: Mr. R. S. Christie, Amarada. I presume, then, the case will be continued and allow the companies opportunity to furnish you with the information that you have requested?

MR. MACY: That is the intention, Mr. Christie. We realize it is going to take us a little while to get this information together and tabulate it. There may be some wells, incidentally, on the list which were put on here erroneously. By that I mean we made a quick summary of it and determined that the cost of the wells in all probabilities was an average cost, but we could be wrong. For that reason I think that every operator on the Commission's mailing list should get a copy of the list so they will know what we are talking about. Next month, if possible, if we have got the data, we can compile the data and have it available for every one at the hearing to take a look at.

MR. HINKLE: Mr. Hinkle, representing Humble. Does that list include any wildcat wells?

MR. MACY: No, sir, it does not.

MR. SPURRIER: Do you move continuance to the January 20th hearing?

MR. MACY: Yes, sir.

MR. SPURRIER: Is there objection to continuing this case to the January 20th hearing?

MR. SELINGER: May I suggest that the matter be set off at least

sixty days, because of the large amount of work involved at the end of the year. I doubt if there would be sufficient time for the Commission's staff to assemble all this data. I believe it would be more advisable to have it set over to the February hearing.

MR. SELINGER: My name is Selinger with Skelly - -

MR. SPURRIER: Are you withdrawing your motion?

MR. MACY: I would like to get it cleared up. You mean it would take the companies a while to get the information to us?

MR. SELINGER: In some instances the companies don't get information on wells for three or four months, complete expenditures in for at least three or four months. You may have some recently completed wells. If you do you may not even get the information in in the February hearing.

MR. MACY: That is true. I will concur with Mr. Selinger's recommendation.

MR. HILTZ: Mr. Hiltz, Stanolind. Will the Commission, in issuing that list of wells,advise the operators what costs are to be included?

MR. MACY: Yes.

MR. SPURRIER: Is there any objection to continuing this to the regular February hearing, then? If not the case will be continued to the regular February hearing. The next case on the docket is Case No. 609.

STATE OF NEW MEXICO)
)
COUNTY OF BERNALILLO)

I HEREBY CERTIFY that the foregoing and attached transcript of hearing in Case No. 608 (Continued) before the Oil Conservation Commission, State of New Mexico, at Santa Fe, on December 17, 1953, is a true and correct record of the same to the best of my knowledge, skill and ability.

DATED at Albuquerque, New Mexico, this 30th day of December, 1953.

Ada Dearnley
COURT REPORTER

Chavez, Fran

From: Stone, Ben
Sent: Monday, September 08, 2003 4:21 PM
To: EMNRD OCD - SANTA FE
Subject: De Novo and Reopened Cases

Probably everyone, in the course of prepping their booty (i.e., case file assignments and boxes thereof) will run across some De Novo and/or Reopened Cases. These types of cases will be in their own file folders but contained with the original case file, both in an expandable folder.

These cases are posted under the same case number as the original case however, as this is all database-driven, we must distinguish between these subsequent cases and the original case of the same number. Rather than trying to generate a banner sheet for all of these types of files, please use a Post-It note on either the De Novo or the Reopened case file folder.

So, within your expandable folder, your first regular file folder should contain the original case file, in which you'll place the banner sheet indicating the case number. On the second regular file folder, the label should read "Case No. 3206 - Reopened" or "Case No. 3206 - De Novo". For whichever case, write on the post-it note: **3206-D** or **3206-RO**. This way, Aristotle can key this value in and we'll have a way to separately index the case files in the database and in the imaging system so, if someone searches for case no.3206, they'll see the original and the subsequent de novo or reopened case files.

Thanks for your cooperation in this situation.....

Ben Stone
OIL CONSERVATION DIVISION
Automation & Records Bureau