

May 19, '54

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO
Santa Fe, New Mexico

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TRANSCRIPT OF PROCEEDINGS

CASE NO. 706 through 712, inclusive

Regular Hearing

BEFORE THE
OIL CONSERVATION COMMISSION
State of New Mexico
Santa Fe, New Mexico
May 19, 1954

IN THE MATTER OF:

The application of El Paso Natural Gas Company for compulsory communitization of Lots 3, 4, 5 and 6, SE/4 NW/4, E/2 SW/4, and SW/4 SW/4 (these lands comprising the west half) of Section 6, Township 30 North, Range 11 West, San Juan County, N. M. (containing 328.17 acres), for Mesaverde production.

Case No.
706

The application of El Paso Natural Gas Company for compulsory communitization of Lots 3, 4, E/2 SW/4 and SE/4 (these comprising the south half) of Section 31, Township 31 North, Range 11 West, San Juan County, New Mexico, (containing 320 acres), for Mesaverde production.

Case No.
707

The application of El Paso Natural Gas Company for compulsory communitization of the west half of Section 15, Township 31 North, Range 11 West, San Juan County, New Mexico (containing 320 acres), for Mesaverde production.

Case No.
708

The application of El Paso Natural Gas Company for compulsory communitization of the east half of Section 27, Township 31 North, Range 11 West, San Juan County, New Mexico (containing 320 acres); or, in the alternative, for an unorthodox spacing and allocation unit consisting of NE/4, E/2 SE/4, SW/4 SE/4 Section 27, Township 31 North, Range 11 West, (containing 280 acres), for Mesaverde production.

Case No.
709

The application of El Paso Natural Gas Company for compulsory communitization of the east half of Section 8, Township 31 North, Range 10 West, San Juan County, New Mexico, (containing 320 acres); or, in the alternative, for an unorthodox spacing and allocation unit consisting of NE/4, N/2 SE/4, SW/4 SE/4 Section 8, Township 31 North, Range 10 West (containing 280 acres), for Mesaverde production.

Case No.
710

The application of El Paso Natural Gas Company for compulsory communitization of the west half of Section 32, Township 31 North, Range 11 West, San Juan County, New Mexico (containing 320 acres); or, in the alternative, for an unorthodox spacing and allocation unit consisting of NW/4, SW/4 SW/4 Section 32, Township 31 North, Range 11 West (containing 200 acres), for Mesaverde production.

Case No.
711

Application of El Paso Natural Gas Company for compulsory communitization of the east half of Section 3, Township 30 North, Range 10 West, San Juan County, New Mexico (containing 320 acres); or, in the alternative, for an unorthodox spacing and allocation unit consisting of Lots 1 and 2, S/2 NE/4, E/2 SE/4, SW/4 SE/4, E/2 NW/4 SE/4, SW/4 NW/4 SE/4 of Section 3, Township 30 North, Range 10 West (containing 310.68 acres) for Mesaverde production.

Case No.
712

BEFORE:

Honorable Edwin L. Mechem, Chairman
Mr. E. S. (Johnny) Walker, Member
Mr. R. R. Spurrier, Secretary & Director

TRANSCRIPT OF PROCEEDINGS

MR. SPURRIER: The next case on the docket is Case 706.

MR. HOWELL: May it please the Commission, we suggest that the next seven cases be heard together, not that they be consolidated, but that they be heard together, because the point at issue, I think, is identical in each of them.

MR. SPURRIER: Is there objection?

MR. YAGER: In the first place, I think it might be a wise thing that all the cases be heard together. I should, however, not to appear to be agreeing with Mr. Howell's statement that the point at issue is the same in all cases, I think there is a great similarity in most, if not all, of the cases.

May I, with your permission, make a preliminary statement to the Commission? I find myself in a very difficult position as a party litigant and possibly as a lawyer now. I think the Commission is due this explanation as to why my attorney is not here at this time. He was here this morning. I came here early, came here early Monday for the purpose of engaging counsel. I talked to a local attorney on Monday afternoon, and again Tuesday. It developed that there might be a conflict of interest so far as this attorney was concerned, and so, with the honor and integrity usually shown by lawyers, he thought it best for him not to proceed to represent us in this proceeding. That left me, of course, on yesterday afternoon, or about noon yesterday, without an attorney, and I tried to contact Mr. Campbell, and found he was on his way over here, and talked to him for the first time last night about, shortly after dinner time. I think I talked to him for about ten minutes, he was on his way to another engagement. The first chance he or I had a chance to review

any part of this case was early this morning. He explained to me that he would be glad to get into it, but that he had to leave this afternoon due to a previous engagement. He stayed up until the last minute. I have to go ahead and do what I can, but I want it understood, of course, that Mr. Campbell does represent me and the others in the group, the Yager, the two Yagers and the Gimp and the Morris Mizel and Sam Mizel interests. I should like to call the Commission's attention to the fact that I certainly don't have any knowledge of the New Mexico laws. I think we can stop right there with the New Mexico laws. I found, also, on these conservation laws, that there is a sharp conflict of opinion even among distinguished lawyers in New Mexico on the interpretation and construction of some of these laws.

MR. WALKER: I think you find that true of any state law.

MR. YAGER: I think that is true. We have a little bit of help in Oklahoma, because our Supreme Court has passed upon some of the questions, but New Mexico has not, as I understand it. So for that reason, I should like very much to ask the indulgence of the Commission to let us see how far we can go today, with the understanding that Mr. Campbell will take over and present such questions of law, or analyze the effect of the evidence, and perhaps by memorandum or exchange of memoranda between counsel, if that would be agreeable to Mr. Howell.

MR. HOWELL: Yes, that would be agreeable.

MR. WALKER: We have a statement that Mr. Campbell left with the Commission, and Mr. Macey will read it into the record at this time.

MR. MACEY: This is with reference to Cases 706 to 712.

Statement of Jack M. Campbell, Roswell, New Mexico: "I would like to enter my appearance in each of these cases on behalf of Saul A. Yager and others. I have entered these cases only in the last few hours, and will be unable to remain in Santa Fe for the entire hearing. I feel that these applications may involve matters of lease extensions or terminations which are not within the jurisdiction of the Commission. After taking the testimony and preparation of the transcript, I would like the opportunity of presenting a memorandum brief to the Commission, with the same privilege extended to the applicant. Mr. Yager is an attorney, and will conduct the cases at this hearing."

MR. YAGER: I could amplify Mr. Campbell's statement, taking Case, for example, 706, that is the entire case. There will be a question of whether or not the primary term of the lease has been extended, that is to say, a question to title, who owns the lease. From what Mr. Campbell has told me, and from what little I have gleaned in the short time that I have read some of these, read the act and so on, I conclude, Mr. Campbell certainly concludes that that question is completely beyond the jurisdiction or purview of this Commission to determine who owns, to determine the question of title to a lease. The same questions will arise in Cases 709, 10, 11 and 12, whether this Commission, and I think we might as well pose the question at this point, whether this Commission, in this hearing, proposes to hear evidence, it goes to the question of whether the El Paso Natural Gas Company is the legal owner of the leases, or whether the leases now belong to the Yager, et al. group. I think the Commission might as well face that problem right at this point, because if it is going to go into the question and decide the

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matter of title to the leases, of course, then you will have an extended hearing and considerable evidence offered on both sides. We would, of course, at the outset, like to challenge the jurisdiction and authority of the Commission to determine that question.

MR. WALKER: I think it is perhaps wise to get along, with that in mind, of course, and sort of take it as it comes. As your motions are made, we can act on it as we go along. Up until now at least, to speak for myself, I don't know if there is any point of legality or not. If it is agreeable with everyone, if you have any witnesses, Mr. Howell, would you have them sworn in?

ROLAND L. HAMBLIN

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

DIRECT EXAMINATION

By MR. HOWELL:

Q Will you state your name to the Commission?

A My name is Roland L. Hamblin.

Q What connection, if any, do you have with El Paso Natural Gas Company?

A I am Manager of the Lease Department, Oil and Gas Lease Department.

Q Have you been Manager of that department since the first of January, 1952, or approximately that time?

A I have.

Q At all times during the interval you have been?

A Yes, sir.

Q Are you familiar with the tracts of land and the leases and ownerships on the half sections that are involved in these seven

cases?

A Yes, sir, I am.

Q Do you have some exhibits which are in the form of plats, being sketches marked Exhibits 1A, 1B, 1C, and 1D, showing generally leases in the area, with the leases or the lands, let us say, which are owned by the Yager group marked in orange, and the leases in which El Paso Natural Gas Company has working or operating rights in pink, and those within the half section owned by other persons left white? Are these sketches showing the location of the various tracts in question here?

A That is correct, these are the sketches of the tracts.

Q Have these been prepared under your supervision and jurisdiction?

A Yes, they have been prepared under my direction.

Q Do they correctly show the approximate location of the wells and the ownership of the land and leases involved?

A They do.

MR. HOWELL: We offer these in evidence as El Paso Natural Gas Company's 1A, 1B, 1C and 1D.

MR. KITTS: Pertaining to all seven cases?

MR. HOWELL: Pertaining to all seven cases.

MR. YAGER: You don't have copies?

MR. HOWELL: We will be glad to furnish copies.

MR. WALKER: Any objection?

MR. YAGER: No objection.

MR. WALKER: Without objection, they will be admitted.

Q Referring first to Case 706 that I believe--

MR. YAGER: (Interrupting) Mr. Howell, I would like to

make my position clear. We have no objection, except by permitting the plats to be introduced without objection, we do not waive our right to question the ownership of the leases.

MR. WALKER: I can't see any connection between them.

MR. YAGER: The witness has stated that these plats are prepared, or maps indicate the ownership of the respective leases. Of course, I think that is correct, is it not?

MR. HOWELL: I think the statement, Mr. Yager, was that the tracts of land in which the Yager claims existed, whatever they might be, were colored in orange.

MR. YAGER: If that is it, then we have no objection.

Q Referring now to Case number 706, which involves the irregular west half of Section 6, Township 30 North, Range 11 West, I will ask you what is the ownership of the leasehold interest in that particular tract?

A There is an oil and gas lease from William H. Chrisman and wife to N. Spatter, dated July third, 1953, covering 206.30 acres, which the working interest owner is owned by El Paso Natural Gas Company has the gas rights to the base of the Mesaverde, and the Delhi Oil Corporation, who has the deeper rights and the oil rights.

Q Does that lease have a pooling clause, or has there been a subsequent pooling amendment entered?

A It contains a pooling clause.

Q It contains a pooling clause. Have Delhi and El Paso, the owners of the working interest in that lease, agreed to communitization?

A They have.

Q Now, the next tract is Lot 4, containing 41.75 acres, what do your records show with reference to the oil and gas lease on that?

A There is an oil and gas lease dated September 1, 1948, from Saul A. Yager and wife, lessors, to Wayne Moore.

Q Has that lease or the leasehold interest there been assigned to Delhi Corporation and El Paso Natural Gas Company?

A It has, and the working interest owner is now El Paso and Delhi, subject to--

Q I believe that lease contained no pooling clause?

A It contains no pooling clause.

Q At a later point, we shall introduce evidence that the well was commenced on this particular lot, but we will pass that for the time being. The next tract, Lot 3 in the southeast quarter of the southwest quarter, containing 80.12 acres, is in what condition as to title?

A It is United States Federal lease, of which the working interest owners are now El Paso Natural and Delhi Oil Corporation. The lessee of record, according to Government record, is C. C. Peters.

Q Have the working interest owners and lessee of owner agreed to a communitization agreement communitizing the west half or Lots 3, 4, 5 and 6, the southeast quarter of the northwest quarter, the east half of the southwest quarter and the southwest quarter of the southwest quarter?

A Yes, sir, the working interest owners have agreed to communitize the west half.

Q Was communitization agreement, a form of communitization agreement delivered to Mr. Yager at any time?

A Yes, sir, a communitization agreement was prepared and

delivered to Mr. Yager approximately August the 14th.

Q 1953?

A 1953.

Q Let's pass to the next one, and then I want to come back and discuss generally the negotiations. With reference to Case 707, which covers in Township 31 North, Range 11 West, Section 31, Lots 3 and 4, the east half of the southwest quarter and the southeast quarter or the south half, what is the status of the title to the several tracts involved in that?

A There are three leases involved. The first one is a Federal lease, Santa Fe 078,097 of which Susan Diggle Horton is the lease owner, and which the working lease owner is El Paso and Delhi Oil Corporation. That covers the east half of the southwest quarter of the southeast quarter of Section 31.

Q That is 240 acres?

A Yes.

Q Have those working interest owners, the lessees of record agreed to communitization?

A Both have agreed to communitize this lease.

Q Now, as to Lot 4, containing 41.52 acres, what is the status of that?

A That is an oil and gas lease dated September 1, 1948, from Saul A. Yager and wife, Marian Yager as lessors, to Wayne Moore, which was assigned to Delhi Oil Corporation, and has been subsequently assigned to El Paso Natural Gas Company.

Q Have the working interest owners of that lease agreed to communitization?

A Yes, sir, the working interest owners of that lease have

agreed to communitize.

Q Now, the remaining tract, which is Lot 3, containing 41.38 acres, what is the status of the title as to that?

A The working interest owner of that lease is now owned by El Paso Natural Gas as to the gas rights to the base of the Mesaverde formation, and Aztec Oil and Gas Company, who have the deeper gas rights and the oil rights.

Q Was a communitization agreement covering that tract prepared and sent to Mr. Yager, or delivered to Mr. Yager and his group?

A Yes, sir, a communitization agreement on the south half of Section 31 was prepared and delivered to Mr. Yager approximately August 4, 1953.

Q Passing now to Case 708, which refers to Township 31 North, Range 11 West, Section 15, the west half, what is the ownership as to that half section?

A There are two leases involved in the west half of Section 15, one of which is a Federal lease now owned by El Paso Natural Gas Company and Delhi Oil Corporation, and the lessee of record is Elizabeth Storey, covering 240 acres. The other lease is a lease dated September 1, 1948, from Mr. and Mrs. Yager to Wayne Moore, which lease has subsequently been assigned to Delhi and El Paso Natural Gas, that covers the east half of the southwest quarter, or 80 acres, and contains no pooling clause, that lease.

Q Had the working interest owners and the lessees of record of all these leases agreed to the communitization agreement?

A Yes, sir, they have.

Q Was a copy of the proposed communitization agreement, or several copies furnished to Mr. Yager prior to September 1, 1953?

A Yes, sir, they were.

Q I believe each of these tracts that is involved in a lease from Mr. and Mrs. Yager is on a separate lease, is that correct?

A That is correct.

Q And each of them was for a primary term of five years beginning September 1, 1948?

A That is right.

Q Referring now to Case 709, which involves Township 31 North, Range 11 West, the east half of Section 27, will you take each tract in turn and tell the Commission what the status of the title is and the condition as to a pooling clause or agreement by the royalty owners or working interest owners?

A There are six leases involved in the drilling tract, the east half of Section 27. The fee lease executed by James C. Sumruld and wife, which is now owned by Delhi Oil Corporation and El Paso Natural Gas Company, and this lease contains a pooling clause. That covers 40 acres. There is another fee lease from Carl G. Calloway and others, dated December 29, 1949, which lease has been assigned to El Paso and Delhi, and this lease also contains a pooling clause. That lease covers 40 acres also. There is an oil and gas lease from Sarah Meyers Hedges to El Paso Natural Gas Company covering 40 acres and dated May 26, 1953, of which El Paso has the entire working interest. That lease also contains a pooling clause. There is an oil and gas lease from Marion Vance and others to Primo Oil Company, which has been assigned to El Paso Natural Gas Company. That lease contains a pooling clause, and it covers approximately 80 acres. There is another fee lease from Elinor Periman and others to C. H. Nye, dated August 29, 1949. This lease has been assigned to

El Paso Natural Gas Company, and it also contains a pooling clause. There is an additional 40 acre lease covering the northwest quarter of the northeast quarter of Section 27, which is dated April 30, 1951 from Ella Blaise to Byrd-Frost, as lessee. This lease is now owned by Western Natural Gas Company, a half interest, Three States Natural Gas Company, an undivided one-fourth interest, and San Jacinto Petroleum Corporation, an undivided one fourth interest. Then there is a 40 acre lease dated September 1, 1948, from Saul A. Yager and wife, Marian Yager; there is 40 acres within this drilling tract. This lease has been assigned to El Paso and Delhi, and it contains no pooling clause.

Q Now, the portion of this lease, particular lease from Saul A. Yager and Marian Yager, dated September 1, 1948, that is involved in this location is only the northwest quarter of the southeast quarter, containing 40 acres; the other one hundred twenty acres is located in the western portion of the section?

A That is correct.

Q Now, where is the well which was drilled on this east half of Section 27 located?

A The well is located in the northwest quarter of the northeast quarter of Section 27, and on the Calloway lease.

Q Do you have a record of the cost of drilling this Calloway pool number 1 well on this tract?

A Yes, sir, I have the well costs available. The well costs of drilling the Calloway Pool Unit Number 1, as reflected by the books at the present time, total drilling cost of \$59,516.63.

MR. YAGER: Is that in Case 709?

MR. HOWELL: That is Case 709.

Q Have all the working interest owners in the east half of Section 27 agreed on a pooling?

A All of the working interest owners in the east half of Section 27 have agreed to communitize that as a drilling tract.

A Have all the royalty owners other than Mr. and Mrs. Yager and their assigns agreed by inserting pooling clauses in the lease for pooling this in a 320 acre unit?

A Yes, they have.

MR. YAGER: What is that? Would you repeat that?

MR. HOWELL: I just stated if all the royalty owners other than Mr. and Mrs. Yager had agreed, by including pooling clauses in the lease agreement, that it could be pooled in the 320 acre unit.

MR. YAGER: Thank you.

Q Passing now to Case 710, will you please testify to the ownership of leases in several tracts involved in that case?

A The drilling tract involved in Case 710 is the east half of Section 8, Township 31 North, Range 10 West, which is located on the Marcotte Pool, Unit Number 1. There are several leases involved in this tract. A fee lease dated September 23, 1952, from R. L. Sprott and Edna Sprott, as lessors, to Delhi, embracing 20 acres, which has been assigned to El Paso and Delhi, and which contains a pooling clause. There is a United States Federal lease, Santa Fe 078604, covering 120 acres within the drill site, which is now owned by El Paso Natural Gas Company and Brookhaven Oil Company. There are four leases within this tract which are owned by Beaver Lodge Oil Corporation, and they are the fee lease dated June 23, 1952 from W. W. McEwen and others, covering 39.9 acres, and this lease contains a pooling clause; there is a lease dated October 19, 1952, from

Thomas Marcotte and wife, covering 99 acres. This lease contains a pooling clause. There is an oil and gas lease from R. L. Sprott and Edna Sprott, dated May 18, 1953, covering one acre within this drilling site. This lease also contains a pooling clause. There is an oil and gas lease dated January 5, 1954, from the Denver and Rio Grande Western Railroad to Beaver Lodge that covers the .09 tenths acres. That lease also contains a pooling clause. Then there is a 40 acre lease executed by Mr. and Mrs. Yager, dated September 1, 1948, which has been subsequently assigned to El Paso Natural Gas Company and Delhi. This lease contains no pooling clause.

Q Have all of the owners of the working interest in this tract agreed to communitization?

A All of the working interest owners in the east half of Section 8 have agreed to communitize.

Q Have all of the royalty owners other than Mr. Yager, that is all of the royalty owners and fee lessees agreed to communitize except Mr. Yager by inserting the pooling agreement in the lease?

A Yes, sir, they have.

Q What is the location of the well which was drilled on this tract?

A Marcotte Pool Unit Number 1 which is located in the southwest quarter of the northeast quarter of Section 8 on the Marcotte lease, which is owned by Beaver Lodge Oil Corporation.

Q Do you have the costs of drilling this well?

A Yes, sir, the costs as reflected on our books at the present time, of drilling the Marcotte Pool Number 1, show a total drilling cost of \$72,160.45.

Q Passing now to Case 711, I will ask you to state to the Commission what the record shows with reference to this half section.

A Drilling tract involved in Case No. 711 is the west half of Section 32.

Q Township 31 North, Range 11 West?

A Yes, sir, Township 31 North, Range 11 West, on which is located our Heaton Number 3 well. There are two leases, one of which a fee lease dated April 7, 1952, for which Sarah C. Flanigan is the lessor. This lease is now owned by El Paso Natural Gas and Delhi Oil Corporation. It covers 160 acres within this drill site, and it contains a pooling clause. The other lease unit involved is Federal Lease Santa Fe 078097 of which Susan Diggle Horton is the lessee of record, and which is now owned by El Paso Natural Gas Company and Delhi Oil Corporation.

Q The third tract --

A (Interrupting) The third tract within that is a lease dated September 1, 1948, from Saul A. Yager and Marian Yager, covering 120 acres within this particular drill site. This lease contains no pooling clause.

Q Who is the working interest owner of that lease?

A The working interest owners of that lease are El Paso and Delhi Oil Corporation.

Q Have all the working interest owners of all the lands in this half section agreed to communitization?

A Yes, sir, all the working interest owners in the west half of Section 12 have agreed to communitize.

Q Have all of the fee land royalty owners, except the Yager group, agreed to communitize?

A Yes, sir. There is only one, Miss Flaningam, and she has been inserting a pooling clause within her lease.

Q Passing now to Case number 712, I will ask you to state what the record shows, as to this half section.

A Case 712 includes the drilling tract.

Q Just a minute. Before we pass to that, where is the well in Case number 711, the Heaton Number 3 Well, located?

A The Heaton Number 3 Well is located in the southwest quarter of the southwest quarter of Section 31 on the Federal lease Santa Fe 07897, owned by El Paso Natural Gas and Delhi Oil Corporation.

Q What was the cost of drilling that well?

A The drilling cost of the Heaton Number 3 Well, as reflected on our books, shows \$65,146.86.

Q Returning now to Case number 712, will you testify as to the ownership of the several tracts in that?

A Yes, sir. There are five leases within the drilling tract, the east half of Section 3, Township 30 North, Range 10 West, on which is located our Koch Number 1 Well. These leases are a fee lease dated July 2, 1953, covering 10 acres; this lease contains a pooling clause, and the working interest owner is El Paso Natural Gas Company. There is a Federal lease New Mexico 0607, covering 200, approximately 200 acres in this drill site, which is now owned by El Paso Natural Gas Company, Delhi Oil Corporation and the Atlantic Refining Company. There is a fee lease dated January 24, 1949, covering 40.3 acres. The working interest owner of this lease is El Paso Natural Gas Company and Sun Ray Oil Corporation. This fee lease contains a pooling clause. There is

an additional fee lease dated April 1, 1949, containing approximately 10 acres in this drill site. The working interest owners in this lease are El Paso Natural Gas Company and Sun Ray Oil Corporation, and this fee lease also contains a pooling clause. There is a fee lease dated July 19, 1951, which covers 50 acres within this drill site. It is owned, the working interest in this lease is owned by Fred C. Koch, and this lease contains a pooling clause. There is a fee lease in this drill site covering ten acres, dated September 1, 1948, from Saul A. Yager and wife. The working interest owners in this lease are now El Paso Natural Gas Company and Sun Ray Oil Corporation. This lease contains no pooling clause.

Q Have all of the working interest owners in this half section agreed upon communitization?

A Yes, sir, all of the working interest owners in the east half of Section 30 have agreed to communitize.

Q All the fee land royalty owners except the Yager group?

A Yes, sir, all the fee owners except the Yagers have agreed to communitize.

Q Do you have the cost of the Koch Pool Unit Number 1 Well which was drilled, and where drilled?

A Yes, The Koch Pool Unit Number 1 is located in the southeast quarter of the northeast quarter of Section 3, Township 30 North, Range 10 West. It is located on the lease owned by Fred Koch, and the--

MR. YAGER: is that the southeast, northeast of Section 3?

A Section 3, Township 30 North, Range 10 West.

MR. YAGER: It is Section 3?

A Yes, sir. The drilling cost of the Koch Pool, as reflected by the books at the present time show a total drilling cost of \$77,110.84.

Q Approximately what was the date when El Paso Natural Gas Company acquired interest with Delhi Oil Corporation in a number of the tracts?

A We acquired our interest in Delhi, which is from Delhi, in most of these tracts on March 1, 1952.

Q At that time, had negotiations, as shown by Delhi's record, begun to attempt to amend the leases to permit communitization negotiations between Delhi and the Yagers?

A Yes, sir, it is our understanding that the Delhi had, previously to our acquisition, they had negotiated and attempted to obtain a pooling clause on these leases.

Q When did you first begin negotiations with the Yager group with reference to communitizing or amended the leases?

A In the early part of 1953 we had contacts with Mr. Mizel and Mr. Yager on other matters, and preliminary discussions were begun in connection with communitizing these certain drill tracts.

Q Did you personally make a trip, one or more trips up to Tulsa?

A I personally made one trip to Tulsa to talk to Mr. Yager concerning this matter.

Q Did you send anyone employed under you in your division?

A Previously to that time, Mr. Smith, who is in our department had been up to Tulsa, and had contacted Mr. Yager, and had delivered these communitization agreements.

Q Did you actually see the communitization agreements in the

possession of Mr. Yager?

A Yes, sir, I did.

Q Have they ever been returned to you?

A No, sir, they have not.

Q Were some signatures on the communitization agreements at the time they were in the possession of Mr. Yager?

A Yes, sir, Mr. Yager showed us one communitization agreement, I don't remember which one it was, and it is my recollection that Mr. and Mrs. Yager's signatures were on the communitization agreement, and Mr. and Mrs. Mizel's signatures.

Q Approximately what time was that?

A That was on August 27th.

Q 1953?

A 1953, yes, sir.

MR. HOWELL: I think that is all.

CROSS EXAMINATION

By MR. YAGER:

Q You don't contend, Mr. Hamblin, that it was ever intended that Mr. and Mrs. Mizel and Mrs. Yager be bound by any communitization agreement that you saw their signatures on, do you?

A No.

Q You don't contend that, do you?

A No. I don't believe it was the intention to deliver those communitization agreements to El Paso.

Q That is right. So it is without any legal significance at all that you saw the communitization agreements in my possession with those signatures on, isn't that right?

A Well-

MR. HOWELL: (Interrupting) If the Commission please, that is purely a question of the effect of evidence there. A legal question. It is just arguing with the witness.

MR. YAGER: They are making a point both in their admission and the testimony of Mr. Hamblin that the communitization agreements were actually signed by Yager and Morris Mizel. Yet, to cross examine the witness on that subject, they object to us doing that. I submit--

MR. HOWELL; (Interrupting) I have no objection to the witness testifying what is said or what was done, but what the witness draws as a legal conclusion is something that I still object to.

Q Mr. Hamblin, you knew, of course, did you not, that it was never intended, let me put it this way, that it was not intended simply by the signing of those agreements that the parties who signed them be bound thereby with the El Paso, isn't that right?

A Well, I believe you expressed the idea to me that you wanted the entire group to go along, to be unanimous in whatever was done.

Q I will go one step further, didn't I say that we were in there as partners, and that I wouldn't double-cross my other partners by delivering when you and Mr. Smith requested. "Well, why don't you just deliver those with those signatures on there," didn't I say I wouldn't do any such thing, because it was a part of our definite understanding that we were not to be bound unless all of them signed that instrument, is that right?

A Well, I don't recall your saying that, but it was my understanding that you did not intend to deliver the communitiza-

tion agreements to us with you and your wife's and Mr. and Mrs. Mizel's signatures on them, and not your other partners.

Q And not the other parties in the group, is that right?

A That is correct.

Q So that neither you personally nor on behalf of the El Paso or on behalf of anybody connected with this case are making any contention that there is any significance in the fact that those signatures appeared on there that you saw in my office, isn't that right, Mr. Hamblin?

A That is a question, I believe, related to the other one which I don't believe I am qualified to testify as to the effect of those signatures.

Q As a matter of fact, let me go one step further with you. You remember the occasion and the circumstances under which those signatures happened to be on those instruments.

A I don't understand what you are asking.

Q You say you do not understand?

A No, sir.

Q Let me put it to you directly then, you know, Mr. Hamblin, that in the first place the Yager group was not to enter into any communitization agreement unless everybody connected with the group signed, that is right, isn't it?

A That was not my understanding.

Q Isn't that what you just said a few minutes ago?

A In the preliminary negotiations.

Q Isn't that what you said just a minute ago?

A At the time that I was in your office, what was the understanding that I had obtained at that time, I will say that.

Q You were not present in the first conference when Mr. Smith was there on September the, well, the early part of September when he met with me and with Mr. Morris Mizel and with Mr. Sam Mizel in Mr. Morris Mizel's office, you were not there?

A No, I was not.

Q You didn't hear any part of that conversation, did you?

A No, sir.

Q You didn't hear any part of the conversation that I had with Mr. Smith which led up to my obtaining the signatures on those instruments, did you?

A I did not hear your conversation, no, sir.

Q All you know about it is perhaps what Mr. Smith told you?

A That is correct.

Q That is right. Now, when you talked about delivering the communitization agreements to me, you don't want the Commission to understand you delivered executed communitization agreements to me, do you?

A They were partially executed communitization agreements.

Q Are you sure about that, Mr. Hamblin?

A Yes, sir. Some of the communitization had been signed by other parties.

Q Can you name who they were?

A No, sir, I am not prepared, I am not, cannot remember which particular communitizations of the seven had been signed and which parties had executed them at that time.

Q Well, I thought you, you were not the one who delivered the communitization agreements to me, were you?

A No, sir, I was not.

Q How, then, do you know that they were partially signed when they were delivered to me.

A They were in my office before they were delivered to you, and I was familiar with them and who had signed at that time.

Q Isn't it possible that those that were delivered to me were not the particular ones that you were looking at in your office?

A There was possibly ten parts, but they were the same communitization agreements.

Q They were all signed by somebody?

A Some of the communitizations were executed by other parties.

Q I am talking about those that were delivered to me.

A Yes, sir.

Q You are sure that the particular communitization agreement that you saw in your office that were partially signed before being delivered to me were the identical communitization agreements that were delivered to me? What I am trying to get at, Mr. Hamblin, is this, are you certain that the communitization agreements that were delivered to me were partially signed at the time they were delivered to me?

A It is my best recollection at the time that some of the communitization agreements were executed by some of the parties prior to delivery to you.

Q Was the El Paso one of them?

A I do not recall, but I doubt very much if El Paso had.

Q Was Delhi one of them?

A I do not recall that information.

Q Yet, in every one of the applications that you filed, you said that each one of these, the communitization agreements were

partially signed at the time they were delivered to me, isn't that true? Do you mean for the Commission to understand, Mr. Hamblin? I don't want to entrap you, I want to make this perfectly clear, you mean for the Commission to understand that the allegations in each one of your applications to the effect that communitizations partially signed were delivered to me, that that is true in each one of these cases?

A I am not prepared to testify that every communitization delivered to you had a signature on it.

Q So that it is possible that whoever drew or is responsible for the drawing of the applications could have been mistaken in some of the applications when he alleged that the communitizations were partially signed at the time they were delivered to me, is that so?

A That may or may not be true, I don't know.

Q Who else knows whether these communitizations agreements were partially signed at the time they were delivered to me?

MR. HOWELL: I suggest that you are in a better position to know it than anybody else by producing them.

MR. YAGER: That is a clever remark. They have alleged that positively in every one of their applications.

MR. HOWELL: I think it is reasonably immaterial to the issues involved here. I suggest if you make a point on it, that you have them, and give them to the Commission.

MR. YAGER: It has no place in the case. I tried to make the point at the beginning, it has no place in the application.

MR. HOWELL: I think it can be settled easily. They are in your possession.

MR. YAGER: I would like to know why you fellows make the wild allegations and the wild charges when you don't know what the facts are.

Q When you stated, Mr. Hamblin, that all the parties, that is all the owners of the royalty interest and the working interests except the Yager group agreed to communitize, of course, except insofar as you have pooling agreements in the leases, were those agreements in writing?

A Yes, sir, they are.

Q Each and every case you have in writing?

A That is correct.

Q With the exception, of course, of the Yager group?

A Yes.

Q Now, the locations of the wells in cases 709, 710, 712, both inclusive, will you identify those cases? I thought I would shorten it by referring to them by number, perhaps I haven't.

A If you refer to them by well names, the well location in Case 706 --

Q (Interrupting) Pass 706, pass 707 and 708. Begin with 709.

A All right. The location of the well in 709 --

Q (Interrupting) I want to ask a general question and then let you--I know I am sure what you answer will be, and then you can check it. The locations of the wells in Cases 709 to 712, both inclusive are not on the tracts covered by the respective Yager leases?

A That is correct.

Q That is correct, is it not?

A Yes, sir.

MR. YAGER: I think that is all.

MR. WALKER: Anyone else have a question of the witness?
If not, the witness may be excused.

MR. YAGER: May I ask one further question?

Q Mr. Hamblin, there were no applications of any sort made for pooling or for compulsory unitization prior to the application that we are hearing before the Commission now, is that correct?

A No application to the Commission.

Q For forced pooling or for unitization, is that right?

A Communitization agreements were prepared, but there was no application for forced pooling until this hearing.

Q When you say communitization agreements were prepared, you mean a form was prepared and signed by other parties and submitted for signature to the Yager group, which Yager group refused to sign?

A That is correct.

Q That is summarizing it?

A Yes.

(Witness excused)

EDWARD JOHN COEL

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

DIRECT EXAMINATION

BY MR. HOWELL:

Q Will you state your name for the record?

A Edward John Coel.

Q State your connection, if any, with El Paso Natural Gas Company.

A Senior Petroleum Engineer stationed at Farmington, New Mexico.

Q Have you ever testified before this Commission as an expert?

A No, sir.

Q Will you state to the Commission your education and the work experience which you have had?

A I have a Bachelor of Science in petroleum engineering, University of Texas, 1949. Since that time I have been employed by the El Paso Natural Gas Company in Texas and New Mexico, being in New Mexico since October of 1950.

Q Where are you located at the present time?

A Farmington, New Mexico.

Q What is your particular job with reference to the wells up there that are under consideration today?

A Engineering supervision of the drilling and completion of those wells, and keeping of the records.

Q Were these records kept under your personal supervision?

A Yes, sir.

Q Are they correctly kept?

A Yes, sir.

Q I wish you would refer to Case 706, which is the Yager Pool Unit Number 2 Well, I believe, located in the west half of Section 6, Township 30 North, Range 11 West. Testify when that notice of intention to drill was filed with the Commission, state what the area or location dedicated to the well was shown to be, testify when the well was spudded in, the data concerning its completion, its test. Do you have that information?

A Yes, sir, I do.

Q Will you state to the Commission those facts?

A This well was spudded on March 17, 1953, under oral approval from the Commission, formal approval was received on March 23.

Q When was the notice of intention to drill filed?

A I believe it was on March 17. We received oral permission from the District Engineer to spud the well.

Q Where was that well located?

A It is located 1090 feet from the north line and 1090 feet from the west line of Section 6, Township 30 North, Range 11 West.

Q Is that on the tract of land that was covered by the Yager lease?

A I would have to check that. May I see those plats? Yes, sir.

Q Yager Pool Number 2.

A Yager Pool Unit Number two.

Q That is the name of the well. Was that well, was the initial work on that well as a Mesaverde well?

A No, sir, Pictured Cliff well.

Q Was it later converted to a Mesaverde well?

A Yes, sir. The Picture Cliff formation proved to be dry, and under permission received from the Oil Conservation Commission for unorthodox locations, and to convert to a Mesaverde well in the northwest quarter of that section by letter of August 3, 1953, the well work was re-started on the well August 31, 1953.

Q When was the well completed?

A On September 20, 1953.

Q In what formation?

A The Mesaverde formation.

Q What depth?

A Depth of 4640 feet.

Q Has the well been tested?

A Yes, sir.

Q What did it test?

A 686 MCF per day on three hour flow down test.

Q Give the same data with reference to the Yager Pool Number 1 Well, which is involved in Case number 707, located on the south half of Section 31, Township 31 North, Range 11 West.

A The well is located 990 feet from the south line and 909 feet from the west line, 31/31/11, approval was granted by the Commission on February 19, 1953, and spudded March 2, 1953, completed on March 25, 1953, at the total depth of 4852 feet, tested for 710 MCF.

Q Completed in Mesaverde formation?

A Yes, sir.

Q When was the notice of intention to drill filed?

A Approximately the date of approval in February of 1953.

Q What did that notice of intention to drill show as to the tract dedicated to that well?

A I would have to check that, the south half of Section 31.

Q Passing now to the Number 3 Well which is involved in Case 708, I believe, will you give the same data to the Commission?

A The well was located 990 feet from the south, 650 from the west, Section 15, Township 31, Range 11, approval granted August 3, 1953, well spudded August 7, 1953, completion was August 22, 1953,

total depth of 4845 feet, tested for 3,630,000 MCF per day.

Q Was that well drilled on a Yager tract, a Yager lease?

A Yes, sir.

Q Completed in the Mesaverde formation?

A Yes, sir.

Q When was the notice of intention to drill filed?

A In August.

Q What was shown as the area dedicated to that well?

A West half of Section 15.

Q Passing now to Case 709, the Calloway Pool Number 1 Well, located on the east half of Section 27, will you give the Commission the same data?

A The well was located 990 feet from the north and 750 feet from the east, Section 27, Township 31, Range 11, approval granted by the Commission June 2, 1953, spudded July 12, 1953, completed July 30, 1953, total depth of 4890 feet for commercial gas well for test of 1,280,000 MCF.

Q Was that completed in the Mesaverde formation?

A Yes, sir.

Q What was the tract dedicated to the well as shown by the notice and intention to drill?

A East half of Section.

Q That is the east half of Section 27, Township 31 North, Range 11 West?

A Yes, sir.

Q Passing now to Case Number 710, which involves the Marcotte Pool Unit Number 1, will you please give the same data to the Commission?

A The location was 650 feet from the north and east of Section 8, Township 31, Range 10, approval granted to drill August 25, 1953, and the well was commenced August 30, 1953, completed November 13, 1953, at total depth of 5055 feet, tested for 10,900,000 MCF.

Q MR. YAGER: When was it spudded, sir?

A August 30.

Q Was that completed in the Mesaverde formation?

A Yes, sir.

Q When was notice of intention to drill filed, and what was the area shown by that notice?

A Filed in August, east half of Section 8.

Q Passing now to Case Number 711, the Heaton Number 3 Well, located on the west half of Section 32, Township 31 North, Range 11 West, will you please give the Commission the same data?

A Located 990 feet from the south, 990 feet from the west line of Section 32, Township 31, Range 11, approval was granted by the United States Geological Survey on March 9, 1953, the well was spudded March 27, 1953, completed April 28, 1953, total depth of 4823 feet, tested 1,625,000.

Q That was completed in the Mesaverde formation, too?

A Yes, sir.

Q And when was the notice of intention to drill filed, and what was the area shown?

A In March. The area shown was the south half of the section.

Q Passing now to Case number 712, the Koch Pool Unit Number 1 Well, will you give the data there? I believe that well was drilled on the east half of Section 3, Township 30 North, Range 10

West.

A Located 1800 feet from the north and 890 feet from the east line, Section 3, Township 30, Range 10; approval granted by the United States Geological Survey on August 14, 1953; well was spudded August 30, 1953, completed November 9, 1953, at total depth of 5452 feet, tested 5,550,000.

Q Was that completed in the Mesaverde formation?

A Yes, sir.

Q When was the notice of intention to drill filed, and what was shown?

A In August. It showed the east half of the section.

MR. YAGER: August what?

A The date of approval was granted, was the 14th, August 6th, approximately, the date it was filed.

Q Mr. Coel, are you familiar with drilling costs in the area in which these wells are located?

A Yes, sir.

Q What is the average cost of completing wells to Mesaverde formation?

A Approximately \$80,000.00.

Q I believe the evidence in this case shows that the Calloway Unit Number 1 was drilled at a cost of \$59,516.63, the Marcott Pool Unit Number 1 at a cost of \$72,160.45, Heaton Number 3 at a cost of \$5,146.86, the Koch Pool Unit Number 1 at a cost of \$77,110.84, are those costs reasonable and fair costs for wells drilled to the depth that these wells were drilled?

A Yes, sir.

Q Are they below the normal and usual costs for similar

wells in that area?

A They are below the average.

Q In your opinion, will one well drilled to the Mesaverde formation drain 320 acres?

A Yes, sir.

Q That is with reference to the particular area in which these wells are located?

A Yes, sir.

MR. HOWELL: I believe that is all.

CROSS EXAMINATION

By MR. YAGER:

Q Mr. Coel, coming to the well involved in 706, I think you called it the Yager Pool Number 2 Well.

A Yes, sir.

Q That was originally drilled as a Picture Cliff Well, as I understand?

A That is true.

Q That was spudded March 17, 1953, as I understand your testimony?

A Yes, sir.

Q You filed a notice of intention to drill that well?

A Yes, sir.

Q And did you dedicate any particular tract to the unit when you filed a notice of intention?

A Yes, sir. The northwest quarter would be dedicated in that case.

Q Northwest quarter?

A Yes, sir.

Q You completed that well when?

A Completed September 20.

Q I meant to ask you, you completed the well in the Picture Cliff when?

A I can give you that data, on May 21, the well was proved to be unproductive at a total depth of 2283 feet, and it was temporarily abandoned at that time.

Q What was the next thing you did in connection with that well, I mean with reference to the matter of filing any intention of doing anything?

A It was decided to take the well to the Mesaverde formation, and being that it was not, it did not coincide with the regulations set up for northeast, southwest location in a section, the off-set operators were polled and found to be in favor, or at least allow El Paso Natural permission to drill an unorthodox location there. That approval was submitted to the Oil Conservation Commission, and in turn, they approved the location.

Q In writing, was it submitted to the Oil Conservation Commission?

A Yes, sir.

Q Do you have a copy of that writing before you?

A I don't believe so. I believe I do have a copy of, there should be a copy of the letter from Mr. Spurrier and the Oil Conservation Commission granting permission for it.

Q The letter from the El Paso Natural, or the approval of these off-set owners?

A They are on file with the Commission.

Q We assume that is on file with the Commission.

A Yes, they are on file with the Commission.

Q There was no dedication announced or stated in that letter, was there, or do you remember?

A Yes, sir, the west half of the location was.

Q In the letter?

A Yes, sir, in a letter, and also in a supplementary notice of intention to change plans to the District office at Aztec, New Mexico.

Q When was that filed?

A May 2, 1953.

Q When was the work actually started on the well after it had been temporarily abandoned in the Picture Cliff?

A On August 31.

Q Started August 31?

A Yes, sir.

Q Do you have records to show that?

A Yes, sir.

Q You have them here with you?

A I am not sure whether that is shown on any of the records sent to the Oil Conservation Commission. I would have to check and see if it was.

Q Do you have them in your file?

A Yes, sir, definitely.

Q With you now?

A No, sir.

Q You know what the work was that was started on August 31?

A Yes, sir.

Q What was it?

A There was a misunderstanding, there was a lease expiring approximately at that time, and in order to show good faith with intention to finish the well as a Mesaverde, and because at that time we had some 30 odd rigs running, working for El Paso Natural Gas Company, and it was impossible to get a rotary rig over the hole, a cable tool rig was moved on to start the drilling deeper until such time as a rotary rig could be brought on location.

Q When was it moved on?

A On September 4.

Q A cable tool rig was moved on on September 4th?

A Oh, no, sir, it commenced operation on the 31st.

Q When was the cable tool rig moved on the lease?

A Should have been moved on the 30th.

Q When was the date that it was actually moved on, do you know?

A I don't have the information, exactly, right now.

Q Is there any information anywhere in your file of record that shows the particular date that that cable tool rig was moved on the lease?

A Yes, sir, my files should show the drilling reports submitted by the cable tool rig as they moved on.

Q Who had charge of the cable tool rig?

A It was Conley Cox's Drilling Company, Conley Cox Drilling Company.

Q Where are they?

A They are in Aztec.

Q Will your records, this may be repetition, will your office records show the exact date when that cable tool rig was moved on

the, on that lease?

A Yes, sir.

MR. YAGER: I think that is all.

MR. WALKER: Any further questions of the witness? If not, the witness may be excused.

(Witness excused)

FOSTER MORRELL

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

DIRECT EXAMINATION

By MR. HOWELL:

Q Will you state your name, please?

A Foster Morrell.

Q What is your business or profession?

A Petroleum consultant.

Q You have testified before the commission here before?

A I have.

MR. HOWELL: Are Mr. Morrell's qualifications as an expert acceptable to the Commission?

MR. WALKER: They are.

Q You have heard the testimony with reference to the completion of seven wells that were drilled on locations approximately 320 acres, located in Mesaverde Field in San Juan County, are you familiar with that field?

A I am.

Q Have you made a study, as a geologist, of the characteristics of that field?

A I have.

Q Have you reached any conclusion as to the area that one Mesaverde well will drain?

A It is my opinion that it will drain 320 acres at least.

Q Do you think that communitization of drilling tracts into 320 acre blocks is necessary to permit each owner of the oil and gas to recover his fair share?

A Under the rules and regulations of the Commission, and the basis that one well will drain 320 acres it is both desirable and necessary to communitize where lease ownership within the 320 acres is diverse.

Q Would failure to communitize in these particular cases deprive some of the owners of leases of their opportunity to recover their fair share of the oil and gas?

A It would do so.

Q Have you had any experience with unit agreements and communitization agreements in the industry generally in this area?

A I have.

Q Could you state to the Commission approximately how many unit agreements you have been connected with?

A Some 20 unit agreements in the San Juan Basin.

Q I will ask you what is the customary and prevalent method in communitizing or unitizing and providing for the payments that are to be made by non-consenting interest owner or land owner?

A The parties contributing to the cost to a drilling of a well are entitled to receive from 150 to 200 percent of the cost of drilling in repayment of those parties who do not contribute.

Q Is that a usual and customary practice in the industry?

A That is a usual and customary practice.

Q Is it a fair provision?

A It is a fair provision, and is so recognized by the industry.

Q Is that in addition to the operating costs incurred by the operator?

A That is in addition to the operating costs during the payout period.

Q In your opinion, would an order conditioned by the Commission that in the event the owners of an interest, if they be found to be the owners of an interest, who failed to pay their share of the costs should be required either to pay in cash plus six percent interest from the date of well completion or in the alternative that their production be retained by the driller until two hundred percent of the share of drilling costs allocated to the non-consenting owner be recovered, is a fair and equitable provision?

A I would say it would be fair and equitable.

MR. HOWELL: That is all.

CROSS EXAMINATION

By MR. YAGER:

Q I thought you said from one hundred fifty to two hundred percent.

A Some are 150, and some are 200.

Q Well---

A (Interrupting) The contracts to which I refer are specific as to which amount.

Q Those are cases, you say, where the parties have not voluntarily entered into an agreement?

A You will find that is a standard provision in all standard form of unit agreements or unit operating agreements thereunder approved by the Department of Interior, involving Federal lands.

Q Of 150 to 200 percent?

A Either 150 or 200 percent.

MR. YAGER: Thank you, Mr. Morrell.

MR. WALKER: Are there any other questions of Mr. Morrell? If not, the witness may be excused.

(Witness excused)

MR. HOWELL: If the Commission please, that concludes our testimony, and in view of the fact that Mr. Campbell desires to file a brief, I, of course, also would like to submit a written brief. I can state for the benefit of the Commission and Mr. Yager what our position is, and what we think is the equitable and just rule to be adopted by the Commission in these cases. When, pursuant to an order which has been adopted by the Commission, an area of 320 acres, as required by the Commission for a drilling site, has been dedicated by notice of intention to drill, it is our position that that has effected the communitization of that tract. Now, in the alternative, if the Commission should see fit not to enter an order making the communitizations effective as of the date the notice of intention to drill was filed, in the alternative, it would appear that in the seven cases we have two situations. We have three cases in which the leases had been perpetuated by drilling operations prior to the expiration of the leases. If the communitization as to the other four is not effective until this time, we ask that the Commission enter an

order in the alternative, either permitting us to complete the units on an unorthodox location. Since Mr. Yager and his group do not desire to join with us, why we are willing that they keep their 40 acres in those units, and that we be given an unorthodox location, or in the alternative, should they desire to enter the agreement, the communitization agreement, that they be required to pay their proportionate share in cash with six percent interest from the date of well completion, or failing to pay that, as operator, we recover out of their share of the production 200 percent of the drilling cost. We shall support that by brief, but I would like to briefly make our position clear.

MR. YAGER. You understand, I stated at the outset, I am going to have to repeat the difficult position I am in, because my lawyer isn't here. On the question of the reasonable cost or the reasonable charge, that should be made against a non-consenting interest owner having particular reference to Mr. Morrell's testimony from 150 to 200 percent, I should like to have the Commission's permission, and yours also, Mr. Howell, if Mr. Campbell sees fit to offer any additional proof on that question, would you have any objections? I think it can be done informally. I understand Mr. Morrell is very distinguished in his profession. I am sure that he has testified according to his best knowledge. Mr. Campbell may want to offer some additional proof on that question. Would you have any objections?

MR. HOWELL: I have no objections to Mr. Campbell filing a written statement or brief that he desires. I am going to ask the Commission to close the hearing of the case.

MR. KITTS: El Paso, in filing this application is pro-

ceeding under Section 13C, is it not?

MR. HOWELL: That is our intention.

MR. KITTS: If that is the case, then any relief or any relief you are entitled to would stand quite apart from any agreement or purported agreement you would have with the Yager group, isn't that correct?

MR. HOWELL: Well, that is correct.

MR. KITTS: So, actually, this other matter is really superfluous as far as the Commission is concerned, whether he did or did not agree?

MR. HOWELL: That is quite true. It is our position that the matter of whether a lease was extended or not is not before the Commission. We have asked the Commission for a specific order. We are asking that the order be made effective as of the filing of the notice of intention to drill. What results from that is a matter for the courts rather than for the Commission. That is our position.

MR. COLVIN: A. L. Colvin, Delhi Oil. Inasmuch as Delhi has an interest in these particular proceedings, I would like to make a statement on our position. We concur wholeheartedly with the position that El Paso is taking in this matter. I would like to also state that I do not know whether or not Delhi signed the communitization agreements that were presented to the Yager group, but if our signature did not appear thereon, it was solely because they had not reached us at that time, because we had notified El Paso, in fact, we had a contract with El Paso that we would use our best efforts to get these wells drilled. I, myself, wrote the Yager group several letters before we made our transaction with

El Paso, requesting that they join or exercise a pooling amendment so we could go ahead withour drilling program. Delhi would definitely have signed the agreement had they been presented to us. In furtherance of Mr. Morrel's testimony, we made a deal, or an agreement with a major company, it is very evident in these hearings from time to time, concerning a drilling unit in Section 1, I believe it was 38 or 39, along this same line, and they paid us 125 percent in cash, 125 percent cash or 200 percent out of production. They paid us 125 percent, and that has been within the last six months.

MR. WALKER: Anyone else?

MR. ALBRIGHT: W. C. Albright with Atlantic Refining Company. We have a unit in the acreage involved in case 712. I would like to state that we were agreeable at the time, and we are agreeable now to the communitization that was proposed or is proposed by El Paso Natural Gas.

MR. WALKER: Anyone else. The cases are closed as far as testimony is concerned. The Commission will take them under advisement, awaiting the filing of the briefs, and I think we should probably put a time limit on although I don't know when we will get the record, that is the transcript of the record.

MR. YAGER: Mr. Campbell would probably like to have it.

MR. WALKER: Is two weeks agreeable? The cases will be taken under advisement.

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO
SANTA FE, NEW MEXICO

Ex R-1

Case
El Paso Natl - 706-712

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

CASE NO. 317
ORDER NO. R-110

THE APPLICATION OF THE OIL CON-
SERVATION COMMISSION OF NEW
MEXICO UPON ITS OWN MOTION FOR
AN ORDER AMENDING ORDER NUMBER
799 RELATING TO THE BLANCO POOL,
SAN JUAN COUNTY, NEW MEXICO,
SPECIFICALLY INCLUDING SECTION
4-A CASING AND CEMENTING PROGRAM,
AND OTHER MATTERS.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This matter came on regularly for hearing on October 23, 1951, at 10 a.m., at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter called the "Commission".

NOW, on this 9th day of November, 1951, the Commission, a quorum being present, having considered the testimony adduced and exhibits received at said hearing, 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, of all interested parties, and the subject matter thereof.

(2) That this matter originally came up for hearing on petition of the Blanco Gas Company for an exception to Section 4-A of Order 799, Blanco Pool Casing Requirements, San Juan County, in Case Number 283, which Case Number 283 was dismissed by Commission Order Number R-90.

(3) That evidence submitted and testimony received in Case Number 283 tended to show modification of Order Number 799 is advisable and necessary.

(4) That Order Number 799 relating to the Blanco Pool, in San Juan County, New Mexico, should be amended to provide for the orderly development of the pool as defined and described in Order Number R-89 issued in Case Number 291 and designated as the Blanco (Mesaverde) Pool, and as the pool may hereafter be changed or extended, for the purpose of promoting conservation and preventing waste, and as amended herein, be the special pool rules of the Blanco (Mesaverde) Pool as described in Order Number R-89.

IT IS THEREFORE ORDERED:

(1) That Order Number 799, being the Blanco Pool special rules, as hereinafter amended shall be the rules of the Blanco (Mesaverde) Pool, as said pool is more fully defined and described in Commission Order Number R-89, and as said pool may hereafter be changed, reduced or extended.

(2) That Order Number 799 be, and the same hereby is amended as follows:

That, effective on the date of this order, the following rules and regulations shall apply to wells hereafter drilled or completed or re-completed to the Mesaverde Pool in the Blanco area, defined below, in addition to the Commission's applicable rules, regulations and orders heretofore or hereafter adopted to the extent not to conflict herewith:

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

(a) Such well be located on a designated drilling unit of not less than three hundred twenty (320) acres of land, more or less, according to legal subdivision of the United States Land Surveys, in which unit all the interests are consolidated by pooling agreement or otherwise and on which no other well is completed, or approved for completion, in the pool;

(b) Such drilling unit be in the shape of a rectangle except for normal variations in legal subdivisions of the United States Land Surveys, the north half, south half, east half or west half of each section of land constituting a drilling unit;

(c) Such well shall be located 330 feet from the center of either the northeast or southwest quarter of the section, subject to variation of 200 feet for topographic conditions. Further tolerance shall be allowed by the Commission only in cases of extremely rough terrain where compliance would necessarily increase drilling costs.

Section 2. The special rules and regulations for the Blanco (Mesaverde) Pool contained herein shall be limited in their application to the present 4200-5100 foot productive horizon where the productive sands are contained between the top of the Cliff House Sand and the base of the Point Lookout Sand of the Mesaverde.

Section 3. Proration Units: The proration unit shall consist of 320 acres or (a) a legal United States General Land Office Survey half-section and (b) the approximate 320 acre unit shall follow the usual legal subdivision of the General Land Office Section Surveys and (c) where proration units lie along the edge of field boundaries described in Section 1 above, exceptions shall be permissible in that contiguous tracts of approximately 320 acres, following regular United States General Land Office Subdivisions may be classed as proration units.

(a) The pooling of properties or parts thereof shall be permitted, and if not agreed upon may be required in any case when and to the extent that the smallness or shape of a separately owned tract would, under the enforcement of the uniform spacing plan of proration units, otherwise deprive or tend to deprive the owner of such tract of

the opportunity to recover his just and equitable share of the crude petroleum oil and natural gas in the pool; provided, that the owner of any tract that is smaller than the drilling unit established for the field, shall not be deprived of the right to drill on and produce from such tract if same can be done without waste; but in such case the allowable production from such tract, as compared with the allowable production therefrom if such tract were a full unit, shall be in the ratio of the area of such tract to the area of a full unit of 320 acres.

Section 4. Casing and Cementing Program:

A. Surface Pipe:

The surface pipe shall be set to a minimum depth of 100 feet, and where shallow potable water-bearing beds are present, the surface pipe shall be set to such shallow potable water-bearing beds and a sufficient amount of cement shall be used to circulate the cement behind the pipe to the bottom of the cellar. This surface casing shall stand cemented for at least 24 hours before drilling plug or initiating tests. The surface casing shall be tested after drilling plug by bailing the hole dry. The hole shall remain dry for one hour to constitute satisfactory proof of a water shut-off. In lieu of the foregoing test the cement job shall be tested by building up a pressure of 1,000 psi, closing the valves, and allowing to stand thirty minutes. If the pressure does not drop more than 100 pounds during that period, the test shall be considered satisfactory. This test shall be made both before and after drilling the plug. In this regard all fresh waters and waters of present or probable future value for domestic, commercial or stock purposes shall be confined to their respective strata and shall be adequately protected by methods approved by the Commission. Special precaution shall be taken in drilling and abandoning wells to guard against any loss of artesian potable water from the strata in which it occurs and the contamination of artesian potable water by objectionable water, oil or gas. The Commission shall be notified at least 24 hours prior to the conducting of any test.

B. Production String:

The production string shall be set on top of the Cliff House Sand with a minimum of 100 sacks of cement and shall stand cemented not less than 36 hours before testing the casing. This test shall be made by building up a pressure of 1,000 psi, closing the valves, and allowing to stand thirty minutes. If the pressure does not drop more than 100 pounds during that period, the test shall be considered satisfactory.

C. General:

All cementing shall be done by the pump and plug method. Bailing tests may be used on all casing and cement tests, and drill stem tests may be used on cement tests in lieu of pressure tests. In making bailing test, the well shall be bailed dry and remain approximately dry for thirty minutes. If any string of casing fails while being tested by pressure or by bailing tests herein required, it shall be re-cemented and re-tested or an additional string of casing should be run and cemented. If an additional string is used, the same test shall be made as outlined for the original string. In submitting Form C-101, "Notice Intention to Drill", the number of sacks of cement to be used on each string of casing shall be stated.

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D. Rules and Regulations of the Commission relating to drilling, abandonment, production shall be applicable.

Section 5. Tubing:

Any completed well which produces any oil shall be tubed. This tubing shall be set as near the bottom of the hole as practicable, but in no case shall tubing perforations be more than 250 feet from the bottom. The bottom of the tubing shall be restricted to an opening of less than 1 inch or bull-plugged in order to prevent the loss of pressure bombs or other measuring devices.

Section 6. Special Equipment:

Any well which produces oil shall be equipped with a meter setting of adequate size to measure efficiently the gas, with this meter setting to be installed on the gas vent or discharge line. Wellhead equipment for all wells shall be installed and maintained in first class condition, so that static, bottom hole pressures and surface pressures may be obtained at any time by a duly authorized agent of the Commission. Valves shall be installed so that pressures may be readily obtained on the casing and also on the tubing, wherever tubing is installed. All connections subject to well pressure and all wellhead fittings shall be of first class material, rated at 2,000 psi working pressure and maintained in gas-tight condition. Bradenheads rated at 2,000 psi shall be installed on all production string and bradenhead connections maintained in gas-tight condition. There shall be at least one valve on each bradenhead. Operators shall be responsible for maintaining all equipment in first class condition and shall repair or replace equipment where gas leakage occurs.

Section 7. Safety Requirements:

Drilling boilers shall not be set closer than 200 feet to any well or tank battery. All electrical equipment shall be in first class condition and properly installed.

Section 8. Shooting of Wells:

Wells shall not be shot or chemically treated until the permission of the Commission is obtained. Each well shall be shot or treated in such manner as will not cause injury to the sand or result in water entering the oil or gas sand, and necessary precautions shall be taken to prevent injury to the casing. If shooting or chemical treatment results in irreparable injury to the well or to the oil or gas sand, the well shall be properly plugged and abandoned. (See Rule 42, Order Number 4, Effective 8-12-35.)

Section 9. Testing of Pays:

All wells drilled through the Point Lookout Pay will be tested by means of separate back pressure tests in accordance with the methods adopted by the United States Bureau of Mines (Monograph 7) of (a) the Cliff House Pay (b) the Point Lookout Pay (c) both pays commingled with a minimum of three stabilized readings from a total minimum of three different sized orifices.

A. Wells which penetrate the Cliff House Pay only will take minimum of three stabilized tests covering a total of three different sized orifices.

B. The foregoing tests shall be taken either in the process of completion, or in drilling, or by means of packer separations between the Point Lockout and Cliff House Pays after completion. All tests should be certified and filed with the Commission, and the Commission shall be notified at least 24 hours prior to conducting any test.

C. Annual back pressure tests, using total of three different sized orifices, shall be taken in June, July or August on each completed well. Each test must be stabilized and plotted as a straight line function on logarithmic paper as outlined in United States Bureau of Mines Monograph Number 7.

D. Within six months of the effective date of this order, and every six months thereafter, there shall be a meeting of all operators within the Blanco-Mesaverde pool in the Commission Offices in Santa Fe, New Mexico, to present and discuss new information and data gathered subsequent to the effective date of this order. The Commission may discontinue these meetings when in its opinion, the pool has reached a stage of development where such meetings are unnecessary.

Section 10. Protection of Mineral Deposits:

Since the Menefee coal beds bear some gas and since these coal beds are of non-commercial value, Rule 20, Order Number 4 of the Commission dated August 12, 1935, shall not apply to this field.

Section 11. Gas Wastage:

Mesaverde gas shall not be flared since this is principally a gas reservoir and any well not connected to a commercial or domestic taker shall be shut-in until such market is obtained. Wells in this field shall be permitted to produce and market gas, as long as such can be done without waste, equitably between proration units for the field.

Section 12. Bradenhead Gas:

Bradenhead gas shall not be used either directly or expansively in engines, pumps or torches, or otherwise wasted. It may be used for lease and development purposes and - for the development of nearby leases, except as prohibited above. Wells shall not be completed as Bradenhead gas wells unless special permission is obtained from the Commission.

Section 13. Any provision herein to the contrary notwithstanding, the Commission may, and in proper cases will, on petition or on its own motion, by order entered after notice and hearing to the extent required by law, grant exceptions and permit drilling locations to become effective, thereby authorizing the drilling or completion of wells in the pool not conforming to the requirements of Sections 1 through 12 above if the Commission shall find that the property sought to be drilled would be deprived of an opportunity to produce gas from the pool in the absence of such exception, or irrespective of such findings, if the Commission shall find that by reason of all circumstances an exception is proper in the prevention of waste, or undue drainage between properties, or otherwise in the exercise by the Commission of its jurisdiction over the spacing of wells or its order powers conferred by law express or implied.

Section 14. All additional lands located within one mile of any land in the pool as defined above or as it may be extended shall conform to these rules and regulations; provided, however, that by order of this Commission the pool may be re-designated from time to time so as to embrace other lands in the vicinity which are believed on the basis of additional developments, to be capable of producing gas from the Mesaverde formation, whether or not such other lands shall have been at one time included in another designated field or pool producing from Mesaverde.

IT IS FURTHER ORDERED, That the Commission retain jurisdiction of this case for such other and further order or orders in the premises as may become necessary in order to make spacing and other adjustments and to protect correlative rights and further prevention of waste.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

S/ EDWIN L. MECHEM, Chairman

S/ GUY SHEPARD, Member

S/ R. R. SPURRIER, Secretary

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