

BEFORE THE
Oil Conservation Commission
SANTA FE, NEW MEXICO
April 20, 1955

IN THE MATTER OF:

CASE NO. 878 - Regular Hearing

TRANSCRIPT OF PROCEEDINGS

ADA DEARNLEY AND ASSOCIATES
COURT REPORTERS
605 SIMMS BUILDING
TELEPHONE 3-6691
ALBUQUERQUE, NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
April 20, 1955

IN THE MATTER OF:)

Application of Shell Oil Company for excep-)
tion to Rule 309 to permit comingling into)
common tankage of oil produced from two)
separate state leases in the Caudill-Devon-)
ian Pool (Leases E-1044 and E-1667 in 16-)
15S-36E.))

Case No. 878

BEFORE:

Mr. E. S. (Johnny) Walker
Mr. William B. Macey

TRANSCRIPT OF HEARING

MR. MACEY: The next case on the docket is Case 878.

MR. HUGHSTON: I am Richard L. Hughston appearing for Shell Oil Company, the applicant in this matter.

This is the application of Shell for an exception to Rule 309 to permit the comingling into common tankage of oil produced from two separate state leases in the Caudill-Devonian Pool, Leases E-1044 and E-1667, both located in Section 16, Township 15 South, Range 36 East.

The applicant asks that the reporter identify a plat showing the relative location of the leases as Applicant's Exhibit 1.

(Marked Shell Oil Company's Exhibit
No. 1, for identification.)

MR. N E S T O R ,

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

DIRECT EXAMINATION

By MR. HUGHSTON:

Q Mr. Nestor, you have heretofore testified before the Commission, have you not?

A I have.

Q On your qualifications as petroleum engineer?

A Yes, sir.

Q You are a petroleum engineer?

A Yes, sir.

Q Employed by Shell Oil in that capacity?

A Yes, sir.

Q You are familiar with the Caudill-Devonian Pool?

A I am.

Q And with the location of the State Leases E-1040 and E-1667?

A Correction, that is E-1044

Q In Township 15 South --

A Yes, sir.

Q In 16-15 South, 36 East?

A Yes, sir.

Q Is Shell the owner of both those leases?

A Yes, sir.

Q Will you look at the applicant's Exhibit No. 1 and explain to the Commission the problems involved and the desirability of common tankage for the two leases?

A This particular lease situation is somewhat complicated. The lease which we know as the NM-1269, State of New Mexico E-1044 is described as 320 acres, being the north half northeast quarter, southwest quarter northeast quarter, west half northwest quarter,

southeast quarter northwest quarter, and south half southwest quarter, Section 16, Township 15 South, Range 36 East. This lease then has a total of 240 acres in the north half of the section, with two separate 40-acre tracts not in the lease and also an 80-acre tract, being the south half of the southwest quarter, which acreage is, of course, not contiguous with the remainder of the lease.

In addition, the lease which we know as our Shell NM-1361, State of New Mexico E-1667, comprises the balance of the north half of the section, being the southeast quarter northeast quarter and northeast quarter northwest quarter, Section 16, Township 15 South, Range 36 East.

Q The Lease E-1667 is comprised of two separate 40-acre tracts that are separated by Lease E-1044, is that right?

A Yes, sir.

Q Would it be desirable that both those leases be produced into common tankage?

A It is desirable, definitely, from an economic standpoint that these leases be produced into common tankage, not only from the standpoint of savings initially, as capital investment, but also the fact that such a lease might be treated much easier from an automatic tank battery standpoint.

Q Has any approach been made to the Commissioner of Public Lands of the State of New Mexico with reference to obtaining his consent to such a procedure?

A Upon advice from the Oil Conservation Commission, Shell wrote a letter dated February 17, 1955. Subject: Centralization of Tankage, Shell Leases NM-1269 (E-1044) and NM-1361 (E-1667), Caudill Field, Section 16, Township 15 South, Range 36 East, NMPM, Lea

County, New Mexico, and addressed to Mr. E. Walker, Commissioner of Public Lands, Santa Fe, New Mexico.

(Marked Shell Oil Company's Exhibit No. 2, for identification.)

Q I hand you a copy of the letter addressed to Mr. Walker, identified as Exhibit No. 2, and ask you if that is a copy of the letter sent to Mr. Walker?

A This is a complete copy.

MR. HUGHSTON: We offer this as Applicant's Exhibit No. 2.

Q What reply did you receive from Mr. Walker, Mr. Nestor?

A Received a letter dated February 21, 1955 from E. S. Walker, Commissioner of Public Lands, stating generally as follows: "That the State Land Office would grant permission to commingle future production from all Shell wells on State leases NM-1269 and NM-1361, subject to approval by the Oil Conservation Commission.

Further, "No separate accounting of royalty by the individual lease numbers would be required, however, consolidated reports of production and pipeline runs would indicate separately thereon, the production and pipeline runs from individual wells, as is done where more than one well is located on the same original lease. All forms and reports should bear both lease numbers. This is for your protection as well as for the benefit of our records, so that no lease could be cancelled in error.

It is understood that the central tank battery will include adequate tankage and other equipment so that the production from each well can be accurately determined at reasonable intervals. No well on the above described leases shall at any time be permitted

to produce at a rate in excess of the top allowable as fixed by the Oil Conservation Commission."

Q Are all the conditions attached to Mr. Walker's letter acceptable to Shell if this application is granted?

A They are.

Q And will be recognized and abided by?

A Yes, sir.

(Marked Shell Oil Company's Exhibit No. 3, for identification.)

Q I hand you an instrument identified as Applicant's Exhibit 3 and ask you if that is a true and correct copy of the letter about which you testified?

A It is.

MR. HUGHSTON: We offer this Exhibit 3 in evidence.

Q Is there any other facts that should be related to the Commission so that it will be fully advised in this matter?

A We have also our letter to the Commission stating generally that we had, as advised, by the Commission, written to the State Land Office, and that we had an affirmative reply from the Land Office, signed by Mr. Walker, Commissioner of Public Lands, granting permission to commingle, subject to approval by the New Mexico Oil Conservation Commission.

"We further state that,"All Oil Conservation Commission Rules and Regulations will be complied with in the centralized handling of oil, including Rule 309 regarding central tank batteries. No more than eight units will be handled in the same tank battery without prior approval from your office. Adequate tankage and testing facilities will be installed so that the production from each

