

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

September 24, 1957

IN THE MATTER OF
CASE NO. 1316

TRANSCRIPT OF PROCEEDINGS

DEARNLEY - MEIER & ASSOCIATES
INCORPORATED
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ALBUQUERQUE, NEW MEXICO
3-6691 5-9546

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
September 24, 1957

IN THE MATTER OF:)

Application of Sun Oil Company for)
approval of an 80-acre non-standard)
gas proration unit and an unorthodox)
gas well location in the Crosby-)
Devonian Gas Pool, Lea County, New)
Mexico, in exception to Rule 3 of)
Order No. R-639-A. Applicant, in the)
above-styled cause, seeks an order author-)
izing an 80-acre non-standard gas pror-)
ation unit in the Crosby-Devonian Gas)
Pool consisting of the E/2 SE/4 of)
Section 20, Township 25, South, Range 37)
East, Lea County, New Mexico. Applicant)
further seeks approval of the unorthodox)
location of its B. T. Lanehart Well No. 3)
at a point 330 feet from the South and)
East lines of said Section 20. The said)
B. T. Lanehart Well No. 3 was projected as)
an oil well and was found to be productive)
of gas rather than oil.)
)

CASE NO.
1316

BEFORE:

Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

MR. NUTTER: The next case will be Case No. 1316.

MR. COOLEY: Case No. 1316. Application of Sun Oil Company
for approval of an 80-acre non-standard gas proration unit and an
unorthodox gas well location in the Crosby-Devonian Gas Pool, Lea
County, New Mexico, in exception to Rule 3 of Order No. R-639-A.

MR. BALLOU: Mr. Nutter, my name is Arch Ballou, representing
Sun Oil Company. On July 11, 1956, a hearing was held in Hobbs.

New Mexico on the application of Sun Oil Company for an unorthodox location for a well projected to the Crosby-Devonian Gas Pool in search for oil, and I would like to have the record of that hearing of July 11, 1956, included into this record by reference.

MR. COOLEY: Do you have the case number, Mr. Ballou?

MR. BALLOU: Yes, sir, it is Case 1098.

MR. COOLEY: One, zero, nine, eight.

MR. NUTTEP: Is there objection to the introduction of the record in Case 1098 into the record of Case 1316? If there is no objection to the incorporation of this previous record in this case, we will so do.

MR. BALLOU: As a result of the hearing held July 11, the Commission issued an order on August 7, 1956, being Order No. R-859 which gave Sun Oil Company permission to drill a well being B. T. Lanehart Well No. 3, at a point 330 feet from the South and East lines of Section 20, Township 25 South, Range 37 East, NMPM, Lee County, New Mexico on the Lanehart 80-acres.

This order further states that in the event the said B. T. Lanehart Well No. 3 is completed as an oil well, the applicant will make prompt application to the Commission for a standard oil well proration unit; in the event the said B. T. Lanehart No. 3 is completed as a gas well, the applicant will make every reasonable effort to form a standard gas proration unit of 160-acres, and, should such efforts fail, to make prompt application to the Commission for forced pooling or a non-standard gas proration unit.

I would like to introduce also a certified copy of Order No. R-859.

MR. NUTTER: This copy has been certified by A. E. Porter, Secretary-Director of the Commission as a true and correct copy of original Order R-859, dated August 30, 1956. Is there objection to the introduction of this certified copy of Order R-859? If not, we will receive said copy, and it will be marked as Exhibit 1 in Case 1316.

MR. BALLOU: Now, after this order was received and prior to drilling the well, Sun Oil Company contacted Anderson-Prichard Oil Company which owns, I understand 56.79-acres of the other 80-acres in this quarter section, and I understand that Olson Oil Company owns 3.21-acres. Is that right?

MR. McLAUGHLIN: Olson owns 3.75-acres, our's is approximately 56, it is 55.9025 I believe.

MR. BALLOU: And the Southland Royalty owns, I believe 26-acres.

MR. COOLEY: What is the description of the acreage that you are outlining ownership of?

MR. BALLOU: The 80-acres offsetting the B. T. Lanehart in this --

MR. COOLEY: Can you describe that?

MR. BALLOU: Yes, sir, just a second. I have a plat here that shows that portion. In Section 20 is Sun Oil Company's B. T. Lanehart No. -- I mean B. T. Lanehart Lease with wells 1, 2, and

3 shown there, and Anderson-Prichard owns the West Half of the Southwest Quarter.

MR. NUTTER: Southeast Quarter.

MR. BALLOU: Southeast Quarter, yes, sir.

MR. NUTTER: In other words, Sun Oil Company is the owner of the East Half of the Southeast Quarter of Section 20, Township 25 South, Range 37 East, and Anderson-Prichard is the owner of the West Half of Southeast Quarter.

MR. BALLOU: I thought that Anderson-Prichard owned the entire 60-acres until I talked to Mr. McClure the Chief Counsel for Anderson-Prichard, and he said that they owned approximately 56-acres and Southland Royalty Company owned approximately 20-acres and R. Olson owned the balance, is that correct? One of our landmen, Mr. J. E. Buckley, contacted someone with the Anderson-Prichard Oil Company prior to the drilling of this well, Mr. J. H. Dalton with Anderson-Prichard Oil Company, and asked him if they would be willing to participate in the drilling of a well at the applied for location for which we received a permit under Order R-859. Mr. Dalton said that they would not, and later, Mr. J. Don Wiet, of the Midland Office contacted our landman in Roswell, New Mexico, and set out the basis on which we had requested them to go into the unit, and confirmed the statement of Mr. Dalton that they would not participate in the unit.

I have here photostatic copies of that correspondence, dated April the 17, 1957, March 19, 1957 and a copy of a letter dated

May 23, 1957, from Mr. Wiet to Mr. A. J. Viets, the Dallas Office.

I would like to introduce this as evidence that we have made a reasonable effort to form a unit there, and that we are asking here for an 80-acre non-standard gas proration unit so that we can have an allowable assigned to our well, and if and when we can work out an arrangement for a full 160-acre unit with Anderson-Prichard and others who are owners of the West Half of the Southeast Quarter of Section 20, that we will form a full unit, and at that time request an orthodox unit.

MR. NUTTER: Mr. Ballou, did you wish to offer this plat as an exhibit in this case too?

MR. BALLOU: Yes, sir.

MR. NUTTER: This plat will be marked as Exhibit No. 2.

MR. BALLOU: The plat, of course, is in the record of the July 11th hearing.

MR. NUTTER: Now, do you wish to offer these photostatic copies of letters as a collective exhibit, Exhibit No. 3, or as individual exhibits?

MR. BALLOU: Well, collective, as Exhibit 3 will be fine. It is just an exhibit to show that we have made an effort and are continuing to make an effort to form a full 160-acre unit on this tract.

MR. COOLEY: Off the record.

(Discussion off the record.)

MR. NUTTER: Is there objection to the witness being sworn

in now, rather than at the beginning of the hearing?

(Witness sworn.)

MR. ARCH BALLOU

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

QUESTIONS BY MR. NUTTER:

Q. If you will briefly summerize what these exhibits are, for the sworn testimony, Mr. Ballou.

A All right, sir. As Exhibit 1, we introduced a copy of Order R-859 which gave Sun Oil Company permission to drill the B. T. Lanehart No. 3 Well. This copy has been certified by A. L. Porter as being a true and correct copy of Order R-859.

Also, as for Exhibit 2, we introduced a plat showing the location of Sun's leases and the adjacent 80-acres owned by Anderson-Prichard, R. Olson, and Southland Royalty Company, which contains the entire Southeast Quarter of Section 20.

And also have introduced as Exhibit 3, photostatic copies of three letters between various people in Anderson-Prichard's organization and Sun Oil Company's organization, pertaining to the efforts that have been made to form a standard 160-acre proration unit.

Q Exhibit 3 consists of three photostatics, the first being a letter from Anderson-Prichard Oil Corporation, J. H. Dalton, to Sun Oil Company, James E. Buckley. The letter is dated March 19, 1957. The second portion of Exhibit 2 is a letter from

Mr. S. B. Christy.

A He is with Sun Oil Company in Roswell.

Q With Sun Oil Company at Roswell, addressed to Mr. A. J. Viets at the Dallas Office. This is an inter-office correspondence sheet of Sun Oil Company and is dated April 17, 1957. The third portion of Exhibit 3 comprises of a photostat of a letter from Mr. J. Don Wiet, District Landman for Anderson-Prichard Oil Corporation, Midland, Texas, addressed to Sun Oil Company, Dallas, Texas, to the attention of Mr. A. J. Viets. The date of this letter is May 23, 1957.

Q Is that all the testimony you have to offer at this time, Mr. Ballou? A Yes, sir.

MR. NUTTER: Does anyone have any questions of the witness?

MR. WHITE: Yes, I would like to ask a question, Charles White, with Anderson-Prichard Oil Corporation.

MR. NUTTER: Mr. White.

CROSS EXAMINATION

BY MR. WHITE:

Q Mr. Ballou, these original negotiations with respect to the drilling of the Lanehart Well and the formation of the unit were conducted prior to the time the Lanehart No. 3 Well was drilled, is that correct? A That's correct.

Q Was the original offer regarding the formation of the unit made by phone from Mr. Buckley of your office?

A I believe it was.

Q Of your Dallas Office?

A I believe the original offer is set out in the letter of April 17 between Mr. Christy and Mr. Viets. Mr. Wiet had called Mr. Christy and outlined the proposition as he understood it, and Mr. Christy related that information to the Dallas Office.

Q Would you mind outlining the terms of the original offer which were made by Mr. Buckley?

A The letter, reading from the letter of Mr. Christy, it says? "Today Mr. J. Don Wiet of the Midland Office of Anderson and Prichard called on me regarding a proposed well and their interest in the event of a gas well.

He stated that they were willing to go along with us on all of the conditions except that they were unwilling to pay their part of the cost of a well in the event of a dry hole since they would not participate in an oil well. In brief, he stated the conditions as follows:

One: In the event of a gas well they would join a gas unit and pay their proportionate cost.

Two: In the event of an oil well they would have no interest and pay no cost.

Three: In the event of a dry hole they would be obligated to pay no cost.

Four:: In the event of a marginal gas well they would have the option of contributing no cost of drilling well and reserve no returns from the sale of the gas until the well had paid out."

And then, he says,

"I told Mr. Wiet I would pass this information to you."

Q Was this Lanehart No. 3 Well originally projected as an oil well?

A Yes, it was.

Q Did all the parties anticipate that oil would be obtained rather than gas?

A No, I don't know how much anticipation there was, but we hoped we would get an oil well similar to Mr. Olson's Oil Well immediately offsetting us to the east.

Q Did Sun Oil Company ever make an offer to communitize all of the rights with respect to the Southeast Quarter of Section 20, 25 South, 37 East, including all subsequent rights which might be recovered from the well?

A You mean oil, gas and so forth?

Q Yes.

A I don't think you can form a 160-acre unit in that field, can you?

Q Well, if --

A You can't do it, so we didn't try it.

Q In any event, the original offer made from your Dallas Office provided that Anderson Prichard would pay its part of the cost of the well if the well was completed as a dry hole, is that correct?

A Yes, sir.

Q As we understood it, the offer which was made from your Roswell Office was a different offer, and provided that Sun would bear the entire cost of the well if it was an oil well or if it

was a dry hole, is that correct?

A Well, I hope no one out of the Roswell office makes a deal like that, we would like to stay in business.

Q Was there any misunderstanding between the Roswell Office and Anderson-Prichard for the formation of this --

A I am sorry, I can't answer that question, I don't know if there was any disagreement between Anderson-Prichard and Sun, I was not aware of it.

Q Was any offer ever made in writing with respect to the formation of this unit or were all the offers made by phone?

A I can't answer that, this is all the correspondence I have.

MR. McLAUGHLIN: Can I say something. I am with the legal department of Sun Oil Company.

MR. NUTTER: State your name?

MR. McLAUGHLIN: Don McLaughlin. In this first letter, the original deal was made on the telephone. In the letter from Mr. Dalton to Mr. Buckley, Mr. Dalton repeated what the offer was that Buckley made. He said if it is a gas well, or a gas distillate producer, or dry hole, the cost will be borne jointly. I am reading from the letter.

MR. COOLEY: Reading from Exhibit No. 3.

MR. McLAUGHLIN: The first letter here. That is when Anderson-Prichard repeated the offer that had been made over the telephone, so there wouldn't be any mistake.

MR. WHITE: As long as we are talking about that Exhibit more or less informly, I would like to point out that Mr. Ballou made a statement a few minutes ago in which he said that Mr. Dalton's letter of March 19, 1957 had rejected Sun Oil Company's offer to form 160-acres, and we submitted that the letter speaks for itself, and that it is not a definite failure to accept Sun's officers, it merely states that the recommendation has been submitted to our Midland, Texas Office and no action had been taken at that time.

A Let me clear that, let me read these two letters from Anderson-Prichard, I think that might clear the matter up, if there is some misunderstanding in his mind about the thing.

The letter of March 19th, is addressed to Mr. James E. Buckley with the Sun Oil Company from Mr. J. H. Dalton of the Land Division Office, Anderson-Prichard Oil Company, and he says, he sets out the 80-acres of the West Half of the Southeast Quarter of Section 20, Lea County, New Mexico and he says "We are awaiting recommendation to our March 14th memorandum to our Midland, Texas District Office, to your proposal over long distance telephone a week ago this afternoon with respect to your and our forming a 160-acre unit embracing your leasehold East Half of the Southeast Quarter, and ours, West Half of the Southeast Quarter of captioned Section 20 for the purpose of drilling a Devonian test, 8800 to 9000 feet, provided if it is a gas or gas distillate producer or is a dry hole, the cost thereof would be borne jointly, but if an oil well, the well shall be owned and paid for 100 percent by your company. In due

course, I hope to have an answer.

It is sure nice to hear your voice; brought back memories, which I cherish, of your and my associations commencing in the Spring of 1916. With good wishes and warm regards, I am, Sincerely yours, Jack Dalton.

Now, on May the 23rd, Mr. Viets of our land department received a letter from Mr. J. Don Wiet, District Landman of Anderson-Prichard, concerning the same file, the West Half of the Southeast Quarter of Section 20, Township 25 South, Range 37 East, and he says, "This refers to your recent request for a dry hole contribution in support of a Devonian test well your company proposed to drill at a location in the Southeast Quarter, Southeast Quarter, Section 20, Township 25 South, Range 37 East, Lea County, New Mexico."

And up until that time, as I understood, there was no discussion of a dry hole contribution."

"We have discussed this with our management and regret to advise we have no authority to make such contribution. We feel this is a field or development well, therefore, a dry hole contribution could not be considered. For example, we are commencing operations for an extention well to the field with location in the Northwest Quarter, Southwest Quarter, Section 34, which offsets El Paso Gulf, and Western Natural, none of whom are supporting the test well.

I am sorry we could not get together on this one but perhaps on some future deal we can lend you some support."

Now, other than this correspondence, I believe everything else has been handled over the phone. Mr. Wiet has talked to people in our office and people in our office talked to Mr. McClure with Anderson-Prichard, and we have hopes that a 160-acre unit will be formed, but we don't want to be without an allowable on the well for another six or eight months while we are trying to form this unit. We are not asking for anything but an allowable on the number of acres assigned to the unit.

MR. NUTTER: Mr. Ballou, when was this well commenced?

A In June, I believe, I am not sure.

Q (By Mr. White) June of 1957? A Yes, sir.

Q And when was it completed?

A The later part of August, took 100 days to complete.

Q And all of this correspondence was in the Spring of 1957, is that correct? A Yes.

Q Prior to the time the well was even started? A Yes, sir.

Q Mr. Ballou, Southland Royalty is the owner of the mineral rights on the South Half of Section 20.

A It is now. After talk to Mr. McClure, up until that time, I was under the impression that Anderson-Prichard owned the whole thing. He told me that Mr. Olson owned a part of it, and South Royalty owned part of it.

Q Were any offers made to either R. Olson individually or to Southland Royalty Company with respect to the formation of a standard 160-acre unit? A There was not.

Q After this well was completed as a gas well, were any efforts made by you to form a standard 160-acre gas unit?

A Well, Mr. Sullivan in our Gas Department has talked to Mr. McClure who I understand is the head of the Legal Department for Anderson-Prichard and the last discussion that they had was last Friday afternoon, but I don't know the result of that discussion, I think they have agreed to continue to try to work the thing out.

Q Didn't that conversation arise only after we had contacted Sun with respect to --

A Yes, sir, that's right.

Q And even after that time?

A In fact, Mr. McClure called me and I referred him to Mr. Sullivan.

Q Subsequent to that time, did Sun Oil Company contact R. Olson or Southland Royalty Company?

A No, sir.

Q In view of that --

MR. McLAUGHLIN: Saturday or Sunday.

Q Yes, or Friday as far as he is concerned.

A We couldn't see where it would be of any benefit to us to contact a portion, I mean, the minor portion of the 60-acres leasehold until we had arrived at an agreement with Anderson-Prichard, he owns the biggest portion of it.

Q Have you ever been advised formally by Anderson-Prichard Oil Corporation that the company was unwilling to negotiate with respect to the formation of a standard 160-acre unit?

A Would you mind repeating that.

Q Well, have you ever been advised formally by Anderson-Prichard that we were unwilling to negotiate with the respect to the formation of 160-acre unit?

A I think the Exhibit 3 that I filed speaks for itself.

MR. COOLEY: Mr. Ballou, Mr. White, may I interrupt.

MR. WHITE: Yes.

MR. COOLEY: Doesn't the portion of Exhibit 3 that you last read concerning the regret that Anderson-Prichard would not be able to contribute dry hole money to this well evidence of misunderstanding between the parties in that, as I understand, Sun never requested any dry hole money?

A No, we never requested dry hole money.

MR. COOLEY: It is evidence of a misunderstanding, is it not?

A Yes.

MR. WHITE: May I make a statement to clarify that? Mr. A. J. Viets called me by long distance and wanted to know if we would consider a dry hold contribution, and I said, "We will be glad to take it under discussion."; so it is generally a formality, when you want to break some bad news to somebody, you call them by telephone and break it to them, and generally you follow with a letter which I did. I called him and said we couldn't make the contribution, and then I wrote him this letter that was read.

MR. COOLEY: And Sun Oil Company did request Anderson-Prichard to contribute dry hole money to this well?

MR. WHITE: Yes.

MR. COOLEY: Which was part of the original deal?

MR. WHITE: This was a last minute --

A That's the first I ever heard of that.

MR. WHITE: I have no further questions of Mr. Ballou.

A I told Mr. McClure the other day that it looked to me like the whole thing might have been handled rather poorly by both parties. First one landman and then another landman would call Anderson-Prichard, and they all know someone different in each organization, and when they got the well completed, they gave it to me to get an allowable, and gave me copies of the letter to read at the hearing and that's about all I know about it, but I still think, after my discussion with Mr. Sullivan of our Gas Department, and Mr. McClure with Anderson-Prichard, that a standard gas proration unit will be worked out containing the Southeast Quarter of Section 20, but when, I don't know, and I can't see any reason to postpone an allowable on the well on the basis of the number of acres we have to assign to it now pending an agreement among the four companies.

MR. NUTTER: Mr. Ballou, is it your understanding that the interest the Southland Royalty Company and R. Olson has on the West Half of the Southeast of 20 is an undivided interest or divided interest?

A Mr. Nutter, as I said a moment ago, the first I knew about Mr. Olson and the Southland Royalty having any interest was when Mr. McClure informed me of that.

MR. NUTTER: Could you answer the question, Mr. Wiet?

MR. WIET: R. Olson has an oil-gas lease interest comprising of 3.75 interest, and Southland Royalty has an unleased 1/4 mineral interest which comprises of 20-acres, and we have the balance under all the gas leases and at one time, a long time ago when we were drilling the discovery well, we tried to lease that interest from Southland and they said no.

QUESTIONS BY MR. NUTTER:

Q Now, in reading Exhibit 3, Mr. Ballou, the second portion of that exhibit, of this inter-office correspondence, and paragraph four of that, the conditions under which were stated and quoted in the letter, paragraph four says, "In the event of a marginal gas well they would have the option of contributing cost of drilling the well and reserve no returns from the sale of the gas until the well had been paid out." Could you state what the deliverability of that well is?

A The deliverability on that well is in the order of twelve million cubic feet a day.

Q Would you classify that as a marginal or non-marginal?

A No, not as a marginal well, it would be one of the best ones we have drilled in a long time.

MR. NUTTER: Does anyone else have any questions of the witness?

MR. COOLEY: Yes.

QUESTIONS BY MR. COOLEY:

Q Mr. Ballou, I am going to read to you the last paragraph of Exhibit 1, it being Commission Order No. R-857 "That in the event

the said B. T. Lanehart Well No. 3 is completed as a gas well the applicant will make every reasonable effort to form a standard gas proration unit of 160-acres, and should such efforts fail, make prompt application to the Commission for forced pooling or a non-standard gas proration unit."

Mr. Ballou, do you feel that in view of the statements and evidence that came to light at this hearing that Sun Oil Company has made every reasonable effort to form a standard gas proration unit?

A I don't know what you would call every reasonable effort, Mr. Cooley, but I feel that we have made reasonable efforts to form a 160-acre standard gas proration unit here, and in view of the correspondence we had and answers received from Anderson-Prichard at the time we began the well, which was some three months ago, I think we made every reasonable effort.

Q Mr. Ballou, the only refusal on the part of Anderson-Prichard to date is that they will not furnish dry hole money?

A That's the last communication we have from them, that they will not furnish dry hole money. They certainly have answered the other portion, would they participate in a unit.

Q But surely you do not feel that the contribution of dry hole money would have been a valid part of --

A As I said a while ago, I didn't know we even requested any dry hole money, the only thing I know is the deal that is set out in that letter, Mr. Cooley.

Q And I believe Anderson-Prichard stated that the deal, as you refer to it, was being considered by their management at the time the letter was written, isn't that part of Exhibit 3?

A When we got that letter stating they didn't want to give a dry hole contribution, I assumed that they had turned the whole deal down.

Q And you stated that Sun Oil Company has made no offers or no approaches to Olson or Southland Royalty Company?

A That's right.

MR. COOLEY: That's all.

MR. NUTTER: We have a telegram addressed to Mr. Al Porter, Jr., New Mexico Oil Conservation Commission, Santa Fe, New Mexico from R. Olson. The date of this telegram is September 20, 1957, and received at 5:05. Would you read that telegram, Mr. Cooley?

MR. COOLEY: "R. Olson as the owner of leasehold interests under West Half, Southeast Quarter, Section 20, 25 South, 37 East, of standard gas proration unit of 160-acres. That he is willing to negotiate an agreement as such owner for the formation of a standard proration unit and protest the granting of an exception as requested by Sun at this time. Signed, R. Olson."

MR. NUTTER: Does anyone else have any questions of the witness. Mr. Utz?

QUESTIONS BY MR. UTZ:

Q Mr. Ballou, can you tell me if there are any other gas wells completed in the Crosby-Devonian Pool in Section 20, 29, 21

and 26 offsetting this location, the Lanehart No. 3?

A You mean directly offsetting to the Southeast Quarter?

Q Yes, sir, any offsetting to the Southeast Quarter of Section 20?

A Mr. Utz, this map shows gas wells offsetting that quarter section, but I don't know what field they are completed in, I don't know whether they are or not. I will have to get the schedule and check them.

Q Did I understand you to state in your testimony that you drilled at a 330 location in hopes of getting an oil well since the Olson well offsetting your location to the east was an oil well?

A Yes, sir, I understand that the Olson Well No. 1 was an oil well in the Crosby-Devonian Pool at the time we made application for the permit to drill well No. 3 on the Lanehart lease. We could not locate a well 660 from the line in accordance with the field rules because there is a well at that location now.

Q You could have made a standard gas location?

A The standard gas location is 660 from the line.

MR. UTZ: That's all I have.

MR. NUTTER: Anyone else have any questions of Mr. Ballou? If not, you may be excused. Mr. Ballou, you wanted to offer Sun Oil Company's Exhibits 1,2, and 3 in this case, is that correct?

A Yes, sir.

MR. NUTTER: Without objection, they will be received. Does anyone else have anything further they wish to offer in Case 1316?

If not --

MR. WHITE: I would like to put on one witness, if I may.

MR. NUTTER: Oh, I beg your pardon.

MR. WHITE: I would like to make a brief statement. I might explain what our position is. In the first place, we don't object to that portion of the application which deals with the unorthodox gas well location; we do object to that portion of the application dealing with the non-standard gas unit. I think on the basis of the testimony which has been presented thus far, and the testimony which we will present, I think it is apparent that there is a misunderstanding about the offer which was made for the formation of this gas unit. We feel that the offer which was made by Sun's Dallas Office was slightly different from the offer made by their Roswell Office. It was never quite clear in my mind exactly what the offer was. The whole thing in a nut shell is, however, that we feel that this matter can be negotiated. We are perfectly willing to negotiate. We understand that Southland Royalty and Olson are willing to negotiate, and we think that in a matter of 30, 45 days at the most, we can get together and negotiate and try to make up our minds whether or not we could form a 160-acre unit. If that effort is made and we cannot form the unit, why then we think that is the proper time to consider a non-standard gas unit application.

MR. BALLOU: May I make a statement in that regard?

MR. COOLEY: You will have an opportunity later on. Proceed

with the witness Mr. White.

(Witness sworn.)

J. DON WIET

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

DIRECT EXAMINATION

BY MR. WHITE:

Q Mr. Wiet, state your name, please?

A J. Don Wiet.

Q What is your position with Anderson-Prichard Corporation?

A District Landman.

Q And for what period of time have you been so employed?

A Six years.

Q Is the West Texas and New Mexico District within the area in which you work?

A It is.

Q Is one of your duties the negotiation of joint operating agreements?

A Yes, sir.

Q Are you familiar with the leases concerning the West Half of the Southeast Quarter, Section 20, 25 South, 37 East?

A Yes.

Q In what field is that land located?

A The crosby-Devonian field, Lea, New Mexico.

Q Will you speak up?

A Crosby-Devonian Pool, Lea County, New Mexico.

Q What leasehold estates does Anderson-Prichard own with

respect to that 80-acre?

A 56.375, I believe.

Q Are you familiar with the fact that a well, the B. T. Lanehart No. 3 Well, has been completed by Sun Oil Company off-setting our acreage?

A Yes, it is my understanding it has been completed.

Q Prior to the time that well was drilled, was Anderson-Prichard contacted with respect to the formation of a 160-acre unit?

A Yes, they were.

Q What was the offer as you understand it which was made by Sun Oil Company?

A Well, as previous testimony has shown, it's going around the world and back on these various offers, but it is our understanding that Sun staked this location primarily for oil, and then at the last minute we thought there was a possibility we could get a gas well, we, meaning Sun, Therefore, their Dallas Office contacted our Oklahoma City Office regarding our attitude toward pooling our lease interest with theirs in the event this subject well should be a gas well, and the terms offered to the Oklahoma City Office were: One, that if it was an oil well, we would be reimbursed for our proportionate share of one half, at that time Sun was thinking we owned one half, of an oil well; if a gas well, why then we would jointly own the well 50/50 and if it was a dry hole, we would pay half the cost. Well then, in land traded, I think it is obvious that, that is not a good deal for Anderson-Prichard.

Q Was there any misunderstanding as far as Anderson-Prichard was concerned with respect to this offer?

A The offer would appear to be not an equitable one, and since it bypassed Sun's Roswell Office, which would be the logical place for the offer to originate, I just picked up the phone and called Mr. Christy and we discussed it, and the results of his interpretation of the conversation is set out in that inter-office memorandum.

Q Was Anderson-Prichard solicited for a dry hole contribution by Sun's Roswell Office?

A No, by Mr. Viets of their Dallas Office.

Q Is it your understanding that this well has been completed as a gas well in the Crosby-Devonian Pool? A Yes.

Q Since the well has been completed as a gas well, has Sun Oil Company contacted your office in Midland for the purpose of negotiating with respect to the formation of a 160-acre unit?

A No.

Q Is Anderson-Prichard willing to negotiate at this time with respect to the formation of such a unit?

A Yes, we are.

MR. WHITE: I believe that's all I have.

MR. NUTTER: Does anyone have any questions of Mr. Wiet?

MR. BALLOU: I would like to ask Mr. Wiet a question.

MR. NUTTER: Mr. Ballou.

CROSS EXAMINATION

BY MR. BALLOU:

Q Mr. Wiet, you said that the deal Sun Oil Company offered Anderson-Prichard was not a good deal. Was it a kind of deal that you would offer Sun under reversed circumstances? A No.

Q Is Anderson-Prichard in the habit of assuming all of the risk of drilling wells and then offering other leasehold interest owners in the area an opportunity to come in after they get a good well?

A Not if we can help it. Although you may remember we drilled the discovery well in the Crosby-Devonian field at our own cost expense and risk.

Q That is a normal operation, isn't it?

A That was a wildcat well. That's correct.

Q But your construction of our offer prior to the drilling of a well, you say was not a good deal to Anderson-Prichard, but it is an identical deal that/you offered us under similar circumstances.

A No, you'll find that it is a little bit one-sided in that we join you in the well, if it is an oil well, you get it and we don't, and in the event --

Q Under the Rules of the State of New Mexico, we couldn't take --

A And if it is a dry hole, we pay half the cost, and if it is a gas well, why then we finally get our money's worth. We told you that we would not stand in your way of a gas proration unit as you outlined on the telephone conversation, we are always willing to

negotiate.

Q As I stated before, there is no reason for me to argue with Mr. Wiet, his interpretation of the deal and my interpretation of the deal because I didn't know anything about the deal until last week, but we feel that we made an effort to form a unit, and we should be permitted to have a well, I mean an allowable for this well on the basis of the acres we have to assign to the unit until such time as the full standard unit can be worked out. It is not unusual in the State of New Mexico to have a non-standard unit, and we are not asking for any advantages other than production we are entitled to for the acres we have to assign to the unit at this time.

MR. NUTTER: Does anyone else have any questions of Mr. Wiet?

Mr. Utz.

CROSS EXAMINATION

QUESTIONS BY MR. UTZ:

Q Mr. Wiet, if the proposition of this well not being projected as an oil well had not entered into your negotiations, would you depend a good deal on Anderson-Prichard?

A We would have, if it would have been set up for a gas well in a regular location, we would have undoubtedly negotiated prior to the drilling of the well.

Q In dry hole money? A No, in participation.

Q What if it would have been a dry hole?

A That would have been set out probably under an operating

agreement prior to drilling.

MR. NUTTER: Anderson-Prichard would have shared in the cost of drilling a gas well on a gas well location?

A Yes, or we would have farmed out our interest under-pay out participation, on pay out in the event we didn't want to participate. In other words, we would have worked the thing out.

Q In other words, on this unit, would you have participated dry hole money on the unit?

A That is not a fact. We would have -- the request for dry hole money would not have even developed because we would have either joined them in drilling a well, or joined them on some basis satisfactory to Sun, whereby we would have had the 160-acre unit communitized prior to the drilling, as I see it.

Q Yes, but if it would have been a dry hole, you would have shared the cost?

A That's correct.

Q So as I gather, the reason you didn't think it was a good deal for Anderson-Prichard was because you were also gambling on a dry oil well?

A That's right, for which we never would have had an opportunity to participate.

MR. WHITE: I think the whole thing is that there has been a misunderstanding in the very beginning. I don't think anyone can say that our negotiations have been completed because we really have never gotten together to negotiate. It seems to me the matter could be worked out.

MR. UTZ: That's all I have.

MR. COOLEY: Off the record.

(Discussion off the record.)

MR. NUTTER: Any other questions of Mr. Wiet? If not, he may be excused from the stand.

MR. NUTTER: Does anyone have anything further to offer in Case 1316.

MR. WHITE: Nothing except that we have a telegram from Southland Royalty Company addressed to Mr. Wiet in which Southland concurs with the other position taken by Anderson-Prichard..

MR. COOLEY: Read that telegram into the record please, Mr. White.

MR. WHITE: It is addressed to Don Wiet, -- I might explain a portion of it, that Mr. Coleman, from Southland Royalty Company, evidently misunderstood what was involved because he speaks of spacing. "We will appreciate very much your appearing tomorrow before the New Mexico Conservation Committee in our behalf and informing them that we are opposed to Sun Oil Company's application in Docket No. -- and he has the wrong number -- 116, non-standard gas producing unit, Crosby-Devonian Pool, Lea County, New Mexico, wherein Sun Oil Company is asking for an 80-acre spacing pattern, and explaining to the Committee that we prefer 160-acre spacing, and accordingly respectfully request that the Southeast Quarter of Section 20, Township 25 South, Range 37 East, Lea County, New Mexico be made into a unit for development of the 8,000 foot gas horizon"

signed, Southland Royalty Company, by R. M. Coleman.

MR. NUTTER: What was the date of that wire, Mr. White?

MR. WHITE: September 23rd.

MR. NUTTER: Does anyone else have anything further in Case 1316.

MR. BALLOU: Mr. Examiner, Sun Oil Company is always in favor of forming the maximum size unit for any gas field, and it is because of all the fallen down negotiations and misunderstanding, that we have requested this non-standard unit. I think it would be grossly unfair to Sun Oil Company if the Commission refused us an allowable and permit us to sell gas from this well, since we have assumed the cost of drilling it, and the other operators refused to participate on any basis, and since we have a well completed and it's a good gas well, we are asking only for an allowable to be assigned to the acreage which we have to put in the unit now, and I can say that Mr. Sullivan from our gas department, and Mr. McClure, the Chief Counsel for Anderson-Prichard, are working on forming a 160-acre unit now, and it may be only two weeks until the thing can be changed from a non-standard to a standard gas proration unit. We are anxious to form 160-acre unit because we think it is ridiculous to drill any unnecessary wells in any field. For that reason, we request the Commission grant our request here today and permit us to continue working with Anderson-Prichard and others to form a full unit.

MR. NUTTER: If there is nothing further in Case 1316, we will take the case under advisement. The next case will be Case No. 1317.

