

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

IN THE MATTER OF: :

CASE 2006 Application of Pan American Petroleum :
Corporation for an extension of the no- :
flare exception granted by Order No. :
R-1451. Applicant, in the above-styled :
cause, seeks an extension of the one- :
year exception to the no-flare provision :
of the rules for the Otero Gallup Oil :
Pool, Rio Arriba County, New Mexico, for :
its Jicarilla 35 Well No. 1, which :
exception was granted by Order R-1451. :
-----:

BEFORE:

Elvis A. Utz, Examiner.

T R A N S C R I P T O F P R O C E E D I N G S

MR. UTZ: I want to dispose of one case, if you will
just stand at rest. Case 2006.

MR. PAYNE: Mr. Examiner, the Applicant in Case 2006
has requested that it be continued until July the 11th.

MR. UTZ: Is there objection to the continuance of 2006
to July 11th?

The case will be continued to 9:00 a.m. July 11th.



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ALBUQUERQUE, NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
July 11, 1960

EXAMINER HEARING

IN THE MATTER OF:)

Application of Pan American Petroleum Cor-)
poration for an extension of the no-flare)
exception granted by Order No. R-1451. Ap-)
plicant, in the above-styled cause, seeks)
an extension of the one-year exception to)
the no-flare provision of the rules for the)
Otero Gallup Oil Pool, Rio Arriba County,)
New Mexico, for its Jicarilla 35 Well No. 1,)
which exception was granted by Order R-1451.)

Case 2006

BEFORE: Elvis A. Utz, Examiner.

TRANSCRIPT OF HEARING

MR. UTZ: Case 2006. Application of Pan American
Petroleum Corporation for an extension of the no-flare exception
granted by Order No. E-1451.

MR. NEWMAN: I'm Kirk Newman of Atwood and Malone,
representing the applicant.

MR. UTZ: Other appearances? Are there none?

(Witness sworn.)

RICHARD B. BANKS

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

DIRECT EXAMINATION



BY MR. NEWMAN:

Q State your name and employment, please.

A My name is Richard B. Banks. I am an intermediate petroleum engineer with Pan American Petroleum Corporation at Farmington, New Mexico.

Q Have you previously testified before the Commission?

A No, I have not.

Q Would you briefly state your educational, professional background?

A I graduated in 1953 from the Colorado School of Mines with the degree of Engineer of Geophysics, and in 1956 I took a year of graduate work at the University of Texas in petroleum engineering.

Q What have you done since that time?

A Since that time I have been employed by Pan American Petroleum Corporation.

Q At Farmington?

A At Odessa, Texas and Farmington, New Mexico.

Q As a petroleum engineer? A That's right.

Q Would you state briefly the nature and purpose of the application?

A This is Pan American's application for an extension to the no-flare exception which was granted by Order No. 1451. That order, dated August 1st, 1959, granted a one-year exception

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to the no-flare provisions of the special pool rules for the Otero Gallup Pool, namely for Pan American's Jicarilla 35, No. 1. Today we hope to show that it is still uneconomical to connect the Jicarilla 35, No. 1 to a gas gathering system.

Q Do you have the location of that well shown on the plat that has been marked as Exhibit 1?

A Yes. Exhibit 1 shows Jicarilla 35, No. 1, located in the Southwest Quarter of Section 35, Township 25 North, Range 5 West. It also shows the Gallup completions in the area as circles colored red and shows the field limits by heavy blue line. Also shown is Skelly's compressor located in the East Half of Section 28, Township 25 North, Range 5 West, and a dotted line indicates a gathering line that would be necessary in order to collect gas from the Jicarilla 35, No. 1 and transport it to the Skelly compressor for compression.

Q What's the approximate length of the gathering line that would have to be laid?

A It is approximately 9,000 feet long.

Q Do you have any remarks in connection with that exhibit?

A Yes, I do. The Jicarilla 35, No. 1 was completed on August 13 of 1958, with an initial pumping potential of 39 barrels of oil per day. The thirty to sixty-day GOR test indicated a GOR of 1322; however, by March of 1959 the GOR had risen to 4271; however, the oil rate had declined to 26 barrels of oil per day.

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By March of 1960 the GOR was 3259 and the oil producing rate was 27 barrels per day. We took a GOR on the 4th of June, 1960, at which time the producing rate had declined to 23 barrels of oil per day and the GOR had remained relatively constant at 3275. We contacted Skelly Oil Company regarding possible connection of our well to their gathering system. However, they said that they weren't interested because it wouldn't be an economic venture, and they further stated that they would only connect or only collect and buy our gas if we would deliver it to their compressor. As I have stated before, it's about 9,000 feet from Jicarilla 35, No. 1 to the compressor. My Exhibit No. 2 --

Q What does that exhibit show?

A It is a summary of economics pertaining to a gas gathering line to connect Jicarilla 35, No. 1 to Skelly's compressor. I might interject here a minute by saying that since the last hearing, which was in July of 1959, there have been four important new developments. First, Pan American Petroleum Corporation has had experience in building pipelines and consequently we're able to arrive at a more realistic estimate of what it cost to build a pipeline. Secondly, the Jicarilla 35, No. 1 is making less gas today than it was a year ago. Thirdly, we've had an additional year's performance of the well and consequently are better able to predict the ultimate gas reserves. Fourth, we have had to install a fire tube separator on the well to prevent freezing, and this



separator consumes approximately 20 MCF a day when it is operated.

Q How much of the time is it operated?

A Approximately six months of the year during the time when there are freezing conditions.

Q As of June, what was the total gas production per day from the well, approximately?

A 75 MCF of gas a day was produced from the well during June, whereas a year ago the average daily gas production from the well was approximately a hundred MCF, indicating that it's declined about 25 MCF per day.

Q How much of that gas is put to beneficial use with the operation of your pump and other facilities?

A Approximately $3\frac{1}{2}$ MCF of gas per day are used to operate the engine on the pumping unit and, as I said, about 20 MCF a day are used six months out of the year to operate the fire tube separator, giving a net daily gas consumption of approximately 10 MCF plus 3.5 or $13\frac{1}{2}$ MCF per day. The remainder is vented.

Q Would you recap the figures shown on your Exhibit 2 there, please?

A Yes, Exhibit 2 shows the total investment, which would be required to lay a line from Jicarilla 35, No. 1 to the compressor. That total investment is \$9400, total income from the remaining gas sales would be \$3200, giving a net loss of \$6200.

Q Was your income on an optimistic or pessimistic basis?

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A We used the most optimistic basis that we can in estimating future gas reserves, namely, that the future gas producing rate from the well would remain constant. However, our calculations indicate that although the GOR will continue to increase throughout the life of the well, the producing rate will decline at such a rate that the net change will be a decrease in average daily gas production. Consequently, by assuming that average daily gas production will remain constant, we are being as optimistic as possible.

Q Is there any way that correlative rights could be affected by the continuance of this order, the granting of the application?

A No.

Q Is there any way that waste could be caused?

A No. One additional point I might make is that as it is the well will never pay out and additional expense would not ameliorate the problem.

Q Do you have any further remarks to make?

A I have none.

Q Were these exhibits prepared by you or under your direction?

A Yes, they were.

MR. NEWMAN: We would like to offer Exhibits 1 and 2.

MR. UTZ: Without objection the Exhibits 1 and 2 will be



entered into the record.

MR. NEWMAN: That's all we have.

CROSS EXAMINATION

BY MR. UTZ:

Q Mr. Banks, does Pan American own all the leases shown with the dots?

A Yes. The stippled acreage is all Pan American acreage.

Q Do you intend to drill any more wells on this acreage to the Gallup formation?

A No, primarily because of the poor producing characteristics of Jicarilla 35, No. 1.

Q You don't think it gets any better to the Southeast, then?

A No.

Q So your testimony is that the chances are that this is the only well you'll have on this acreage to the Gallup formation?

A Yes, sir. The chances are that will be correct.

Q If you should drill other wells, however, the economics as far as the pipeline would change, would they not?

A Yes, sir, they would require a re-evaluation at that time.

Q On your investment of \$9400, what size line were you figuring and was it to be buried or on the surface?

A We planned to lay a two-inch line and we ~~planned~~ to bury it. However, we did not plan to wrap it. The \$9400 includes the cost of the line plus the cost of installation of that line.

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Q How about Skelly's lines in that area, are they all buried?

A I don't know whether they are buried or not.

Q Is it necessary to bury a gathering line for a well such as this?

A Sir, I don't know enough about laying a pipeline to know whether it would have to be buried or not.

Q If you didn't bury it, it wouldn't cost so much, would it?

A There would be a reduction in cost. However, the proportional reduction, I don't know.

Q Do you know how much just the line itself would cost laid in?

A Approximately, just the physical outlay for material?

Q Yes. A Approximately \$4500.

Q Plus labor?

A Plus labor, yes. The labor saved in not burying the pipeline would be the cost of the ditcher and the backfill, that would be all.

Q Now, on your total income from gas sales, how much acreage did you include in those reserves and are those total reserves?

A No, those are not total reserves, those are remaining reserves as of this Monday for this well alone.

Q How many acres?



A Since we have performance data our acreage didn't enter the picture and we used --

Q Pressure decline?

A Performance data only.

Q And your performance data consisted of your production history?

A Production history of the well, yes.

Q In other words, you didn't even use the pressure decline in estimating these reserves?

A We have no pressures in the area. However, we do have the gas and oil production.

Q How long did you figure the life of the well?

A I'm not at liberty to say. However, it was less than ten years.

MR. UTZ: Any other questions of the witness?

MR. PAYNE: Yes, sir.

BY MR. PAYNE:

Q Mr. Banks, on this line that you determined the economics of laying, is that a permanent line or would that be a temporary gathering line?

A No, that would be a permanent welded line.

Q If you just laid a temporary line, could that be laid cheaper than a permanent line?

A Not appreciably cheaper, no.



Q How much oil did you say this well was making at the present time?

A We have a test taken June 4th to June 5th, 1960 at which time it was making 23 barrels per day.

Q And 75 MCF of gas? A Approximately, yes.

Q Of which approximately 13½ is being put to beneficial use?

A That's right. With regard to the remaining gas, there are some additional considerations. For instance, if the gas were moved to the compressor, five percent would be removed and used as a charge for fuel of the compressor and an additional thirty percent would be used to reimburse Skelly for their compressor operation, leaving us only sixty-five percent of the gross, and from that amount the land owner's royalty would be deducted.

Q Did you take that into consideration in coming up with your \$3200 figure?

A Yes.

Q You deducted those?

A Yes. We based our total income from gas sales on the total amount of gas that would accrue to Pan American, to the working interest I should say.

Q Who owns the Northeast Quarter of Section 34? Is that Skelly's acreage?

A I believe that's Skelly's acreage. However, I'm not sure.

Q You don't know if they have a plan to drill an Otero



Gallup well on that acreage?

A I don't know Skelly's plans or I don't know the plans of the people who own that acreage, no.

Q If they did and decided to connect their own well, then the cost of laying a line to Pan American's 35-1 would be considerably less, wouldn't it?

A No, sir. We have considered that possibility and have approached Skelly about tying our wells, pardon me, about tying our Jicarilla 35, No. 1 into one of their wells which is nearer to the compressor, and they have advised us that they couldn't operate under such a system and the only way that they would accept our gas would be at their compressor.

Q What type order did Pan American have in mind here for any certain length of time for this exception?

A We had no specific time in mind, but the longer the better.

Q Do you feel that certain conditions might arise where the economic picture would change and, rather than granting a permanent exception at this time, that another one-year order might be more in order?

A Yes, that would be in order and the order might contain a provision that in lieu of a hearing we might handle this case by progress reports rather than taking up the additional time of the Commission.

Q In other words, if nothing has transpired within the

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one-year period that changes the economic picture, the exception could be continued in effect administratively without a hearing?

A Yes.

MR. PAYNE: Thank you. I believe that's all.

BY MR. UTZ:

Q Does Skelly say why they couldn't handle gas, under conditions that Mr. Payne outlined, by hooking into one of their gathering systems?

A They told us that those lines were operating at capacity and they wouldn't take any additional gas, couldn't take any additional gas.

MR. UTZ: Any other questions?

MR. NEWMAN: I would like to ask one additional question.

REDIRECT EXAMINATION

BY MR. NEWMAN:

Q In your calculation of your cost, have you included any operating or maintenance cost in that cost figure there?

A No, sir, this is the bare cost of labor and materials to construct the line and any operating and maintenance costs would be an additional required investment.

Q Have you considered the possibility of constructing your own compressor to get into the line quicker without going to Skelly's compressor?

A Yes, we've considered installing our own compressor to



handle or to compress the gas at our well to a pressure sufficient to put it into the Pictured Cliffs line, which is approximately a half a mile to the Northwest. However, the economics of installing compressors are much more unfavorable than of laying pipelines.

RE CROSS EXAMINATION

BY MR. PAYNE:

Q I presume that reinjection economics would also be unfavorable?

A Reinjection of the gas would not accomplish any great beneficial effect.

Q Well, it would save the gas, wouldn't it?

A Yes, but the additional oil that would be recovered would not pay out the cost of reinjection.

Q I see.

MR. UTZ: Any other questions? If not, the witness may be excused.

(Witness excused.)

MR. UTZ: Any other statements? The case will be taken under advisement.

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STATE OF NEW MEXICO)
 : SS
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF I have affixed my hand and notarial seal this 15th day of July, 1960.

Ada Dearnley

Notary Public-Court Reporter

My commission expires:
June 19, 1963.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 2006, heard by me on July 6, 1960.
[Signature]

Examiner
New Mexico Oil Conservation Commission

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