

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
July 13, 1961

PHONE CH 3-6691

IN THE MATTER OF:)

In the matter of the hearing called by)
the Oil Conservation Commission on its)
own motion to consider the promulgation)
of an order prohibiting the flaring of)
casinghead gas from oil wells in the)
Cha Cha-Gallup and Totah-Gallup Oil)
Pools, San Juan County, New Mexico.)

CASE 2215

TRANSCRIPT OF HEARING

DEARNLEY-MEIER REPORTING SERVICE, Inc.

ALBUQUERQUE, NEW MEXICO



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Pools, San Juan County, New Mexico.)

CASE 2215

BEFORE: Honorable Edwin L. Mechem
Mr. A. L. (Pete) Porter
Mr. E. S. (Johnny) Walker

TRANSCRIPT OF HEARING

MR. PORTER: We will take up next Case 2215.

MR. MORRIS: In the matter of the hearing called by
the Oil Conservation Commission on its own motion to consider the
promulgation of an order prohibiting the flaring of casinghead
gas from oil wells in the Cha Cha-Gallup and Totah-Gallup Oil
Pools, San Juan County, New Mexico.

MR. PORTER: This is a case which was continued from the
May regular hearing to this date. In May we had Mr. Arnold of the
Commission Staff bring us up-to-date as to the amounts of gas being
flared from the two pools under consideration. We also asked
Mr. Arnold to give us that same information at this time, and ask
him to stand and be sworn.



(Witness sworn.)

MR. MORRIS: At the outset, Mr. Commissioner, I would like to offer the record at the hearing held May 17, 1961 in Case 2215 as part of the record of the proceeding today, inasmuch as I do not intend to ask Mr. Arnold to repeat the cumulative totals that were presented in that hearing.

MR. PORTER: The record of the May hearing will be included as far as this hearing, Case 2215.

E. C. ARNOLD

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

DIRECT EXAMINATION

BY MR. MORRIS:

Q Mr. Arnold, will you state your full name and position, please.

A E. C. Arnold, supervisor, District 3 of the Oil Conservation Commission.

Q Mr. Arnold, did you testify in Case 2215 at both the March and the May hearings of the Commission concerning the flaring of casinghead gas in the Totah and Cha Cha-Gallup Oil Pools?

A Yes, I did.

Q Mr. Arnold, I won't ask you to review your previous testimony, but if you will state for the record, first in the Cha Cha-Gallup Oil Pool, how many producing wells were producing



as of July 1st, 1961.

A In the Cha Cha Pool, 67 wells were producing as of July the 1st.

Q What was the total production of gas per day from these 67 producing wells in the Cha Cha?

A 17,523 MCF per day.

Q Would you explain to the Commission how you arrived at this figure as the total production?

A Yes, new gas-oil ratio tests were conducted in the Cha Cha Pool in May of 1961 and these tests went into effect July 1st. I used these new gas-oil ratio tests to calculate the total gas available on 63 of the wells on which we had tests. Actually, we had four wells on which we didn't have tests.

Q How did you arrive at the production from those other four wells?

A Well, from the 63 wells I determined that we had 16,475 MCF per day. This was an average of 262 MCF per well per day. So, I used this average for the four wells on which tests weren't available. This gave me a total of 1,048 MCF per day, which was added to the 16,475 from the 63.

Q Giving you a total of 17,523 MCF per day for the Cha Cha?

A Right.

Q Now, in the Totah-Gallup Oil Pool, Mr. Arnold, how many



producing wells were there in that pool as of July 1st, 1961?

A Forty-three.

Q What was the total daily pool production from those 43 wells?

A 6751 MCF per day.

Q How did you arrive at that figure as the total daily pool production?

A I used the 33 wells on which we had gas-oil ratio tests. These weren't, however, 1961 annual tests, because they will not be available for another thirty days. Actually, the gas-oil ratio tests used, which are the tests in effect in the July oil schedule, are probably incorrect. I imagine that the ratios have increased.

But, using those old tests, 33 wells having tests, calculated to have available 5181 MCF per day. This is an average of 157 MCF per day. So, I've used 157 MCF as the average figure for the ten wells on which we didn't have tests. This gives an additional 1570 MCF per day. So, that the total is 6,751.

Q You would say that total, Mr. Arnold, is probably a conservative estimate as to the amount of daily production in the Totah?

A Yes, because of the fact that the tests used were last year's tests.

Q Have you totaled the daily production for both the

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Cha Cha and the Totah-Gallup Oil Pool?

A Yes, sir, that figure is 24,274 MCF per day.

Q Mr. Arnold, of this 24,274 MCF per day that's being produced in both of these pools, is any amount of this being put to beneficial use?

A Yes, approximately 1500 MCF per day is being gathered on the Benson-Montin Jones lease in the Cha Cha Pool.

Q Is there any other beneficial use being made at the present time?

A Not that I'm aware of, no.

Q What disposition, Mr. Arnold, is being made of the remainder of the gas being produced in these two pools?

A It's being vented.

Q Approximately how much per day is being vented from these two pools?

A 22,750 MCF per day.

Q Mr. Arnold, at the May hearing of this case there was testimony that Mr. Knight had a project under way to install a gathering system for this gas. Do you have knowledge of the progress of this Knight project?

A I understand that Mr. Knight encountered some difficulties and was delayed, so that the construction of the facilities hasn't gone according to plan. However, I also understand that he has overcome the difficulties and that they do

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intend to start construction of gathering facilities next week.

Q To your knowledge, Mr. Arnold, no gas is being gathered from Mr. Knight's project at the present time?

A No, sir, no pipe has been laid in the field at this time.

Q Mr. Arnold, if the Commission should see fit in this case to issue a no-flare order, would you recommend that some wells in these two pools be given exception to the order?

A Yes.

Q Under what conditions?

A Well, the usual conditions in cases where it's not economically feasible to gather the gas from particular wells or leases.

Q Also would you exempt new wells?

A Well, I would give new wells a ninety-day period in which to secure a gas connection.

Q Do you have anything further you would like to offer, Mr. Arnold?

A No, sir, I don't believe so.

MR. MORRIS: That concludes the direct examination of this witness, Mr. Commissioner.

MR. PORTER: Does anyone have any questions of Mr. Arnold on cross examination? Mr. Nutter.

CROSS EXAMINATION

BY MR. NUTTER:



Q Is there any general similarity to the reservoirs as far as the Totah and the Cha Cha are concerned?

A Yes, sir, they're very similar.

Q I note that you have an average gas producing rate of 262 MCF in the Cha Cha and a hundred fifty-seven on the Totah. Would that difference, since the reservoirs are similar, be due to the fact that the tests in the Cha Cha are more recent than the tests in the Totah?

A I believe that's the case, yes. I have noticed that the Cha Cha ratios in many cases have about doubled since the 1960 gas-oil ratio tests.

Q The gas-oil ratios of some of the wells have doubled in the last year, is that correct?

A That's right.

Q Do you anticipate that there would be any decrease in the gas-oil ratios in this pool in the near future?

A I wouldn't anticipate it on the basis of anything I know at the moment.

Q Would you expect that the ratios in the Totah, if they were run today, or new tests that will be presented in the next month or so, will they indicate higher ratios in all probability than the 157 MCF per day average?

A I would certainly think they would, yes.

Q Would it be your opinion that if the 24,274 MCF per



day which is being produced from the two pools at the present time, if that figure is correct, would more gas than that be being produced, say ninety days from now?

A You ask this question without taking into consideration new development, you mean on the wells?

Q No, I'm talking about the wells that are completed at this time. If the 24,000 were correct today, would you expect that ninety days from now more gas would be produced?

A Yes, I believe I would expect that.

MR. NUTTER: Thank you.

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

BY MR. PORTER:

Q Mr. Arnold, do you have the figures on the oil production from these two pools?

A No, sir, I don't have. I believe it's probably in the neighborhood of thirteen or fourteen thousand barrels a day.

Q I notice the allowable is in excess of 15,000 for the two pools. You are probably close to right. However, I will ask you when you've concluded your testimony to get those figures for us from the latest tabulation for the month of May.

A All right.

Q You can get that from the monthly report.

MR. PORTER: Does anyone else have any questions?

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The witness may be excused.

(Witness excused.)

MR. PORTER: Anyone else desire to present testimony?

MR. BUELL: May it please the Commission, Guy Buell for Pan American Petroleum Corporation. We operators in these two pools in the past have pointed out to the Commission our efforts in attempting to gather and save and put this casinghead gas from these two pools to a beneficial use. We feel that the record will reflect that our efforts have been diligent.

We have also pointed out to the Commission several complicated factors in these two pools that have made our assignment, our job, considerably difficult. The primary complicating factor has been the submarginal economic nature of gathering and saving this gas. That has been a big hurdle.

Another complicating factor, and a highly complicating one, it's a mechanical one, an engineering one, one that we operators and Mr. Knight have had to deal with, is that in these two pools it is extremely unusual in that the operators are making an effort to gather and save the casinghead gas prior to complete development of the pools.

I'm sure if the Commission will recall any pools that they've looked at from the standpoint of saving casinghead gas, the pools have been substantially developed. Here, as has been reported to the Commission, development is going on at a highly rapid pace.

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That makes engineering system extremely difficult. Actually, in a sense of the word, in attempting to save the gas in these two pools we're a lot like Columbus in that we are sailing an uncharted sea and, of course, when you sail an uncharted sea, every now and then you hit a reef.

Well, we hit our reef, as Mr. Arnold mentioned, Mr. Knight encountered some difficulty. We advised the Commission about it, and honestly, in good faith, that we felt by July 1 that we would have some wells connected and be making substantial progress to physically handling the gas.

Unfortunately, as Mr. Arnold has testified, that is not the case. With the Commission's indulgence, we would like to present Mr. Knight as a witness so that he can relate for the record the reef that he hit sailing this uncharted sea.

MR. PORTER: The Commission will be interested in hearing Mr. Knight.

(Witness sworn.)

DEAN B. KNIGHT

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

DIRECT EXAMINATION

BY MR. BUELL:

Q Mr. Knight, while Mr. King is putting one of your exhibits on the board, I will ask you to state your full name and

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your place of residence for the record, please.

A My name is Dean B. Knight. I live in Tulsa, Oklahoma.

Q What is your position with the Knight Manufacturing Company?

A I am president of that firm.

Q I believe the record reflects that you are to be the gatherer of the casinghead gas in both the Cha Cha and the Totah-Gallup Pools, is that correct?

A That is correct.

Q Have you in your possession executed contracts from about what percent of the operators in each pool, do you recall off-hand?

A About 92% in Totah, it's roughly 92% in both fields.

Q That percent of committed operators to your system is more than enough for you to go forward with a fieldwide gathering system in both pools?

A Yes, it is.

Q What disposition have you planned to make of the gas once you gather it?

A We are selling that gas through three different connections to El Paso Natural.

Q Do you feel that your arrangement with El Paso is now firm?

A Our arrangement with El Paso is firm, yes.



Q You were in the room, so I'm sure you are aware of the fact that we had advised the Commission at the May hearing that we expected to have some wells connected by July 1. You've also heard testimony to the effect that such has not happened. Why haven't we some wells connected at this time, Mr. Knight?

A Well, I hit that uncharted reef we were talking about and it had a great big dollar sign on it. When we wrote this contract with Pan American, when Pan American and I worked out the original contract in the Cha Cha Field, we wrote what we thought was a negotiable instrument so that it could be financed by some financing house.

Apparently we knew more about the gas business than we did the financial world, because when we took it to a bank they took a look at it and said "Mr. Knight, your contract only will return about one dollar for each dollar you spend, and that is not good enough for this type of an organization. You should have at least two or two and a half times cash flow over what you have expended."

So, then, we took it to what we would call a leasing house where you build a facility, they buy it from you and lease it back to you. We had a firm verbal commitment from a house in Boston when I was here for that May hearing. We then went ahead very rapidly, we stacked up pipe, we stacked up compressors, engines and other component pieces.

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Along the first part of June we received a very uncerimonious letter which stated they were withdrawing their commitment.

Q Mr. Knight, let me interrupt here. At the time of the May hearing did you have any reason to doubt the verbal commitment for financing that you had?

A None whatsoever.

Q All right. Go right ahead, what happened in June?

A We received this letter which cancelled their verbal commitment. We immediately, then, went to a couple of more houses and we called two of the firms involved and told them we were having difficulty and from that, then, the Pan American set up a meeting for Friday, June 30, I believe it was, in which we were all to sit down and discuss the possibilities of the oil companies putting up the money and we would go forth with it from there.

However, that meeting did not take place in that we received another commitment from a New York house, from Los Angeles, rather, I should say, through a New York house, committing them to buy this property from us and leasing it back.

We have gone forward from there at that point. I have that letter, or I believe you have a copy of that letter.

Q You now have your commitment in writing, do you not, Mr. Knight?

A Yes, we have it in writing this time.

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(Whereupon, Operator's Exhibit No. 1 was marked for identification.)

Q Mr. Knight, I now hand you a copy of what has been marked as Operator's Exhibit No. 1. What is that exhibit?

A Oh, this is the letter of commitment from Phoenix Enterprises of Beverly Hills, California, agreeing to purchase and lease this facility back to us in the Totah and Cha Cha Fields.

Q Mr. Knight, I notice that that commitment letter was dated July 6. When did you receive that?

A I received that letter Tuesday afternoon of this week, which would be the 11th, I believe.

Q Mr. Knight, now that our financial reef has been overcome, where do you stand now, what are your immediate plans?

A My immediate plans are to leave here this afternoon for the field at Farmington. We have a couple of meetings scheduled with pipeline contractors which we will make a deal with, one of them or two of them to start construction of this line. The pipe is all stored at either Fontana, California or Valley, Nebraska. That pipe will be shipped Monday.

Q Do you have any pipe on the ground in Farmington at this time?

A There's a mile of ten inch on the ground at Farmington now. It's stored, however, in a truck yard. We, at the moment,

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have run up about six hundred dollars in storage charges on pipe, so we know the pipe is there. That is in both places.

Q When would you anticipate that you will let your contract for the picking up, ditching of your gathering system?

A I plan to do that either this afternoon or tomorrow.

Q Immediately after that you intend to release the pipe for delivery, I'm speaking of the pipe now that's in California and Nebraska?

A Yes, we'll probably release that pipe tomorrow. However, it can not be shipped until Monday because of truck regulations over the week ends on highways. It actually should arrive in Farmington on Wednesday or Thursday.

Q Mr. Knight, assuming the normal delays that you encounter in installing a system of this type, when would you anticipate that you would have the majority of the wells in both pools connected to your system?

A We will have those wells connected probably by August 15. Now, this does not mean that we will be compressing the gas from all of those wells, but the line will be laid to the tank batteries, the tank batteries will be hooked up and they would be ready to process the gas. Then, of course, we have to add the compressors to this system.

Q What date would you feel, Mr. Knight, would you not only have your wells connected but you would have sufficient

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of your compressors installed such that you would be physically taking into the system most of the casinghead gas produced?

A Most of the casinghead gas? That is a majority of it?

Q Majority, yes, sir.

A We should have that by, oh, the first week in September. We should be rolling then.

Q Would you think, then, by October 1 of this year you should have your system shaken down, I don't know if that is the proper term that you gatherers use or not, most of the bugs worked out of it by October 1?

A Yes, I feel that we should be operating in good order by October 1.

Q I'll direct your attention now to what I'll have marked as Operator's Exhibit 2, the plat on the board there.

(Whereupon, Operator's Exhibit No. 2 was marked for identification.)

Q What is that exhibit?

A That is our certified survey from Scanlan Engineering of the Cha Cha Field system, which extends for quite some number of miles, eleven miles of it. It starts in the center here with ten inch pipe. Our delivery point will be in the East Half of Section 16, that's our final delivery to El Paso, whose line runs north-south through here.

Our central compressor station will sit here. This system

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is a little bit unusual for the average compressing system. Normally you would find all your compressors sitting here, your line would extend out like spider webs or feet or something, and you would field all the gas into here. This system economically would not stand for that. If we had done that we would have spent somewhere close to a million dollars in the fields. There isn't that much gas there. We had to change the thing completely around, there will be from 35 to 45 different compressors set in the two fields.

The other one, of course, is right here. We'll have a small central station here at every well head, every battery there will be another one, two or three compressors handling the gas from this system into the main line. The operators are holding approximately 40 to 20 pounds pressure on the tank batteries. We are picking up the pressure at that and boosting it to one hundred pounds through the entire system, which still requires the use of eight or ten inch line.

Had we used the conventional, we would have been looking at 6, 8, 10, 20 and even 24 inch line. If the line were long enough, if this were a five-year or ten-year project, well, to start with, I would never have seen the deal and secondly, it would stand that kind of pipe. This one it will not do that, and it must be done in this manner to actually come out with as many dollars income as you spent, which we will all like to do to at

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least break even.

You say, "Why did you do it?" I'm taking this whole project, frankly, I will not make any money, it is cut that close, but out of the operation I do hope to break even. My money will come from being able in a few years to salvage the compressor and the line and using the compressors in different jobs over the country as rental units, that is my profit from this project in its entirety.

Q Now, Mr. Knight, Exhibit 2 shows your design for the system in Cha Cha. Is your system in Totah similar to the Cha Cha system?

A Similar only in certain ways. The Cha Cha system is cut into two pieces. There's one part of it along in here approximately, it looks like a horseshoe, and then there's another small system up here.

If you remember the Totah Field, I guess right on the edge of the cliff, or what do you call it in New Mexico? In Oklahoma we call it the cliff, it breaks and so forth through this field. It looks like we are going to lay almost as much line vertically as we do horizontally. It's a tough one to handle. They didn't show consideration of us when they drilled the wells. They didn't drill them on the flats where we could get to them.

This field, of course, is almost flat with only one cliff crossing right here. This one is a tough one, particularly for



us flatlanders, to handle.

MR. BUELL: I believe that is all we have at this time. I would like to formally offer Operator's Exhibits 1 and 2, inclusive.

(Whereupon, Operator's Exhibits 1 and 2 were offered in evidence.)

MR. PORTER: Without objection the exhibits will be admitted.

(Whereupon, Operator's Exhibits 1 and 2 were admitted in evidence.)

MR. PORTER: Mr. Buell, when you were describing your trouble, the Chairman of the Commission suggested that you have a navigators license.

MR. BUELL: He has one, but it's a little tattered and torn right now.

CROSS EXAMINATION

BY MR. PORTER:

Q Mr. Knight, your Exhibit No. 1, which is a letter from Phoenix Enterprises, Inc. in which they have promised certain funds if certain conditions are met, I notice those conditions are listed under A and B, B has four parts. Would you explain what effort has been made to meet those conditions up to now?

A Shall we take them in order?

Q Yes, please.

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A A, now, I think is very easily explained in that that is the way they are going to pay me for installing this plant. They do not wish to have me go out there, spend the money and end up with the plant half done, so they have tied my hands to a certain extent, that they will pay me nothing until we are passing some gas to El Paso.

At that point all the work I have done is immediately payable. As we add compressors to the system, they will pay for those. That is what paragraph A says.

Now B, under one, contract, a gas purchase contract executed by El Paso for the purchase of gas gathered and compressed from the above-named fields. That lays in my attorney's office in Tulsa. It has my signature ready to return to El Paso.

It has one change in one point of delivery in the Totah Field. It's the moving of a line by a few hundred feet.

Paragraph two, contracts executed with the producers of the field representing a minimum of 80%. That has been done in its total, we are at the 92-94%. Equipment leased between Phoenix Enterprises and Knight Manufacturing has been done. Notice of assignment of runs from El Paso, that will be done just as quickly as we get the forms back from them and it is an assignable contract which it is very simple to do. All we would need is their contract back.

Q As soon as you get it back from El Paso?

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A Yes, it will be assigned to these people and we will have everything completed.

MR. PORTER: Does anyone else have a question?

MR. MORRIS: Yes, sir.

MR. PORTER: Mr. Morris.

BY MR. MORRIS:

Q Mr. Knight, on a sale and lease-back arrangement such as you have worked out with Phoenix Enterprises, are you going to be the owner of the properties when the operation is completed or will Phoenix Enterprises be the owner?

A Actually, Phoenix Enterprises will own this equipment. We have the prerogative for leasing it for so long as we wish, or usually there is, and there is in this contract, hope there are no Internal Revenue men here, to be able to buy this thing at a figure some time.

Q Then it would be possible for you to obtain your profit from salvage?

A Yes.

Q Even though you wouldn't actually end up possibly as the owner of the property?

A Yes, that is true.

Q Now, Mr. Knight, I believe it's been stated here today that the overall economic picture is pretty bad in these two pools at the present time. Do you believe that that picture is

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going to get any better as more reserves are produced and more gas is vented?

A Yes, that is bound to improve by the increasing of reserves and drilling of new wells, which they are rapidly doing.

Q The drilling of new wells possibly will increase the overall economic picture, but certainly the production of reserves and the venting of gas at the present time is not going to enable you to recover that portion of the reserves that are already gone?

A No, that portion of the gas that is vented every day is certainly gone. However, my particular contract, the oil companies have guaranteed me a certain amount of gas to process.

Q So you'll come out on it?

A Yes.

Q But possibly it will hurt the amount they might have to indemnify you?

A Yes, I am covered, but not quite sufficiently enough to go to a bank with the thing.

Q I don't believe you ever gave us the name of the firm that gave and withdrew their verbal commitment.

A The name of that firm was Seaboard Leasing Company.

Q Where do they have their home office?

A Boston, Massachusetts.

Q What was the date of the letter, Mr. Knight that



revoked their financial commitment?

A I am sorry, I didn't bring it with me.

Q Do you have any idea when it might have been?

A The first part of June.

Q The first part of June?

A Yes.

Q I believe you stated that you had a meeting set up with the operators to talk about possible finances, and that was June the 30th?

A That is correct.

Q Had any thought been given to an earlier meeting of the operators soon after you received your revocation, so to speak?

A Yes. Yes, there was. We were talking back and forth almost daily. We had another firm that was looking at this thing and it looked like it would develop any day and we were sitting on pins and needles waiting for a commitment, and then when it didn't look like it was going to come through in good order, why Pan American gave the notice for a hearing which they gave a week's notice on it, so, actually, that meeting notice was issued about the 22nd or 23rd of June for the June 30 meeting, so everybody could plan to be there.

There was no time wasted as such. Things like this seem to always take a little more time than you think they are going to at the moment, and things are developing, you are expecting

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them to develop, and like I said, I believe it was on the 27th actually, the 28th, that we actually did get this other commitment. Just a couple of days before the meeting. Then here I finally get it in writing on the 6th of July.

Q Were the operators notified of your difficulties both, well, with Seaboard and with the other people that you were in contact with, all along in the process of your negotiations?

A We didn't know we had difficulties until we got this revocation and then they were notified of it.

Q They were notified?

A Yes.

Q Did the operators at any time offer you financial assistance in your project?

A As such, for me to go ahead with it, no, and yet they sat down and said "We will work out something. We are going to do it and we will work out something if you can't work it out, but we would like for you to, it has been your job, it's assigned to you with contracts, and if you can't do it, then we will."

MR. MORRIS: Thank you.

MR. PORTER: Mr. Nutter.

BY MR. NUTTER:

Q Mr. Knight, you stated that you had some pipe on hand in Farmington and you also had some coming from California and from Nebraska?



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A Yes.

Q Has that pipe been fabricated to date?

A Yes, I'm paying storage charges on it.

Q I'm not talking about the pipe in Farmington.

A I am not either. I am talking about the pipe at the factory.

Q The pipe at Farmington?

A You mean at Fontana.

Q Fontana, and Nebraska.

Q Yes, and I am paying storage on it.

Q It's ready to ship on notice?

A Yes, it is.

Q You stated that you would have the pipe installed and the wells connected by August 15. Now, will any gas flow into the El Paso's system without compression?

A No, the average separator pressure is about 25 to 40 pounds. El Paso is holding 250 on their lines. It will take compression for every foot of it.

Q How many compressors do you anticipate installing for the --

A The final installation will have between 35 and 45 compressors.

Q What kind of delivery commitments do you have for the compressors?



A Well, we have, during the month of July and the first part of August, we have about 30 units committed for delivery.

Q How many in July?

A I can't tell you exactly. I have about ten sitting in Tulsa at the moment.

Q Ten compressors available to ship?

A I have, I think, three that are available. When I speak of compressors I am talking about the raw compressor and raw engine and then they must come through my shop and be fabricated into a unit. They have to be mounted on skids and scrubbers installed and so forth. I have three or four units that are ready to ship now. They could be shipped today or tomorrow. Then, the rest of the equipment, the basic component pieces are in Tulsa, but they have not been fabricated into a unit which we are starting now after we get this letter.

Q How long does it take to make a complete compressor unit if you have the component parts available?

A That will depend on the size, but from two to three days to assemble this. We call it the manufacturing. In reality it is an assembly job.

Q Do you expect that you will run into any difficulties as far as the capacity of the shop which will be doing this work to assemble one of these units? I realize they could assemble one in two or three days. How about assembling thirty, will it take ninety days to assemble thirty?

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A Roughly, to do that, yes.

Q Then, if some of the compressors are to be delivered in August, it will be ninety days after they are received before they are completed?

A No, that's starting from scratch, it would take roughly ninety days to do thirty, but by the time we have finished with the first ten, which will make fifteen in the field, the others will be there ready to work on. You set it up kind of like an automobile assembly, they're pouring off one end when the raw pieces are coming in on the other.

Q Now, you have ten available and commitments for delivery of some more in August --

A In July and August.

Q In the later part of July and August, how about the remainder?

A The total delivery from a new order is only four weeks. We can issue a new order today and get delivery in four weeks. That is without pulling on local stocks or sources which are available.

Q There is no shortage of compressors?

A There is no shortage, no, or engines.

Q Are these delivery commitments, are they verbal or are they written?

A They are verbal, but they're good, we have been doing business with these people for years.

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Q I was wondering if we might run into other uncharted reefs.

MR. BUELL: Not when you are buying.

A Not when you are buying, only when you are trying to borrow money, or selling.

Q Now, this Phoenix Enterprises, is that a large institution, Mr. Knight?

A I have seen their financial statement. They show a net worth of about six hundred thousand dollars. They are neither large nor small. However, I do happen to know slightly the inner workings of this thing, it is much like you went down and bought a million dollar life insurance policy on yourself, they will farm out pieces of it to leasing corporations. No one of them will hold all of this itself. Our prime contract is with Phoenix, who are adequate to handle it.

Q Their commitment in Exhibit 1 is for what?

A Six hundred thousand.

Q Their net worth is six hundred thousand?

A That's right.

Q You don't anticipate another uncharted reef here?

A They're in trouble if there is.

Q They may not voluntarily present a reef. Now, you have 92% of the operators in each of the fields contracted at the present time.



A That is an approximate figure, yes.

Q Has the contract been signed with El Paso for selling of gas?

A It is all agreed upon, it is waiting for my signature in Tulsa.

Q What is the price of the sale of the gas to El Paso?

A Twelve cents plus liquids.

Q What is your anticipated total volume that you'll be handling upon the completion of the facilities October 1st, and assuming no additional wells were drilled?

A We are setting up to handle between twenty and twenty-five million; if there's more there we will handle more, but my figures are from 35 to 45 compressors will handle up to twenty to twenty-five million.

Q What would your delivery pressure to El Paso be?

A It starts at 250 and then jumps to 500. There's also a difference in the price, as long as we are going in the 250 line the price is eleven cents. I forgot to put that in.

Q Now, the operators in the pools have given you a guarantee of so much gas that you would have available to you, and if you don't get that gas, they pay you for it anyway, is that correct?

A To a certain extent, yes. My income from gas not processed is considerably less than gas I do process.

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Q The marginal nature of this project which appeared to be important in the early negotiations, did that include secondary recovery gas that might be available also?

A As I understand it, the method that they are planning to use for secondary actually cuts the gas quantity. You are asking me questions, I'm not a production man, I only know machinery and I have seen the curves and I do know that this water injection system will cut the capacity of gas. Now, why, I can't tell you.

Q Well, now, how long is it intended that this facility will be in operation, until the complete completion of the pool?

A So long as there are commercial quantities of gas that can be handled.

MR. NUTTER: I believe that's all.

BY MR. PORTER:

Q Mr. Knight, as I understand it, you have the wells hooked up by August 15 and then you would add compression progressively? In other words, after August 15, as soon as your first compressors are installed, you will start taking some gas?

A Correct.

Q And you would anticipate having the entire field going to market around October 1st?

A That is correct. Actually, there's a little difference than you explained it there. The line will be in, in its entirety,



by August 15, but we will be processing gas before then because as quickly as this little short segment here is in place, this short segment is in place and this one, we can set one compressor which we already have and start the compressing of gas.

As the line is extended out there will be another compressor set and this piece of line put in use. So, actually, by August 15 when the line is complete, we will be compressing considerable gas, but it will be utilized as the line is built from the central point out.

MR. PORTER: Anyone else have a question? The witness may be excused.

(Witness excused.)

MR. PORTER: Mr. Davis.

MR. DAVIS: Quilman Davis, appearing on behalf of Aztec Oil and Gas Company. The Commission has heard the difficulty that we encountered in this gathering system up in Totah and the Cha Cha area. We think that we're on the right course now. We're sure of it to the extent that Mr. Knight now has the money available and plans to start work this week end in letting contracts.

Further, I would assure the Commission insofar as Aztec is concerned in the Totah area, if there is a breakdown we'll be in there financing the thing, as we had planned to do in late June, at least our share of it, so that it will go forward

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on this present timetable. In other words, we are now of the opinion that this thing is on a scale where we can continue it.

It was a difficult problem there to get all the operators involved to get together and designate an operator, also to finance the thing, and since we had delegated Mr. Knight to do it, we felt that we should do everything to help him along.

Now that we see his timetable, and in my opinion am convinced that it will go forward in view of the fact that we understand there is a very strong market for oil from this area from the West Coast market, and I think was confirmed here today by the testimony in the oil allowable hearing, we urge this Commission not to take any action at this time that would impair that market. We don't feel that any immediate action will expedite the installation of this line.

I think all of the operators will stay on top of this thing day by day to see that the work is being done. In view of those circumstances, we ask this Commission to continue this Case 2215 till the September hearing, at which time we hope that everything will be in full operation and that we won't have any more flaring, or shortly after that.

MR. PORTER: Mr. Bratton.

MR. BRATTON: If the Commission please, Howard Bratton appearing on behalf of Humble Oil and Refining Company. We would join in the suggestion and request of Mr. Davis.

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I need not amplify on that.

I do want to emphasize two facts to the Commission. One, we have tried to our utmost to demonstrate to the Commission when we appeared in May, and the statements we made we made in good faith, and we thought everything we said there was the truth and would happen, this was an unexpected development. Hind sight is a great thing, and looking back now, I wish we had, the operators had collectively come in to the Commission some time in June when this problem developed. It was not because we weren't doing anything, it was because we were hopeful and the operators kept trying and hoping that the thing would work out day to day.

It would be my suggestion, I believe I can say on behalf of all the operators, that if the Commission were to continue the case on its docket until the September hearing, aside from that we would certainly furnish to the Commission informally at this office, to Mr. Arnold's office, a report every ten days or two weeks as to progress, in addition to which Mr. Arnold could actually observe, of course, the progress in the field.

We would be glad to do that in an informal way or by written letter, however the Commission might desire it. It is our earnest desire to convey to the Commission that we have been and are sincere that we are working and that we have tried to do this job as well and as fast as we could, and we will continue to do that.

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MR. PORTER: Mr. Buell.

MR. BUELL: May it please the Commission, speaking in support of Mr. Davis's motion for continuance, I'm sure that the statutory charge on this Commission to prevent waste is weighing heavily on all your minds. Normally you think the flaring of casinghead gas is waste. It is. Actually, the production of every barrel of oil that comes out of New Mexico ground is waste.

Really the Commission is only charged with preventing avoidable waste. In my opinion, the economics of saving this gas in these two pools is so marginal that there is a great doubt in my mind if we operators, by flaring this gas, are causing avoidable waste. Actually, I think it's an extremely close question.

I feel that in good conscience this Commission can continue this case until September, because in my opinion it is not avoidable waste.

MR. PORTER: Mr. Mason.

MR. MASON: John Mason of the El Paso Natural Gas Products Company. I think the position of El Paso and the other operators in the Cha Cha and Totah areas has been very ably stated by the representatives of the other companies here, so I won't attempt to add anything. I only wish to say that El Paso also joins in the request that this hearing be continued until the September hearing.

MR. PORTER: Anyone else have any comments to make?

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MR. BRATTON: I might add, Mr. Porter, that the statements I have made, I have been authorized to make also in behalf of Tenneco Oil Company who are a substantial operator in the Totah.

MR. PORTER: Any further statements? The Commission will take administrative notice of the figures supplied by Mr. Arnold that the May production for both pools was 13,480 barrels a day.

Mr. Davis, in regard to your motion, the Commission will continue the case until the regular hearing in August, which will be August 16, at which time we would like to have another look at it.

MR. DAVIS: Thank you.

MR. PORTER: We are going to have a very short recess at this time. If the applicant in the next case desires to have any exhibits posted, he might do so at this time.

(Whereupon, a short recess was taken.)

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