

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
May 24, 1961

EXAMINER HEARING

IN THE MATTER OF:

CASE 2282

TRANSCRIPT OF HEARING

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IN THE MATTER OF: :

CASE 2282 Application of Continental Oil Company for an :
amendment of Order No. R-1602. Applicant, in :
the above-styled cause, seeks an amendment of :
Order No. R-1602 changing the effective date :
thereof and making the provisions of said order :
effective as of March 1, 1960. :

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. KELLAHIN: We will use the same witness in Case 2282,
if you'd like to call that case next.

MR. UTZ: Case 2282.

MR. MORRIS: Application of Continental Oil Company for
an amendment of Order No. R-1602.

MR. UTZ: Let the record show the witness was sworn in
the previous case.

MR. KELLAHIN: The same appearances as in the preceding
case. Kellahin & Fox, Santa Fe, representing the Applicant.

MR. UTZ: You may proceed.

MR. KELLAHIN: At this time, I would like to request that

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the record in Case No. 1375 and the provisions of Order No. R-1602 be included in the record of this case.

MR. UTZ: Without objection, the request is so granted.

VICTOR T. LYON,

called as a witness, having been previously sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Lyon, you are the same Mr. Lyon who testified in Case No. 2280, are you not?

A Yes, sir.

Q Are you familiar with the application of Continental Oil Company in Case No. 2282?

A Yes, sir.

Q Would you state briefly what is proposed in this application?

A This is the application of Continental Oil Company for an amendment to the provisions of Order No. R-1602 changing the effective date thereof to March 1, 1961 in lieu of the existing provisions which established the effective date.

Q You prepared a tabulation of the performance of this well?

A Yes, sir. We'd like the effective date changed to March 1, 1960.

Q Referring to what has been marked Exhibit Number 1, would you discuss the information shown on that exhibit?



A Exhibit Number 1 is a tabulation showing the production history of this well since the date of the prior hearing on the matter. It shows that the well in February -- at the end of February, 1960, was overproduced by 6,414 ncf. Under the terms of the order, this unit does not become effective until the well has become imbalanced. Exhibit Number 1 shows that due to the manner in which this well has produced, the well has never balanced and if the well is open to production again, it may never be in balance; and because of the provisions of the order and manner in which the well has been produced, Continental is prohibited from participating in the production from this well. The allowable assigned by the Commission is subject to Order No. R-1502.

Q Was an allowable assigned by the Commission to this well subsequent to the entry of Order No. 1602?

A The well continued to receive an allowable. The only difference as of February 1, 1960, was the proration unit was enlarged from one hundred twenty acres to one hundred sixty acres, the additional forty acres being the acreage which Continental Oil Company has contributed under this communitization agreement.

Q Has Continental Oil in any way shared in this production?

A Not one bit.

Q What has been the effect on Continental Oil Company's interest in this unit?

A I didn't understand you.

Q What has been the effect of this overproduction on Con-



Continental Oil Company?

A Well, the effect of the overproduction, of course, prevents us from participating from revenue from production of the well.

Q How much gas, in your opinion, should be allocated to Continental's portion of this unit?

A Well, Continental Oil Company's portion of the allowable since the unit was enlarged was 48,447 MCF.

Q Have you worked out any agreement with Shell Oil Company, to your knowledge, as to sharing in this production if this application is approved?

A It is my understanding that since Shell Oil Company has already paid their royalty owners on the basis of the well's production, that they have been reluctant to refund to us our share of that royalty payment and we have agreed to participate on the well and will pay our royalty owners of the remaining shares.

MR. KELLAHIN: If the Examiner please, we feel the facts in this case somewhat peculiar but they speak for themselves and the net result which has occurred clearly shows that the correlative rights of Continental Oil are being impaired and the only remedy is to amend the provisions of the order to permit Continental Oil to share in the production which has been taken from this well.

Q (By Mr. Kellahin) Was Exhibit 1 prepared by you?

A Yes it was.

MR. KELLAHIN: At this time I'd like to offer Exhibit 1



in evidence.

MR. UTZ: Without objection, Exhibit Number 1 will be entered into the record of this case.

MR. UTZ: Mr. Lyon, there is no doubt in your mind as to what Order No. R-1602 meant, is there, in regard to the well coming into balance? That's quite clear in the order, was it not?

THE WITNESS: I was not certain what it meant. I assumed that it meant what it said about the well being balanced, that the unit would then become effective.

MR. UTZ: Therefore, the well was actually overproduced rather than shut in in violation of the order?

THE WITNESS: Well, I don't recall for sure, but I don't believe the order required the well to be shut in.

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

MR. MORRIS: Yes.

BY MR. MORRIS:

Q You don't feel that you are in violation of the order?

MR. KELLAHIN: Continental is not the operator of this well; Shell is, and they had nothing to do with the production that occurred here.

MR. MORRIS: Whoever the operator was was not in violation of any order. They were just not complying with it. A condition that would make the order effective?

THE WITNESS: That's true.



MR. UTZ: The order does not say that the well should be shut in, but it does say the effective day is the date it comes of balance; therefore, the effective date as perscribed by the order would be May 1, 1961 as the well would come into balance on that date.

THE WITNESS: If there has been no production since March.

MR. UTZ: Our records show there has been no production.

THE WITNESS: Then it would be effective then.

MR. UTZ: Actually, the supplemental order, No. 583, issued by the Commission was issued in error, was it not, if it did not comply with the order?

THE WITNESS: I am not familiar with that supplement.

MR. UTZ: The supplement increased the acreage from a hundred twenty to a hundred sixty.

THE WITNESS: I believe that's true. As I understand it, the Commission granted this increased units for the purpose of accelerating the date at which time the unit would be effective by increasing the allowable enough to reduce overproduction.

MR. UTZ: I won't argue with the witness, but that was not the case.

THE WITNESS: I was not aware -- that was purely an assumption on my part.

MR. UTZ: Are there any further questions of the witness?

BY MR. MORRIS:

Q Mr. Lyon, in the event the Commission sees fit to grant



your application making the provisions of this order effective as of March 1, 1960, do you see any way that the correlative rights of any of the operators involved here would be impaired?

A I think their correlative rights would be better protected under the request.

Q Inasmuch as monies have been paid over in reliance upon the effectiveness of this order, you feel the correlative rights will be protected moneywise?

A Well, I'd have to answer as I said before: they would be better protected than they are now.

MR. KELLAHIN: May I interject, Mr. Morris? No money has been paid over in reliance on this order. The production has been made in reliance on the order, but all royalties have been paid to the royalty owners under the hundred twenty unit agreement. Under the one hundred sixty unit agreement, Continental has never received anything as of this date.

THE WITNESS: The reason why I answered as I did, as I understand it, Shell has paid their royalty owners for full production and they are unwilling to subtract from future payments the amount that they have paid which should have come to Continental. We would have to pay our royalty owners out of our share.

MR. MORRIS: Some royalty owners are going to get paid more than they are actually entitled to?

A That is correct.

MR. MORRIS: I have no further questions.



MR. UTZ: Mr. Lyon, do you believe that the operators of this well made any attempt to get the well in balance?

3 Well, Mr. Utz, looking at the production performance, I'd say if he did make an effort, he was not very successful.

MR. UTZ: And not very diligent, was he?

THE WITNESS: That's correct.

MR. UTZ: Are there any questions or any other statements in this case?

The witness may be excused. The case will be taken under advisement.

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STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

I, THOMAS F. HORNE, Court Reporter, in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me in machine shorthand and reduced to typewritten transcript under my personal supervision, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal this, the 12th day of June 1961, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

Thomas F. Horne

NOTARY PUBLIC

My Commission expires:
May 4, 1965

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner Hearing of Case No. 2282, heard by me on May 27, 1961.
Thomas F. Horne, Examiner
New Mexico Oil Conservation Commission

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