

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
February 27, 1962

EXAMINER HEARING

IN THE MATTER OF:)

Application of Pan American Petroleum)
Corporation for an order pooling all)
mineral interests in the Floravista,)
Mesaverde and Basin-Dakota Gas Pools)
in the N/2 of Section 27, Township 30)
North, Range 12 West, San Juan County,)
New Mexico. As an alternative, appli-)
cant requests the establishment of a)
318-acre non-standard gas proration)
unit in the Floravista, Mesaverde and)
Basin-Dakota Gas Pools consisting of)
all the N/2 of said Section 27, except)
two acres which comprise Lot 9, Block)
3 of Floravista Acres Subdivision in)
the NW/4 NE/4 of said Section 27)
owned by Henry E. and Loie Irene)
Lindsey, P. O. Box 176, Floravista,)
New Mexico.)

Case 2500

BEFORE: Elvis A. Utz, Examiner

TRANSCRIPT OF HEARING

MR. UTZ: Case 2500.

MR. MORRIS: Application of Pan American Petroleum Corporation for an order pooling all mineral interests in the Floravista, Mesaverde and Basin-Dakota Gas Pools in the N/2 of Section 27, Township 30 North, Range 12 West, San Juan County,

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New Mexico. As an alternative, applicant requests the establishment of a 318-acre non-standard gas proration unit in the Floravista, Mesaverde and Basin-Dakota Gas Pools consisting of all the N/2 of said Section 27, except two acres which comprise Lot 9, Block 3 of Floravista Acres Subdivision in the NW/4 NE/4 of said Section 27 owned by Henry E. and Loie Irene Lindsey, P. O. Box 176, Floravista, New Mexico.

MR. BUELL: Guy Buell for Pan American Petroleum Corporation, and we have two witnesses.

(Witnesses sworn.)

RALPH K. ROBINSON

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

DIRECT EXAMINATION

BY MR. BUELL:

Q Mr. Robinson, would you state your complete name, by whom you are employed, and at what location and in what capacity?

A I am Ralph K. Robinson and I work for Pan American Petroleum Company as a land man in their Farmington, New Mexico exploration office.

Q How long have you been in Pan American's Land Department?

A Approximately five years.



Q The entire five years has been spent in doing land work in the State of New Mexico?

A Yes, sir, that is correct.

Q And you are currently engaged in doing land work in the Northwest area of New Mexico?

A That is correct.

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

Q Mr. Robinson, would you look at what has been marked as Pan American's Exhibit No. 1 and state for the record how Pan American's Stedje Gas Unit is designated on that exhibit?

A Yes, sir. Pan American's Stedje Gas Unit is outlined in red on the plat which has been set up as Exhibit No. 1. The legal description of this Stedje Gas Unit is the N/2 of Section 27, Township 30 North, Range 12 West, San Juan County, New Mexico, and our declaration of unitization covers the rights from the top of the Mesaverde formation to the base of Dakota formation.

Q Mr. Robinson, in the N/2 of Section 27, how much of the acreage in that half section is voluntarily committed to the Pan American Stedje Gas Unit?

A 318 acres.

Q That would leave two acres that is not voluntarily



committed?

A Yes, sir, two acres are not committed.

Q Where is that two-acre tract located?

A The two-acre tract that is not committed to the unit is situated in the NW/4 of the NE/4 of Section 27.

Q What is some of the history on that quarter quarter section that you have just described?

A This quarter quarter section has been partially subdivided and that part of the quarter quarter section which is subdivided is known as the Floravista Subdivision and the particular two-acre tract that we are interested in is described as Lot 9 of Block 3 of the Floravista Acres Subdivision.

Q Who are the record owners of the two-acre tract?

A According to our records, Henry Lindsey and his wife Loie Irene Lindsey are the owners of this two-acre tract.

Q As a matter of fact, the developer of the Floravista Acres Subdivision actually intended to reserve all the mineral interest in the lots and tracts that he sold in that subdivision, is that not correct?

A Yes, sir, the subdivider and his wife have both verbally stated to me that, state that they have intended to reserve all the minerals that they conveyed out of this subdivision.



Q And strictly through inadvertence a mineral reservation was omitted from the deed that the Lindseys received?

A That's my understanding.

Q Pan American has already drilled a well on this unit?

A Yes, they have.

Q Why did Pan American drill a well knowing they had only 318 instead of the entire 320?

A We did not drill the well knowing we had 318, since according to our records we had the 320 acres fully unitized. However, due to an inadvertent error, our examining attorney did not note that there was not a mineral reservation in the deed to Henry E. Lindsey and his wife.

Q So, then, at the time that Pan American drilled their well and filed the necessary Commission forms to obtain a permit to drill that well, we were under the impression, based on our title opinion from our lawyers, that we had the entire 320 acres?

A Yes, that we had the 320 acres.

Q So actually, with respect to this Lindsey tract, in its short history we've had two serious errors, would you say?

A Yes.

Q First, when the Lindseys got it and second, when we overlooked that they had it?

A In my opinion that is certainly correct.



Q Have you been out on the Lindsey tract?

A Yes.

Q In your opinion, would Mr. Lindsey have been able to see the rig that was drilling the Stedje Gas Unit well?

A Yes, I definitely feel that he did see the rig as it drilled our Stedje Gas Unit well.

Q In that connection, just when did Pan American become aware that Mr. Lindsey apparently has an interest that was not committed to our unit?

A We became aware of Lindsey's claim shortly after our unit well was drilled.

Q How did we become aware of his claim?

A And Mr. and Mrs. Lindsey came to our exploration office in Farmington and stated that they owned this two-acre tract and wanted to know what we were going to do about it.

Q They came themselves to tell us?

A Yes, both Mr. and Mrs. Lindsey came to our office.

Q Do you happen to know what Mr. Lindsey's line of employment is?

A He has told me that he is a retired ex-employee of El Paso Natural Gas Company.

Q So apparently Mr. Lindsey just watched and waited until the well was completed and then approached Pan American with



his claimed interest in this two-acre tract?

A Yes, sir.

Q Are you the land man for Pan American who conducted most of the negotiations with Mr. and Mrs. Lindsey relative to obtaining a lease on their tract, or in some manner getting their acreage in our unit voluntarily?

A Yes, sir, ever since the day that Mr. and Mrs. Lindsey came to our office, well, since that time I have handled the negotiations with the Lindseys.

Q At the outset of these negotiations, Mr. Robinson, what did Pan American offer the Lindseys for a lease on their two acres?

A The Lindseys were offered \$75.00 per net acre for an oil, gas and mineral lease covering their interest, and this lease would provide for the usual one-eighth royalty.

Q It's pretty obvious they turned that down since we are here now. What further efforts did Pan American make, or did Mr. Lindsey make any counter offers to our original offers to lease?

A Yes, sir, Mr. Lindsey immediately rejected that offer, and in our subsequent discussion he stated that he would lease to Pan American for consideration of \$75.00 per net acre if the lease provided for a fifty percent royalty in lieu of the



usual one-eighth that I had offered.

Q He wanted a fifty percent royalty?

A Yes, sir, that is correct.

Q Mr. Robinson, to your knowledge in this area has Pan American ever taken a lease with a fifty percent royalty interest in it?

A No, sir. We have never paid that much royalty to my knowledge in that area.

Q After he made that counter offer, what then did Pan American do in an attempt to obtain a lease?

A I advised our management of Mr. Lindsey's counter offer and I was authorized to offer Mr. Lindsey seventy-five dollars per net acre as a bonus with the lease providing for a three-sixteenths royalty in lieu of the usual one-eighth royalty. This offer was also rejected, and at the same time I advised Mr. and Mrs. Lindsey that if they did not desire to lease under those terms we would welcome them to join the unit by ratifying the operating agreement and declaration of unitization and paying their proportionate share of the unit cost to become a working interest owner and partner.

Q Were you able at that time, at that stage of the negotiations, to give Mr. Lindsey any idea of what his share of the cost would be?



A Yes, sir. At that particular time we didn't have a final total of the well costs for the Stedje gas well, but I did estimate that his share of those costs would be approximately \$600.00 for his two-acre interest as to the well cost, that would be about his share of the cost more or less.

Q In your opinion, were the costs outstanding, were they such that they would make his total cost much over \$700.00?

A No, sir. It would not be much over that, or roughly that amount.

Q What was Mr. Lindsey's reaction to coming into the unit as a full-fledged working interest partner with us?

A Mr. Lindsey was not, he refused to lease to us under our offered terms, and he also stated that he was not interested at that time in joining us as a working interest owner, and he continued to state in my subsequent visits to him that he was not interested in joining us as a working interest owner and paying his proportionate share of the costs.

Q With respect to our last offer to lease that we made to Mr. Lindsey providing for a \$75.00 acre bonus and three-sixteenth royalty, did you feel at that time, and do you feel now, that that is the maximum offer we can make him for his two-acre tract?

A Yes, sir. In fact, our reservoir engineering group has



advised us that \$75.00 per acre as consideration for a lease which would contain a three-sixteenths royalty provision would be all that we should pay and remain economically feasible, I should say, to pay under the circumstances.

Q Would you suspect that they also allowed in that maximum something for nuisance value for the two acres?

A Yes, apparently there was some nuisance value attached to the offer.

Q Would you relate for the record, Mr. Robinson, whether or not you have recently obtained leases on some of the acreage that is now committed to the Stedje Gas Unit at terms of less than our last offer to Mr. Lindsey?

A Yes, sir. Within the Stedje Gas Unit area shortly prior to the commencement of the unit well, Pan American purchased a five percent interest in about one-fifth of an acre inside the unitized area, and our consideration was \$75.00 an acre plus the usual one-eighth royalty. But in that value we consider part of the value to be nuisance value.

Q Is Pan American currently obtaining leases in this area for less than our last offer to Mr. Lindsey?

A Well, not currently. But I do know that inside the unitized area we have not paid a consideration as high as that amount offered to Mr. Lindsey for a lease. In other words, the



other leases which Pan American has dedicated to this unit, the consideration for those leases was less than the amount that we have offered to Mr. and Mrs. Lindsey.

Q I believe you stated that these leases were recently obtained?

A One of the leases was recently obtained and the others over the past few years.

Q Do you feel that Pan American has made every reasonable effort to in some manner or means voluntarily bring this two-acre tract into the Stedje Gas Unit?

A I definitely do.

Q Do you have anything else you would like to add at this time, Mr. Robinson?

A I believe not.

MR. BUELL: That's all we have of this witness at this time, Mr. Examiner.

MR. UTZ: Will your engineering witness answer questions as to the probable payout on this unit?

MR. BUELL: Yes, sir.

MR. UTZ: Any questions of Mr. Robinson?

MR. MORRIS: Yes, sir.

CROSS EXAMINATION

BY MR. MORRIS:



Q Mr. Robinson, is the Pan American position that they own all of the working interest within the subject 320-acre unit except for the two acres that are outstanding and owned by the Lindseys?

A You mean do we have other partners owning interest in the working unit?

Q Do you either own the working interest or have it communitized except for the two acre tracts?

A Yes, we and our partners have the working interest except the two acre tracts. In other words, the remaining 318 acres is unitized.

Q Would that include the royalty interest? Do you have the royalty interest pooled except for the royalty under this particular two-acre tract?

A Yes, sir.

Q Mr. Robinson, you have said or testified that Pan American believed it to have the whole 320 acres under its control at the time this well was commenced?

A That's correct.

MR. MORRIS: If the Examiner please, I ask it take administrative notice of the well file on Stedje Gas Well No. 1, which is the subject well in this application.

MR. UTZ: As to what respect, everything in it?



MR. MORRIS: I ask that the Commission take administrative notice of the file and its contents.

MR. UTZ: We will so do.

Q (By Mr. Morris) Mr. Robinson, where is this Stedje gas well located on the unit?

A It's located about one quarter of a mile southwest of the two-acre tract that we are discussing.

MR. BUELL: How is it designated on Exhibit 1?

A The legal description, it would be in the SE/4 of the NW/4 of Section 27.

MR. BUELL: And it's shown on Exhibit 1 as what color of a dot?

A Oh, brown, correct me, brown and purple.

MR. BUELL: Orange and purple. We looked at it in the daylight and made that decision.

MR. PORTER: We will accept that, but there could be disagreement.

Q (By Mr. Morris) Mr. Robinson, are you familiar with this well and the date it was completed, commenced and so forth?

A I do know it was completed, as far as the actual date it was completed, off hand I don't remember it, but I probably could get it from the exhibit.

Q I hand you Form C-105 which I have taken from the well



file on this well which is the well record.

A Yes, sir.

Q I hand you this form. A Thank you.

MR. BUELL: Mr. Morris, we intended to go into that with Mr. Eaton.

MR. MORRIS: Well, there are certain questions with respect to the testimony of Mr. Robinson I wanted to go into.

MR. BUELL: Fine.

Q (By Mr. Morris) Mr. Robinson, referring to that form, would you state what it reflects with respect to the date upon which the subject well was commenced?

A If you don't mind, I'm not familiar with the form so I'm going to have to take a few minutes here.

Q It's near the top of the form. I believe it will show that the well was commenced on October 10th, 1961?

A Yes. The operations were apparently commenced on October 10th, 1961.

Q Operations were completed on October 30, 1961?

MR. BUELL: Drilling.

A That may be drilling operation.

Q Drilling operation.

A But I believe now I'm getting into the field that I don't know anything about.



MR. BUELL: Just read from the form, what does it say, drilling was completed when?

A Drilling was completed on October 30, 1961.

Q Mr. Robinson, I now hand you what is Commission Form C-128 with respect to the Basin-Dakota Pool, showing the acreage dedication in that particular formation, and referring to that form, what acreage is shown to be dedicated in the Dakota formation?

A It appears that the N/2 of Section 27, Township 30 North, Range 12 West is within the dotted or dashed outline as shown on this form.

Q Now, on this form the operator is requested to answer certain questions. Would you read the question No. 1 on that form?

A "Is the operator the only owner in the dedicated acreage outlined in the plat below?"

Q Was yes or no indicated?

A There's an "X" to the right of "no".

Q Is there any explanation given for answering "no" to that particular question?

A Well, sir, we were joined by other companies.

Q Is any explanation indicated on the form?

A No, sir.



Q I believe that it is.

MR. BUELL: That's the only thing by question one.

Q All right, would you refer, then, to question two, which I believe you'll find will read "If the answer to question one is no, have the interests of all the owners been consolidated by communitization agreement or otherwise?"?

A To the right of yes there is an "X".

Q Is there any type of explanation with respect to this question No. 2?

A Yes, sir, the form states "unit instruments being prepared for signature".

Q Which would indicate that at the time this form was filed, Pan American was aware that it did not have all interests communitized, is that correct?

A Now, as far as my opinion is concerned --

Q Wouldn't be by the reflection of this form.

MR. BUELL: I think he's asking you from a strict legal standpoint.

A Yes, sir, I would think so, yes, sir.

Q I hand you another Form C-128 on this well, which is with respect to the Mesaverde formation, and ask you how the question No. 1 on that form is answered with respect to whether the operator is the owner of all the acreage being dedicated



to the well?

A It appears the question was answered as no.

Q What is the acreage dedication as shown on that plat?

A The NW/4 of Section 27 is outlined in red.

Q With respect to question No. 2 on that form, is any explanation given with respect to the answer to that question?

A "Unit instruments being circulated for signature."

Q What's the date of this form?

A October 31, 1961, apparently.

Q Which would be the day after the drilling of the subject well was completed according to the well record that you have previously referred to, is that correct, Mr. Robinson?

A Apparently so. I don't remember that date, but I did read October 30, 1961 on one of these reports.

Q It would indicate from both these two forms that both before and after the well was drilled Pan American was aware that it did not have all of the interest within the unit committed to the well. Would that follow logically from the information that we've discussed on these forms?

A Let me answer that by saying that I personally am not familiar with the forms, but I personally know that the area was unitized by a declaration of unitization recorded into the county records prior to the operation.

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Q Are you suggesting that these forms were erroneously completed and filed with the Commission?

MR. BUELL: The main trouble you and Mr. Robinson are having, you have one objective and he's thinking of another. You are asking from a strictly legal standpoint, did we have a formal unitization agreement signed. The answer is no, we didn't at the time these forms were prepared, and the forms on their face so state and we will so stipulate. Mr. Robinson is trying to answer you in the terminology of a land man in that when they get agreement from people, and even prior to the formal signing of the agreements, they consider that the unit has been formed.

MR. MORRIS: You would agree, would you not, Mr. Buell, that the instruments as filed with the Commission would indicate that there was no assurance on the part of Pan American, at the time these instruments were filed, that you would have the consent of all the working interest owners within the proposed unit in either one of these two formations?

MR. BUELL: Mr. Morris, just looking at these bare forms and nothing else in the language on those forms, from a strict legal standpoint there's no completely formed formal communitization agreement, but from the standpoint of assurance we knew the people we were dealing with and we had made our

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deal, it was a simple matter of reducing it to writing and getting our unitization agreement.

MR. MORRIS: But as it turned out you came out missing two acres?

MR. BUELL: Yes, but the two we thought we had when we went in.

MR. MORRIS: There's nothing on the form that would indicate any such contention.

MR. BUELL: Looking at the bare forms?

MR. MORRIS: That's all we have to look at.

MR. BUELL: I have already stipulated that, that looking at the forms from a strict legal standpoint we had no formal signed unitization agreement. You ask about assurances, we were completely assured.

Q Mr. Robinson, it would appear from an examination of these forms that Pan American was willing to go ahead and drill the subject well without first having secured the formal legal agreements to form the units which would be dedicated to the subject well, is that correct?

A No, sir. I wouldn't -- if you don't mind, I might add a little bit of information here.

Q Certainly.

A At this time we had, as well as I recall, three other



working interest, or more than that, working interest owners who were to sign the unit instrument. When I think of the unit instruments I think of the declaration of unitization as well as the operating agreement. As well as I recall there was an expiring lease by another party and we, for that reason, as well as I recall, did circulate counterparts of the declaration of unitization, and these counterparts, in four parts, as I recall, were signed by I believe two or three of the companies and recorded. However, one of the companies did not sign the declaration of unitization, as well as I recall, until a much later date, as the operating agreement was not signed until a much later date by some of the companies. I don't recall how many, but I do know that they were not both signed and that, as well as I recall.

Q So negotiations were pretty well in a state of flux?

A On the working interest. We knew what the agreement would provide, but we hadn't had time to mail, distribute and so forth, and circulate.

Q But these negotiations were in a state of flux at the time the well was commenced, and even after it was completed, is that correct?

MR. BUELL: Do you understand what he means by



flux?

A By a state of flux, I don't, really.

Q Negotiations were still pending and under way at the time that the well was commenced and even continuing through the time that the well was drilling and completed?

A Paper work?

Q Yes.

A Yes, sir, paper work, as far as circulating these instruments, or some of the instruments.

Q Fine.

MR. MORRIS: I believe that's all the questions I have of this witness.

BY MR. UTZ:

Q Mr. Robinson, I hand you what is known as a C-101 from this well file. Did you notice the date that that was stamped into the Aztec office?

A October 6, 1961.

Q And the C-128's which you have just handed back to me, would you note the date they were stamped into the Aztec office?

A November 1st, 1961.

Q Can you explain why those C-128's were filed later than the C-101?

A No, sir, I don't know.



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

MR. BUELL: I have one or two on redirect, Mr. Examiner.

REDIRECT EXAMINATION

BY MR. BUELL:

Q Mr. Robinson, I hate to burden the record, but I think we need to go into this to clear a few things up. Actually, you, as land man in your day to day operations with other operators and negotiations with other operators, there is a lot of talk and discussion between you all before anything is reduced to writing, is that not correct?

A Yes.

Q Generally by the time you take the opportunity to reduce an agreement to writing, you pretty well have an agreement?

A Yes, sir.

Q All you are doing in reducing it to writing is to get the agreement on paper?

A Yes.

Q Based on your knowledge of the Stedje Gas Unit, was there any doubt in your mind if our title opinion had been correct on this quarter quarter section in which the Lindsey tract is, we thought that the apparent working interest owner was coming into the unit, did we not?



A Yes, sir.

Q We had no knowledge at that time that the Lindsey tract, the Lindsey two acres was actually a separate and distinct tract for mineral leasing purposes?

A That's correct.

Q We had no knowledge at all that we were going to end up with the Lindsey tract not in the unit?

A That is correct.

Q In your opinion, and based on your knowledge of the formation of the Stedje Gas Unit, even prior to the time that all formal papers had been finally signed by everyone, was there ever any doubt in your mind about the other working interest coming into the unit?

A No, sir, none whatsoever.

Q They were all operators that you have dealt with in the past and deal with on a day to day basis?

A Yes, sir.

MR. BUELL: I think that's all.

MR. UTZ: Are there any other questions? The witness may be excused.

A Thank you.

(Witness excused.)

MR. UTZ: Call your next witness.

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GEORGE W. EATON, JR.

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

DIRECT EXAMINATION

BY MR. BUELL:

Q Would you state your complete name, by whom you are employed, in what capacity and what location?

A George W. Eaton, Jr., Senior Petroleum Engineer for Pan American Petroleum Corporation in Farmington, New Mexico.

Q You have testified at prior Commission hearings and your qualifications are a matter of public record, are they not, Mr. Eaton?

A Yes, sir, they are.

Q At the outset let me ask you this, were you familiar with the reservoir engineering study that was made on the Lindsey two-acre tract relative to arriving at a maximum figure that Pan American could offer the Lindseys?

A Yes, sir. As a reservoir engineer, I had opportunity to make that evaluation and it was the recommendation of the Reservoir Engineering Section, which I head, that no more than \$75.00 per acre plus 3/16th royalty be paid for the two-acre tract in question.

Q Do you feel that that figure included a little nuisance



value?

A Yes, sir, I really think that figure might include a little nuisance value too. It's more than we would normally recommend.

Q Would you look at Pan American's Exhibit No. 1? Mr. Robinson has already identified how the Stedje Gas Unit was designated. What is the significance of the larger area that is enclosed by the orange dashed line?

A That orange colored line covering those four sections in Township 30 North, Range 12 West are the pool limits of the Floravista-Mesaverde Pool as defined by New Mexico Oil Conservation Commission nomenclature orders.

Q Would you locate the Stedje gas well for the record and also state how it is shown on Exhibit 1?

A Yes, sir. The Stedje Gas Unit No. 1 is located in the SE/2 NW/4, Section 27, Township 30 North, Range 12 West. The well itself is colored half purple and half brown. Those color designations indicate that the well is a dual completion. On Exhibit No. 1 all Dakota wells, or all wells completed in the base of the Dakota Pool are colored in brown. All wells which are completed in the Floravista-Mesaverde Pool are covered in purple. Those wells which are completed in both pools are colored half purple and half brown.



Q Now, the well on the Stedje Gas Unit is, as you said, dually completed in the Floravista-Mesaverde Gas Pool and Basin-Dakota Gas Pool?

A That is correct. The well is a dual completion, the upper side of which is completed in the Floravista-Mesaverde Gas Pool and the lower side of which is completed in the Basin-Dakota Gas Pool.

Q When was this well completed, Mr. Eaton?

A This well was completed November 29, 1961.

Q Is there sometimes a difference between the date that drilling is completed and the date when a well is completed?

A Yes, sir. Sometimes that period isn't too great, in other cases it might be rather extensive, depending on conditions. Pan American, as a normal practice, does not use the rig which drilled the well to make its completion, the costs are too great to use that rig to make its completion when a little rig costing a lot less will do just as good a job.

The availability of rigs, the condition of weather, whether you move in immediately or move out immediately can dictate how long a time interval there is between the completion of the drilling operations and the actual completion of the well.

Q Would you attach any significance to the fact that there is approximately forty or fifty days between the date that



drilling was completed and the date that the well was completed?

A Not particularly. There's always a good deal of pressure put on us people who are so closely associated with these things out in the field, get these things completed without undue delay, but even our management doesn't press us too much when there's a good reason for being delayed. I wouldn't attach any significance to the fact there's a forty or thirty day lag in this particular case.

Q That well is not producing now, is it, from either completion?

A No.

Q With respect to a charge for supervision, what recommendation are you making to the Commission in that regard?

A It is my recommendation that a provision be made for ten percent penalty amounting to ten percent of total well and lease well equipment cost for this supervision charge.

Q What is your basis, Mr. Eaton, for making a recommendation for a charge for supervision?

A Such a charge for supervision covers operational costs that don't appear as direct charges, nor as indirect charges on well operating costs.

Q Could you give us an example?

A Yes, sir. One example in this particular case here



is that our Accounting Department will have to maintain, set up and then maintain and service a special account to take care of this two-acre force-pool interest. Now, setting this account up and servicing it monthly when once production is established here will probably exceed the ten percent that I've recommended. As a further example of those hidden costs that don't show up either as direct costs to the well nor as indirect charges, I might add the cost of this hearing, certainly. This is a cost Pan American must bear, but it never shows up in these well costs or in the operational costs for this particular well.

Q What are you recommending, Mr. Eaton, that you peg the ten percent to? You said ten percent, ten percent of what?

A Ten percent of total well and lease equipment costs.

Q Certainly if Lindsey's cost for the well, assuming he was coming in as a working interest partner, would only be \$700.00, ten percent of that is not going to amount to a lot of money, is it?

A No, sir, it isn't.

Q Now, this well is already drilled and completed, is it not?

A Yes, sir.

Q In view of that fact, are you recommending any risk penalty to be included in the force pooling order that we are



requesting?

A Yes, sir. In view of the fact that the well has been drilled and completed, I'm recommending only 125% penalty for the risk involved.

Q Do you feel that Mr. Lindsey knew that this well was being drilled and simply watched and waited until it was completed before he made known to us his interest in this two-acre tract?

A Yes, sir. This well is some quarter of a mile from Mr. Lindsey's house. I feel certain that he couldn't have avoided seeing the well being drilled. He obviously kept fairly good tabs on it, because as has been pointed out here, there was a substantial length of time between the time the drilling rig was moved off and the well was actually completed, but it was only a few days after the well was actually completed until he showed up in our Farmington office and notified us that he had an interest in the acreage that was not subject to this pooling agreement.

Q So you feel under those circumstances, even though the well is actually drilled and completed at this time, that the 125% penalty is a reasonable figure?

A Yes, sir. Let me explain that further. Under the terms of the operating agreement for this Stedje Gas Unit, and



this is a normal thing too, it's not unusual or peculiar to the Stedje Gas Unit, had Mr. Lindsey joined voluntarily as a working interest owner in this Stedje Gas Unit Well No. 1 and then had elected not to pay his part of the actual drilling and completion and equipping costs, but had instead elected to let other operators to carry his interest to be recovered later out of production, then his penalty would have been 200%, so in view of that I think that 125% is a very reasonable recommendation for penalty for this two-acre interest.

Q Mr. Eaton, since Mr. Lindsey's approximate cost to come in as a working interest partner would have been about \$700.00, do you feel that had he wanted to, that he would have had any trouble borrowing money on his interest from any commercial institution such as a bank?

A Well, I can't exactly speak for a bank, but I wouldn't have any hesitancy putting \$700.00 into a producing well.

Q So if he had been interested in coming in as a working interest partner, he, in your opinion, would have had no trouble obtaining money to pay his share of the cost?

A That would be my opinion, and he probably could acquire money to come into the well.

Q Mr. Eaton, other wells in both of these gas pools are producing, are they not?



A Yes, sir.

Q Do you feel that there's any way that the Lindsey interest can be protected other than force pooling?

A In my opinion, the only way that the Lindsey interest can be protected, their correlative rights can be protected, is by the issuance of a force pooling order pooling that two-acre interest with the remaining 318 acres in the N/2 of Section 27.

Q All right, assume for the purpose of this question that the Commission does not elect to force pool the Lindsey interest, what then would be your recommendation to the Commission?

A It would then be my recommendation that the Commission authorize an establishment of a 318 acre non-standard unit consisting of the entire N/2 of Section 27, except the two-acre tract owned by the Lindseys. I base this recommendation on the fact that the owners of that remaining 318 acres must have their correlative rights protected also. It is only through one of these alternatives that these correlative rights can be protected.

Q Certainly we want to consider everyone's correlative rights, but we can't ignore the owners of interest in 318 acres because we are blinded by a two-acre tract?

A That is correct.

Q But your first recommendation, and the one that you



feel will protect all owners of interest in this entire N/2 of Section 27, is to force pool the Lindsey tract under the terms that you have recommended to the Commission?

A Yes, sir.

Q Do you have anything else you would like to add, Mr. Eaton, at this time?

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

MR. BUELL: That's all we have on direct at this time, Mr. Examiner. May I formally offer our Exhibit 1?

MR. UTZ: Without objection, Exhibit 1 will be entered into the record.

CROSS EXAMINATION

BY MR. UTZ:

Q Have you potentialled the Mesaverde and Dakota zones in this well?

A Yes, sir.

Q What were the potentials?

A The Mesaverde zone had a flow rate of 7533 MCF per day, the Dakota zone has a potential of 2895 MCF per day. That's the three hour choke.

Q What was the AOF?

A I don't have that information.



Q Can you calculate it?

A It's been calculated, I just don't have it with me. I'll be glad to furnish it.

Q I wonder if you would furnish that C-122, the report on these?

A Yes, sure will.

Q You don't recall what the well head pressure was, the flowing pressure?

A I can only remember this much about it, Mr. Utz, that apparently the flowing pressure on the Mesaverde side was fairly high, because I think the AOF on that side was in the range of 15,000,000, so the pressures must have been fairly high.

Q In other words, both of these zones were pretty good wells?

A Yes, sir.

Q Do you have any estimate as to what a pay out would be on this unit?

A At the time we drilled the well we made an estimate of what we thought we might get in the way of a gas contract; neither formation, insofar as Pan American is concerned, at the time had been dedicated to a gas contract, and of course, the Mesaverde side isn't prorated, so what we might be able to get in the way of producing rate would depend entirely on what type



of contract might have been obtained.

At the time we drilled the well, in making our estimates on what kind of a contract we might get and what kind of a well might result, we were looking at approximately a year. That could be high and it could be low. It's all based on the ability of the Mesaverde formation in this area to produce as exhibited by this one well that has had some substantial production history on it. That's this Turner Osborn Well which is in the SW/4 of Section 22. There's a substantial amount of production history available on that particular well. As far as I know, that's the only well that has had any substantial production history.

Q You would propose to produce this zone at such rates as the Turner well produced, would you?

A No, sir. We didn't anticipate that we would be fortunate enough to get a contract that would permit it in the first place.

Q Do you have any cost figures as to what this dual completion cost you?

A All of the invoices, I believe, are in on the drilling of the well itself. They are not all in on the equipment and getting the lease fixed up to where it can be produced. The cost of the well itself was approximately \$96,000.00.



Q That included the lease equipment?

A No, sir. Approximately ten to twelve thousand dollars additional will be required to equip the well so that it can be produced.

Q But the \$106,000.00 was the basis on which you estimated a one year payout?

A Yes, sir.

MR. UTZ: Any other questions?

MR. MORRIS: Yes, sir, I have a question or two.

BY MR. MORRIS:

Q Mr. Eaton, with respect to these well costs, will Pan American be willing to furnish the Commission with an itemized statement of these costs?

A Yes, sir, we definitely will.

Q To your knowledge, is there any unusual item of expense in these well costs which would be abnormal to a Dakota or Mesaverde well in this area?

A As a matter of fact, this is one of the cheapest wells that we have ever drilled.

Q You'd have your usual cost of dual completion?

A Yes.

Q But that wouldn't be considered abnormal for a normal dual completion?

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A No.

Q Do you feel that there is any risk involved at this present time as far as these two wells are concerned?

A At this present time there is certainly no risk, no, sir. My recommendation for the assessment of the risk penalty is based on the image that I would like to project here. Here's a man that knows beforehand that he has an interest in this tract. He didn't take any risk in it, in the development of it because, well, just as soon as it became known that the well was completed he made known his interest to the people that had taken the risk and put their money in it, and now the well was ready to produce and he didn't notify these companies that he had an interest in there, and what were we going to do about it?

And on checking around we found out he was just as right as he could be, he did have an interest. So my recommendation as to risk is that the companies took the risk at the time. He could have taken the risk at the time because he knew beforehand that he had the interest that he intended to make known later. He elected not to do it. The risk was there at the time the well was drilled, I'll use the plural term, since there are two formations involved, he elected not to take that risk.

I think it's a reasonable expectation, as I pointed out, if he had voluntarily pooled his acreage and then elected not



to pay his part of the well costs but instead to take it out of production, his penalty would have been 200%. So it appears to me 125 is very reasonable.

Q Let's talk about the 200% figure. If an operator is to be carried on a voluntary basis, I have heard you and several other people from time to time say that 200% was a standard figure. Is that correct?

A All of these later operating agreements provide for 200%, some of them more, but the normal thing is 200. The older ones, 150 is normal.

Q Of this additional 100% which we might characterize as a penalty for riding the well down, that would normally include such items as interest, risk, at least those two items, would it not?

A Yes, sure would.

Q Can you think of any other factors that might be included within that 100%?

A I would say this, that might include the economics of developing oil and gas property when the expectation of return on that money is only 200% of that invested is not too good. In other words, our standards for development would not permit us to develop acreage on that basis except in unusual circumstances. Actually the Pan American wouldn't carry somebody just



for the penalty involved, because that's not up to our standards for development.

Q That extra hundred percent might include some overhead costs and supervisory costs over the life of the well?

A Of course, part of the overhead costs are determined by stipulation and is a fixed number in the unit operating agreement. There are other direct charges which I might back up a little bit and say this, that in the wording of those normal unit operating agreements, is that the penalty is 200% of the drilling and completion cost plus 100% of the direct operating cost, so that direct operating cost kind of washes out, but it comes out anyway.

Q You are aware, are you not, Mr. Eaton, that under the laws the Commission operates it may include a charge only for the risk involved in drilling these wells and that it's not authorized to take into account some of these other equities that may be presented, such as interest?

A Yes, I'm aware of that statutory limitation.

MR. MORRIS: I believe that's all the questions I have.

BY MR. UTZ:

Q What was the actual completion date of the well?

A November 29, 1961 is what we're calling the completion



date.

Q That was after the completion rig was moved off?

A Yes, sir, and the flow test taken.

Q At what time would you say that Mr. Lindsey made his interest known?

A I believe that Mr. Robinson told me that he came by the first time on December the 8th.

MR. ROBINSON: Right in that area.

A Approximately a week later.

Q Mr. Eaton, do you have any explanation as to why the Form C-128's showing the dedicated acreage was not filed with the C-101?

A No. I want to take a look at those forms, and I didn't have opportunity to do so, before I, to get the answer to the question. Maybe I can explain it. I can explain it partly, I believe, maybe completely. At the time this well was to be drilled it was the intention of Pan American and its partners to complete it in the Basin-Dakota Gas Pool. On the way down to the Basin-Dakota Gas Pool we took this drill stem test in the Mesaverde formation, and during that interim period, and while it was moving from the Mesaverde on down to the Dakota, we made a decision to dually complete it. Thereupon, this next Form C-128 was filed showing the Mesaverde dedication.



If you'll notice, the Basin-Dakota Pool C-128 was received on the same date as the C-101. I believe that's the explanation.

MR. UTZ: Are there other questions of the witness?

The witness may be excused.

(Witness excused.)

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

MR. MORRIS: I would like to make one very brief statement in view of the hour. Without repeating the statement that I have made in recent cases involving our compulsory pooling statute, I would like to limit my remarks to this particular case. The statute under which the Commission operates provides for a charge for supervision and a charge for risk, which charge for risk is limited to 50% of the well cost. Nothing is said in this compulsory pooling law with respect to other factors which may variously be grouped as to the equities of the situation.

We are limited in assessing in what Mr. Eaton has referred to as a penalty as a charge for the risk involved in the drilling of the well. I believe it is incumbent upon the Commission to view Pan American's request for 125% of the well cost in light of this provision, and in that light the extra 25% would have to be considered as a charge for risk only. It should also be pointed out that at the time this application was brought to the

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Commission no direct risk was present in the drilling of the subject well. I believe that's all I have.

MR. UTZ: Any other statements?

MR. BUELL: Yes. Let me briefly reply, Mr. Examiner, to Mr. Morris. First, I agree with Mr. Eaton and Mr. Morris that the New Mexico statute limits the penalty for risk and risk alone. I'll also go along with both Mr. Eaton and Mr. Morris that in industry practice the voluntary unit agreement that provides for a penalty might consider other things other than risk.

We should also remember that it provides for a 200% penalty rather than 150% maximum which is in the statute. We, as both the Examiner and Mr. Morris will recall, at the recently Southwest Production Company cases where forced pooling was discussed, thoroughly and completely by I think all sides top and bottom, it was Pan American's position as a policy matter at that hearing, that we felt that after a well had been drilled and completed, no penalty would be appropriate unless the person whose interest was being force pooled was aware of the fact and had notice of the fact that the well was being drilled.

We realized then that there were unusual circumstances where a risk penalty would be perfectly proper, and the only reasonable thing to do, even though the well was already drilled

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and completed. We also realized that there would be a lot of cases where the penalty would not be proper. We simply think that this factual situation in our case we presented here today is a proper one for a risk penalty to apply.

Mr. Lindsey sat, watched and waited until we completed that well and then made his interest known. At the time we started and until the time he walked in our office door, based on title opinions from our lawyers, we had no notice whatsoever of his interest. We certainly feel that in this case the risk penalty is proper, and if anything it's my own personal opinion that the 25% that we recommended is too low, but I think it is completely proper and completely justified. That's all.

MR. UTZ: Any other statements?

MR. MORRIS: I would like to ask publicly if either Mr. or Mrs. Lindsey are in the hearing room at this time.

MR. UTZ: No response. The case will be taken under advisement. The hearing will be recessed until 1:15.



