BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
April 11, 1962

EXAMINER HEARING

IN THE MATTER OF:

Application of R & G Drilling Company for special allowables, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks permission to produce 12 wells in the West Kutz-Pictured Cliffs Gas Pool and 2 wells producing from the Farmington formation, located in Sections 22, 27, 28, 32, 33 and 34, Township 28 North, Range 11 West, and in Section 10, Township 27 North, Range 11 West, San Juan County, New Mexico, under a project allowable of 3300 MCF of gas per day to be produced from any well or combination of wells in the project. Applicant further seeks approval to install compression equipment with which to produce said wells.

CASE 2528

BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF PROCEEDINGS

MR. NUTTER: We will take next Case 2528.

MR. WHITFIELD: Case 2528: Application of R & G Drilling Company for special allowables, San Juan County, New Mexico.

MR. KELLAHIN: Jason Kellahin, Kellahin and Fox, Santa Fe, representing the Applicant.

MR. HOWELL: El Paso Natural Gas Company would like to

enter an appearance, represented by New Mexico Counsel, Seth, Montgomery, Federici and Andrews; and Ben Howell of El Paso.

MR. NUTTER: Are there any other appearances in Case 2528? Would you proceed, Mr. Kellahin?

MR. KELLAHIN: We have one witness I would like to have sworn. Mr. Russell, please.

(Witness sworn.)

WILLIAM C. RUSSELL

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A William C. Russell.

Q Are you connected with R & G Drilling Company in any way, the Applicant in this case?

A I am the President and General Manager.

Q As President and General Manager, Mr. Russell, do you have anything to do with the operation of R & G Drilling Company's wells?

A Yes, I do. I have practically everything to do with the operation of them.

Q Have you ever testified before the Oil Conservation Commission?

A Never have.

Q Have you had any training or experience in the oil business?

A Yes.

Q State briefly what experience you have had.

A Well, I have been drilling and completing wells for the past eight years in the San Juan Basin.

Q Did you have anything to do with the drilling and completion of the wells in the West Kutz-Pictured Cliffs Gas Pool and the Farmington wells which are involved in this application?

A I personally supervised the drilling and completion of all of those wells.

Q Since their drilling and completion, have you had anything to do with the operation of those wells?

A Well, yes. I'm familiar with the day-to-day operation of the wells.

Q Do you keep a record of the production and expenses on the wells, too?

A I do.

Q Are you personally familiar with those records?

A I am.

MR. KELLAHIN: Are the witness' qualifications acceptable?

MR. NUTTER: Yes, sir, Mr. Russell is qualified to speak regarding his wells.

MR. KELLAHIN: I would like to point out that this

application includes some fourteen wells, twelve Pictured Cliffs wells and two Farmington wells. We are, of course, aware of the fact that of all the wells, only two presently have an allowable assigned; they are Pictured Cliffs wells. The remaining wells in the Pictured Cliffs are marginal wells, and the two Farmington wells are, of course, not prorated.

The reason we have included them in this case is, if an order is secured, we want a continual order that would apply for the economic life of the wells; and we included the Farmington wells in the event that at some future date they might possibly be prorated, and we could have an order covering them at the present time, if the Commission sees fit to grant this application.

MR. NUTTER: What do you mean, of the Pictured Cliffs only two have allowables assigned? All of the Pictured Cliffs wells have allowables assigned, but only two are non-marginal?

MR. KELLAHIN: Yes, I didn't state it correctly. Yes, only two are non-marginal.

Q (By Mr. Kellahin) Mr. Russell, you are familiar with the application of R & G Drilling Company in this case, are you not?

A I am.

Q Would you state what is proposed?

A Well, as you've stated, there are fourteen wells, twelve of which are Pictured Cliffs. The Pictured Cliffs wells are approximately 1800 to 2,000 feet deep, and the two Farmington wells

are about 700 feet deep. We have a total cost of approximately $300,000 in drilling and completion of these wells. That is, the twelve Pictured Cliffs wells cost approximately $22,000.each; the Farmington wells approximately $15,000 each, completed and equipped. These wells were drilled and completed in 1955 and the early part of 1956. It costs us approximately $5,000 a year to operate these wells.

Q That's rather high cost for operation, is it not?

A Well, these are rather difficult wells to operate.

Q Would you state briefly what your problems are in that connection?

A Well, there's a high water content in the Pictured Cliff sands, and this makes them most difficult to operate, and when I say $5,000 a year operation, I don't mean workover or remedial work at all. That's administrative and day-to-day operation of these wells, they cost approximately five thousand.

Q Have you had any water problems?

A Yes.

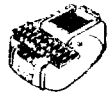
Q You'll come to that later?

A I will.

Q Would you continue, please?

A Well, as I say, these wells were completed in 1955 and '56; and 1957 was the first full year of production and these fourteen wells produced 311 million cubic feet of gas.

MR. NUTTER: What was that figure again?



A 311.

Q Was a tabulation showing these production figures attached to your application in this case?

A I believe it was, yes.

Q Do you have additional copies of it?

A I do.

Q Let's have it marked as an exhibit.

(Whereupon, Applicant's Exhibit 1 marked for identification.)

Q Now, referring to what has been marked as Exhibit No. 1, would you identify that exhibit, please?

A That gives the names or legal description and date of completion, and the producing formation of the fourteen wells, together with the calendar year production, '57, '58, '60, and '61. In '57, as I said, there was 311 million cubic feet produced; in '58 161; '60, 61,000; 1961, there's 55,000 MCF; and the first four months of this year the wells have produced at a rate of 45 million for the year '62.

MR. NUTTER: Mr. Russell, 1960 production was 61,000 or 81,000?

A It is 81.

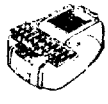
MR. NUTTER: 81,902 is on this exhibit.

A It looks liks 61,902.

MR. KELLAHIN: It's 81.

A Yes, it would have to be 81.

Q (By Mr. Kellahin) On the basis of that production, Mr.



Russell, have you recovered your well costs?

A Hardly, because our income for 1961 was less than our operating cost, and of the sum $300,000 that we've spent, we've recovered about 25 percent of that. As I compute it, roughly, we have recovered $70,000 of the $300,000 that we've put into that piece of property.

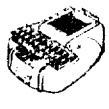
Q You say you operated at a loss in 1961. Do you know what your loss was?

A Yes, we had an actual operating loss of $700. In addition to that, we had further losses for attempted remedial work that wasn't successful out there, of another $5,000. The water problem is so great out there, I'm not sure that we'll ever lick the water problem, but there is some gas; the pressures are very low now, the Pictured Cliff pressures shut in at something less than 250 pounds and the Farmington is shut in at something less than 200 pounds.

Q What kind of line pressures do you have in this area?

A Well, our contract calls for maximum line pressure of 250 pounds; however, El Paso Natural Gas is the sole purchaser of these wells, and they operate at something less than 200, ordinarily 170, 175 pounds, because a five or ten pound pressure increase will kill all the wells and shut them in.

Q You said that you are not sure that the water problem can be solved. Do you think that what you propose in this application will help solve that problem?



A Well, we think so, and we hope so, and we are so advised by some engineers that want to undertake to lick this problem. Our position is, we have to do one or the other of two things. We can't continue with this loss, we are going to have to plug the wells and write them off, or do what work we can and try to sell some gas and salvage it. Even if this application were granted, it would be no more than a salvage operation. I can't see that, at best, that we'd ever realize anything.

Q You testified a moment ago that you had recovered approximately $70,000. Was that a gross or a net figure you are talking about?

A Well, that's a gross figure.

Q On the basis of your operating cost, then, what would you say your net has been on this $300,000 operation?

A Well, there's been considerable remedial work out there, to the extent that our net would be less than 50 percent of our gross.

Q Less than 50 percent?

A Yes.

Q Or $35,000, in that neighborhood, is that correct?

A Yes.

Q Do you consider it economically feasible to operate these wells on the present basis?

A Not at all, no.

Q If the Commission does not grant this application,

what is your alternative?

A To plug and abandon.

Q Do you have a plat showing the area involved here?

A I do.

(Whereupon, Applicant's Exhibit 2 marked for identification.)

Q Referring to what has been marked as Exhibit No. 2, would you identify that?

A Exhibit No. 2 is a plat showing the eight Sections covered by our lease in Township 27 North, Range 11 West, and 28 North, 11 West.

Q Does it show the offsetting ownership?

A Yes, it does.

Q Is there a plat attached to the application which shows that ownership in somewhat more detail?

A Yes, there is.

Q Now, Mr. Russell, your application calls for the installation of pressure equipment. What do you propose in that connection?

A We propose,at least the engineers have proposed to me that they install compressors, I believe they call it a two-stage compression system, by which they will be able to unload the water from the well bore;at the same time they'll be able to compress the gas and put it into the gathering system. They tell me that it will cost some $10,000 per well to so equip these wells.

Q On the basis of the allowables presently available to

you, would that be an economic operation?

A Not at all, no.

Q What do you propose, then, as an alternative?

A Well, we would have to have an order of this Commission directing that we were free of any allowables now or in the future; that any gas that we can salvage from this operation, we would be be able to produce, and it would take such an order before we could undertake this.

Q You say you would be free from any allowables. Could you set an upper limit as to how much gas you can produce and if so, what would that limit be?

A Well, the upper limit, I wouldn't want to set, but the lower limit I would like to set not less than 3,300,000 a day.

Q Your application is in an amount not to exceed 3,300,000 a day, isn't that correct?

A Yes. That's the application, but of course, what I would like is something else.

Q You understand, of course, that the Commission cannot grant anything in excess of the amount applied for?

A Yes.

Q But in your opinion, can you operate this project under such an allowable figure?

A Under such an allowable, we can operate it, yes.

MR. UTZ: Is this 3300 per well a day, or for the project?

MR. KELLAHIN: For the project.

MR. UTZ: And includes your Farmington wells?

MR. KELLAHIN: Yes.

Q (By Mr. Kellahin) That is correct, it would include all the wells in the project?

A Yes, all fourteen; the twelve Pictured Cliffs and two Farmington.

Q Would you produce that from all of the wells, or from individual wells or combinations of wells?

A Well, of course, at this stage we have no idea; we would propose to produce that from any combination of wells we saw fit.

Q And operate the entire area as a single project?

A As a single project, yes.

Q Is the ownership of this land common throughout?

A That it is, yes.

Q Is the overriding royalty common?

A It's common and it's constant to four Sections, and constant again as to the other four Sections. There's two leases involved, four Sections each.

Q Do you anticipate there would be any difficulty in unitizing the area for a project of this nature?

A No, no difficulty.

Q Do you have anything to add to your statement, Mr. Russell?

A Yes, I do. I would just like to summarize this briefly. We have spent some $300,000 out there. We have recovered about $30,000 net. If we undertake this project, it will be because we think we can recover more than three billion cubic feet of gas out there. We have been so advised, the engineers think so, and it would have to be something in excess of three billion cubic feet before we could even recover our present costs there. If we install this compression system, it's going to cost not less than $10,000 per unit, I'm so advised. If we make these additional expenses out there, and we are successful in recovering gas, I know of my own personal experience out there that if the well is ever shut in, that they will water up and it will be a terrible job and maybe impossible to ever get them producing again because there's one well in particular here, No. 13, that was the most prolific of all the wells out there; that hasn't produced more than two years, and on five different occasions we have had swabbing units and pulled the tubing, and the water production is so great we cannot get the gas production back.

We do think that with the compression unit we will overcome the water problem and produce a considerable amount of gas out of there. We are going to have to be free to operate as we see fit and salvage whatever gas we can get out of this reservoir.

Q Have you plugged some wells already in this area?

A Yes, we have plugged two wells. The names and descrip-

tions don't appear here, but there is two wells that have been plugged.

Q You say if you can get three billion cubic feet out of the reservoir, this project would be justified?

A Yes, it would be justified, but it would still be a salvage operation.

Q You are willing to spend the money in an effort to get that much gas?

A That we are.

Q If this project is not approved, will that gas be produced?

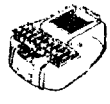
A It won't be produced by us. I personally have no interest in the well, other than a General Manager of R & G Drilling Company, the operator. I can tell you in all sincerity that if this is not granted, I am going to go back and systematically plug all these wells within the next six months.

Q Would that, in your opinion, constitute waste of a natural resource by leaving it in the ground?

A I think it would constitute waste, because the wells did produce 300 million cubic feet in 1957. The engineers tell me that there's considerable amount of gas in this reservoir. It's just low pressure and it's hard and tight, and the water is so great it's just difficult to produce it.

Q I believe you testified that El Paso is the purchaser?

A Yes.



Q Have you contacted them in connection with this?

A No, I haven't.

Q Were Exhibits 1 and 2 prepared by you or under your supervision?

A They were.

MR. KELLAHIN: I would like to offer in evidence Exhibits 1 and 2.

MR. NUTTER: R & G Exhibits 1 and 2 will be admitted in evidence.

MR. KELLAHIN: That's all the questions I have, Mr. Nutter.

MR. NUTTER: Any questions of Mr. Russell?

MR. MORRIS: Yes, sir.

MR. NUTTER: Mr. Morris.

CROSS EXAMINATION

BY MR. MORRIS:

Q Mr. Russell, do you have a meter installed on each well at the present time?

A Well, it's El Paso's equipment, but there is a meter on each well.

Q If the Commission should see fit to approve your application, the gas from each well could still be metered before it was compressed, could it not?

A Yes. I see no reason why it couldn't.

Q I'm at a loss, then, to understand why you need a project

allowable,and why the wells couldn't be produced under individual well allowables.

A Well, you misunderstand me altogether, then. I do not want to go into the reservoir, the pressures, the gas that can be produced or can't be produced. I want to point out to this Commission the economic facts of life in connection with these fourteen wells. If we are not given permission to produce them and get gas out of there any way we see fit, any way whatsoever, we are going to plug the well. I think it's a crime to plug them.

Q In other words, Mr. Russell, you might be producing some of your -- I think you said you had two non-marginal Pictured Cliffs wells. You might be producing those two wells in excess of their present allowables, is that correct?

A Well, yes, because there again, you mentioned the present allowables for the month of February, the present allowable on the greater of the two non-marginal wells was 1,450,000.

MR. KELLAHIN: What was the well?

A Well No. 16. It's the greatest producer of the fourteen; and you check back for the month of January, that well was given an allowable of 1,296,000; and the same thing was true in February, very slight allowable, but 703,000. See, that's less than a hundred dollars. How in the World this Commission can expect us to operate that well, that would be $80.00 worth of gas that was allowed; we have got 70 percent of it and that's the biggest well out of the fourteen.

Q Would you still keep all fourteen wells on the line, producing what they could?

A There's only been two or three of them on the line producing at all. I'm trying to get them all back on the line and producing them, if at all possible. But it's a tough proposition at best.

Q Do you think it would boil down to this, Mr. Russell, do you think that these two good wells that you have might end up producing the whole 3300 MCF?

A That's entirely possible. If that were to occur, I would certainly -- I want it understood at the outset and in the order that we can produce the project allowable from any one well or any combination of the wells at all. I don't think so, because there's some other wells producing a little bit here. There's one other well besides the 16 that is non-marginal, No. 24, it has an allowable of 954,000.

MR. MORRIS: Thank you, I believe that's all.

BY MR. HOWELL:

Q Mr. Russell, would you explain in more detail just exactly how you plan to put the compressor units in, that is, where do you expect to put them?

A I expect to put them anywhere the engineers think they will be effective. Now the application I am making is an economic application. If there's any way in the World that the engineers can get the gas out of the wells, I want to be free to get it out

in that way. I want not to be restricted to any sort of equipment or any type of operations whatsoever.

Q Would you plan to put the compressor at the well or at some place in the gathering system?

A Well, we're not going to interfere with El Paso's gathering system.

Q That's one thing I wanted to find out.

A We don't own a gathering system, so we certainly can't interfere with that.

Q That's right. Then your project would envision compression right at the well, or if you hooked several wells to one compressor, you would have to put in some pipe to connect them, wouldn't you?

A Well, I'm not going to attempt to say what we are going to have to do. I am going to leave it up to engineers. They approached me with this thing, they say they can make it work. If they can make it work, well and good, any way they can do it. Of course, we can't interfere with anybody else's property.

Q That is one of the points that concerns us, would be just where the compression -- compressors would be installed as to whether the program was envisioning tying the compressors into our gathering system. As I understand you, why, your proposal would not include putting the compressor or connecting the compressors into any portion of our gathering system?

A Well, I'm afraid I don't understand your question. If

we are going to compress the gas, we have to put it into your gathering system, I don't know where else we are going to put it.

Q That, then, would constitute a use of El Paso's property to some extent, wouldn't it?

MR. KELLAHIN: If the Commission please, I object to that question.

A Here we go.

MR. KELLAHIN: It calls for a conclusion, in the first place, and it is obvious if we are going to compress the gas, we have to put it in some line in order to dispose of it. It is certainly no more use to put compressed gas into a line than if you put uncompressed gas into the line, assuming the line is adapted for the purposes it is being used. We have nothing to do with El Paso's gathering system, and the witness has testified that he doesn't propose to use it, but he's certainly going to have to have a market for his gas. I don't think the question is proper at all.

BY MR. NUTTER:

Q Mr. Russell, I would like to ask a couple of questions at this time. You stated it's going to cost $10,000 per well, approximately, to put this system in.

A Yes.

Q Where did the engineers get this figure of $10,000 per well? They must have done some planning and some preliminary design work to come up with this figure, haven't they?

A Yes, they have. They have designed this compressor, which I won't attempt to describe because I don't know that much about the compressors, but the cost of the compressor itself and the engine to drive it will be somewhere around $7500.00, they said. The other $2500.00 will come in installation and in additional equipment and workover unit on the well; but they think for approximately $10,000 they can do it.

Q In other words, you don't contemplate putting your own gathering system in with a manifold connecting all of the wells, and then put one big compressor to put the gas into El Paso's line?

A No, this is going to be a well-by-well project.

Q You do contemplate a small compressor on each of the various wells?

A Yes.

Q And then there actually would be no commingling of the gas from any of the wells --

A Oh, no.

Q -- except after it has gone through a meter and into El Paso's line?

A That's right. As far as El Paso is concerned, there will be the same operation we have now. We are not going to touch their equipment.

Q Will these compressors actually put a vacuum on the wells?

A That I don't know, how he's going to do it.

Q It's going to be a two-stage compressor, the first is to evidently put some sort of a low pressure of some sort to try to unload the water in the well?

A Right.

Q Then I presume you would separate the water from the gas and then compress the gas?

A Right.

Q In this second stage?

A I would think so. You see, that phase of it I don't want to get into at all, because I don't understand compressing gas and dehydrating it and getting it into the system at all. The one thing I wanted to point out to the Commission are the economic facts of life in connection with these wells. We are not going to disturb El Paso, they won't know the difference, as though the wells were producing at 250 pounds.

Q What is your planned output pressure?

A Our output pressure?

Q On your compressors.

A It's going to be something -- I don't know what it will be, but it can't exceed 250 pounds. I think there are several limitations, one is on the size and the cost of your equipment. On the other hand, it has to exceed El Paso's gathering pressure.

Q Would your initial plans call for putting fourteen compressors in?

A Not at all. We are going to put one compressor, we

don't know that this will work. I am not convinced of it myself, before I undertake it with one well, I'm going to have to have an order of this Commission saying if it is successful, that we can go ahead and do it in connection with the other wells. Believe me, in all seriousness, I am going to plug and abandon these wells, because I'm sick and tired of trying to operate them. It's practically impossible, under the present setup, because of the water problem and the lower pressure. We can go out and pull the tubing, swab it, get it producing in four days, and El Paso comes and shuts it in, switches it, and the well is logged again. If we are not free to take gas out of the wells any way we see fit, I am going to plug and abandon all the wells.

Q In other words, your initial plan is to put one compressor on one well?

A Yes, and if it works, fine, and we move to the other one. If it doesn't work so well, we will have to modify something. Believe me, I think it's criminal to go out there and plug those wells.

Q If this one compressor on the one well makes the allowable of one million MCF, would you bother putting the compressor on the other well?

A We would be down here for more relief if it was that successful. I know that's not going to happen, because the initial IP didn't amount to that in any one of these wells. They IP'd about a million, a million and a quarter, the better ones. That's

not going to happen, believe me, and it may be that five or six of these wells might produce this project allowable. That's the problem I hope we have.

MR. NUTTER: Do you have any further questions, Mr. Howell?

MR. HOWELL: Yes.

BY MR. HOWELL:

Q Then am I correct in understanding, Mr. Russell, that your proposal is that you would use your compressor unit with the well, and that the compressor would not be placed downstream at a point on our system? That's the point I wanted to understand clearly.

A Understand me, we're not going to touch anything that belongs to El Paso. I want nothing to do with it whatsoever.

Q That's fine on that point. Do you know how many wells in the West Kutz?

A No, sir, I don't know.

Q Would 203 be an approximate number?

A Well, I'm not going to hazard a guess as to how many wells. I can readily determine how many wells are in the West Kutz, if I need to know.

Q Are you familiar with the March allocation to the West Kutz of 410,825,000; would you say that figure sounds approximately correct?

A I would not comment on it at all, because I don't know

what you are getting at. I don't know what you are talking about.

Q Assuming that that is the correct March allocation to the West Kutz, which is a matter that can readily be determined from the schedule there, to allow your project 3300 per day would, for the month, give you an allowable of 102,300 MCF, would it not?

A I don't think I follow you at all.

MR. KELLAHIN: That would be a matter of calculation.

Q (By Mr. Howell) What would 31 times your 33 amount to?

A Compute it if you want to know. What you trying to ask me this question for?

Q I'm trying to learn about your project. I'm not necessarily opposing it, I am trying to find out what you propose.

A There's another thing I would like to point out to this Commission, is that this is very rough terrain country out there, just as bad as it gets in the San Juan. No doubt it costs El Paso to tie into each one of the wells, as it did to drill and complete. Why in the World El Paso would be anything but cooperative, because if we plug the wells, you have a gathering system out there that's gone to pot real quick. Now go ahead with your question.

Q Now, Mr. Russell, I'm not trying to argue with you. I'm just trying to find out where we would get on this proposal. As you have testified, you have not discussed it with the company, and we are here trying to find out something. For thirty-one days in March, at 3,300 MCF a day, you would come up with a figure for the month of 102,300 MCF, do you not?

A Right.

Q If the March allowable is, for the West Kutz Field is 410,825, that would give to your wells roughly 25 percent of the entire production of the field, would it not?

A I can't answer that, because I don't know. If I want all these figures, I know where they are available. They are at hand somewhere.

Q For the purpose of answering the question, will you assume --

A No, I won't assume anything. If that's a fact, you tell me it's a fact.

MR. NUTTER: I think it would be apparent that 100,000 is approximately 25 percent of 410,000. Would you answer the question, please?

A Yes, that's apparent.

MR. NUTTER: Proceed.

Q (By Mr. Howell) That would apply to twelve of your wells which are in the West Kutz, would it not, you having two Farmington wells, I believe?

A Yes.

Q So there are twelve Pictured Cliffs wells of yours in the West Kutz.

MR. HOWELL: I think that's all.

MR. NUTTER: Are there any further questions of Mr. Russell?

MR. UTZ: Yes, sir.

MR. NUTTER: Mr. Utz.

BY MR. UTZ:

Q Mr. Russell, as I understand this thing now, you are going to have individual well compressors somewhere between the wellhead and El Paso's meter?

A Yes.

Q And you are asking for a maximum allowable of 3300 MCF per well per day?

A No, not per well.

MR. KELLAHIN: Mr. Utz, the application is for --

MR. UTZ: All fourteen wells get 3300 per day.

MR. KELLAHIN: That's right.

Q (By Mr. Utz) Now we can't, I judge from your answers to some of the questions, we can't even arrive at a per well allowable, not only among the Pictured Cliff wells, but also among the two Farmington wells, but you want to produce them however they'll produce?

A Yes, just any way that we are able to produce these wells.

Q Would you meter each of these wells as they are metered now?

A That's right.

Q I gather that you have gone far enough with this project that you know that this is the least amount of gas that you can

get by with?

A Yes, that's the economic side of it.

Q You are throwing the whole thing in as one operation, even though each well will be a separate operation?

A That's correct.

Q So do you have a figure as to what you would have to have on any well to make it an economic operation? In other words, to set this compressor, that you must know about what it covers now, how much gas you are going to have to have from each well.

A Oh, yes, it's going to have to be not less than 300,000 per day before we'll even go ahead with the project. But even there, I don't know that we'll be able to operate it at that. I think it's going to have to exceed 400,000 per day before it will be economical, but it will certainly have to be 300,000 a day before we would even attempt it.

Q Mr. Russell, your 3,300 for the fourteen wells only figures about 235 MCF per day per well.

A Well, believe me, some of these wells are not going to respond to anything.

Q I believe your answer was 300,000 a day, or 400,000 a day, which was it?

A I say if a well won't produce 300,000 a day, I know that we couldn't go ahead with the operation of it. We think it's going to take around 400,000 a day to pay for the equipment and make the operation economic. 300,00 and less, we know already

would not be economical.

Q There will be an individual well expenditure, will it not?

A That's right.

Q If you can't produce 300,000 a day from a well, are you going to continue to leave this compressor in operation and produce less than that?

A No. As I say, if it won't produce 300,000 a day, we would have to take the compressor off and move it to another well.

Q So what this really boils down to is,according to the way I understand it, is you are asking for allowable of 300,000 per day minimum per well?

A Mr. Utz, this is exactly what I didn't want this application to turn into. I'm not asking for that. I'm trying to present the picture to this Commission that here are fourteen wells that I'm going to plug and abandon unless the Commission tells me to go ahead and get some gas out of there if you can, any way you see fit, for any one or more of the fourteen wells. That's what I want. If you give me that permission, I'll go ahead with this project, but as far as the engineering side of it and the well-by-well aspect, I don't want to go into that because I don't know and you don't know, and certainly nobody else knows what we are going to be able to do out there with these sorry wells in the West Kutz Field.

Q I'm trying to find out here how many of the fourteen

wells, if this is granted, that you are actually going to produce.

A Well, I wish I knew. I wish I could answer that.

Q You answered me that you would not produce them for less than 300,000 a day?

A That's right.

Q Actually, when this is all said and done, we won't have fourteen wells on the line, since you have only asked for 300,000 or an average of 235 per day?

A Yes.

Q So a minimum allowable which the Commission is now considering of something like that, two million a month or 1500 a month, well, we'll say two million a month per well, wouldn't help you in this matter at all?

A No.

MR. UTZ: That's all I have.

MR. NUTTER: Any further questions of Mr. Russell? He may be excused.

(Witness excused.)

MR. NUTTER: Do you have anything further, Mr. Kellahin?

MR. KELLAHIN: That's all.

MR. NUTTER: Does anyone have anything they wish to offer in Case 2528?

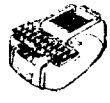
MR. MORRIS: Yes, sir. If the Examiner please, the Commission has received a telegram from the Pan American Petroleum Corporation opposing the establishment of a project allowable as

proposed by the subject application. This telegram will be made part of the record.

MR. HOWELL: On behalf of El Paso Natural Gas Company, I would like to make a very brief statement of our position. First, we're thoroughly and completely sympathetic with the problem that Mr. Russell has, and insofar as putting any compression in, with the explanation which he has given here that it would not involve our gathering system, we certainly would have no objection to that being done.

We do merely wish to point out that, assuming that the figure of 410,825, which I'm sure the Commission can verify by looking at the March allocation is that for the entire pool, that to grant this project allowable will give to twelve out of 203 wells in the pool approximately 25 percent of the total market demand; and the repercussions from that are such that there may be others in here, and if there's any way that it can be figured out and some way in which reasonable help can be given to help prevent premature abandonment of wells, we would like to help if there's any way it can be done; but just by giving the increased proportion of this pool's allowable to these twelve wells seems to us to probably create more problems than it solves.

MR. NUTTER: Mr. Howell, may I ask you this question: If the deliverability, so to speak, of the pool, would be increased by additional applications similar to this, would that not also increase the market demand for the pool, or is the market demand a



market demand, or is it a reflection of the inability of most of the wells in this pool to make very much gas?

MR. HOWELL: I think probably I should refer that question to the man that handles proration here. I think I know the answer, but I think I would rather have the authority answer the question rather than I. Mr. Woodruff, what would be your reply?

MR. WOODRUFF: The market demand could be influenced by an increased availability of gas from this field. At the present time it reflects an actual market demand attributable from this field, from the entire San Juan Basin.

MR. KELLAHIN: May I ask a question? Isn't your market demand, at least to some extent, involved with the ability of the pool to produce?

MR. WOODRUFF: Not the market demand from the San Juan Basin. The manner in which it could be apportioned might be influenced by that.

MR. KELLAHIN: That's the point of my question. I'm talking about the West Kutz Pool, and that is affected by the ability of the pool to produce.

MR. WOODRUFF: It could be.

MR. NUTTER: Any further questions of anyone? We'll take this case under advisement.

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STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Notary Public 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, and that the same is a true and correct record of said proceedings, to the best of my knowledge, skill and ability.

DATED this 19th day of April, 1962, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

Ada Dearnley
NOTARY PUBLIC

My Commission Expires:

June 19, 1963.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 2528, heard by me on 4/11, 1962.

, Examiner
New Mexico Oil Conservation Commission

4/11/62

BEFORE THE OIL CONSERVATION COMMISSION

OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF R & G DRILLING COMPANY, INC., FOR APPROVAL OF THE INSTALLATION OF GAS COMPRESSOR EQUIPMENT AND GRANTING OF A PROJECT ALLOWABLE FOR CERTAIN MARGINAL WELLS LOCATED IN THE WEST KUTZ-PICTURED CLIFFS AND FOR TWO UNPRORATED FARMINGTON WELLS

A P P L I C A T I O N

Comes now R & G Drilling Company, Inc., and applies to the Oil Conservation Commission for an order approving the installation and use of compressor equipment on fourteen wells, twelve of which are completed in the West Kutz-Pictured Cliffs Gas Pool, and two of which are completed in the Farmington formation, in an unprorated gas pool, all as is more fully shown on Exhibit 1, attached hereto and made a part hereof for all purposes.

In support of this application, applicant states, that all of the wells are presently marginal wells, unable to make an allowable assigned in the West Kutz-Pictured Cliffs Gas Pool against existing line pressures, and because of such inability to make their allowable, water encroachment, and other mechanical problems, said wells are no longer economical.

Applicant proposes to produce said wells by the use of compressor equipment.

In order to efficiently and economically produce said wells as proposed herein, and to prevent frequent watering-out of said wells it is necessary that a project allowable be assigned in an amount not to exceed 3,300 MCF of gas per day, to be produced from any well or combination of wells in the project.

Unless approval is given for the installation of compression

equipment and the assignment of a project allowable as herein proposed, it will no longer be economically feasible to produce said wells, and premature abandonment, with resultant waste, will occur.

Attached hereto and marked as Exhibit 2 is a plat of the area showing location of the wells subject to this application, and offsetting wells in the area.

Wherefore applicant prays that this application be set for hearing before the Commission or before its duly appointed and qualified examiner, and that after notice and hearing as provided by law theCommission enter its order approving the installation of compression equipment and the assignment of a project allowable as herein proposed.

Respectfully submitted

R & G DRILLING COMPANY, Inc.

By Jason W. Kellahin
Jason W. Kellahin

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Attorneys for Applicant