

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

March 14, 1962

REGULAR HEARING

IN THE MATTER OF:

Application of Consolidated Oil & Gas,
Inc. for an amendment of Order No.
R-1670-C to establish an allocation
formula for the Basin-Dakota Gas Pool
San Juan, Rio Arriba and Sandoval
Counties, New Mexico, which will differ
from the allocation formula prescribed
for the prorated gas pools of Northwest
New Mexico by Rule 9(C) of Order No.
R-1670. Applicant recommends an allocation
formula based 60 percent on acreage and
40 percent on acreage times deliverability.
The Commission also may consider the establish-
ment of minimum and maximum allowables for
the Basin-Dakota Gas Pool.

CASE NO.
2504

BEFORE: Edwin L. Mechem, Governor
E.S. "Johnny" Walker, Land Commissioner
A.L. "Pete" Porter, Secretary-Director of Commission

TRANSCRIPT OF HEARING

MR. PORTER: Case 2504.

MR. MORRIS: In the matter of application of Consoli-
dated Oil & Gas, Inc., for an amendment of Order No. R-1670-C to
establish an allocation formula for the Basin-Dakota Gas Pool,
San Juan, Rio Arriba and Sandoval Counties, New Mexico, which
will differ from the allocation formula prescribed for the pro-
rated gas pools of Northwest New Mexico by Rule 9(C) of Order No.



R-1670.

MR. KELLAHIN: If the Commission please, Jason Kellahin, Kellahin and Fox, appearing for the applicant. I have with me Mr. Ted Stockmar from the Colorado Bar who will present the case for Consolidated. I would like to also enter my appearance for Southern Union Gas Company and R. & G. Drilling Company; and could we ask that the Commission at this time call for other appearances in support of and in opposition to the application?

MR. PORTER: We'll call for appearances and they can state their position.

MR. KELLAHIN: Yes, sir.

MR. PORTER: Southern Union, you say?

MR. KELLAHIN: Yes, sir, and R.G. Drilling Company.

MR. PORTER: Mr. Everett.

MR. EVERETT: I would like the record to show that Atwood and Malone and Mr. Charles Atwood have entered an appearance for the Ohio Oil Company by letter dated March 12th, addressed to the Commission; and at that time Mr. Malone introduced me as a member of the Bar of Wyoming, also representing and being associated with him in the case and to handle it for the Ohio Oil Company. My name is W. Hume Everett, my address is Post Office Box 120, Casper, Wyoming.

MR. PORTER: Do you care to state your position in the case at this time?

MR. EVERETT: I don't know whether I could briefly or

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not, Mr. Porter. I would say we are opposed to the application.

MR. PORTER: Mr. Seth.

MR. SETH: Mr. Ben Howell, Garrett Whitworth, and Oliver Seth for the El Paso Natural Gas Company, and I'm appearing for Aztec also, and also for Sunset Production Company. All these parties are opposed to the application.

MR. COOTER: Paul Cooter of Atwood and Malone, Roswell, appearing for Pan American. Pan American is in favor of a continuation of the present allocation formula and is opposed to the application.

MR. PORTER: Mr. Kelly.

MR. KELLY: Booker Kelly of Gilbert, White and Gilbert, representing SunRay Midcontinent Oil Company. SunRay is basically in favor of the application.

MR. MILLS: I am George Mills, an operation engineer with Atlantic Refining out of Durango. We will wish to make a statement at the end of the hearing in favor.

MR. CAMERON: John Cameron, representing Tidewater. We concur in the application.

MR. BLACK: C.R. Black, representing Texaco Inc.. We wish to make a statement at the conclusion of the hearing concurring with the application.

MR. SETH: I have another appearance for Calkins Oil Company. We are opposed to the application.

MR. DUGAN: Tom Dugan, representing Pioneer Production



Corporation, opposed to the application.

MR. PORTER: That was Pioneer?

MR. DUGAN: Pioneer Production Corporation.

MR. KELEHER: W.A. Keleher, Albuquerque.

MR. PORTER: Mr. Keleher.

MR. KELEHER: Keleher, K-e-l-e-h-e-r. I would like to make a brief statement if the Commission please, of our position in connection with Case 2504. The last sentence of the synopsis of the order, quote the following, "The Commission also may consider the establishment of minimum and maximum allowables for the Basin-Dakota Gas Pool." Now, we do not interpret the application to include that within the scope of the prior, and assume that that was added or injected into the order on the Commission's own motion.

Therefore, we would like to submit the following in opposition: It is the opinion of Pubco Petroleum Corporation that the current proration formula now in effect is a just and workable formula, and gives each well its fair share of the existing market commensurate with the recoverable gas reserves in the individual wells.

Two, any refinement or change in the existing formula should be in favor of deliverability and the reduction in the acreage factor, in that it is our belief that well deliverability more truly reflects recoverable reserves.

Three, an increase in the acreage factor at the expense



of deliverability in our opinion would in effect violate the correlative rights and permit the weaker wells with less reserves to ultimately produce gas from the common source of supply in amounts in excess of their actual reserves.

Four, the current farming out presently provides a 25 percent acreage factor which in effect allocates a basic allowable to all wells regardless of their deliverabilities merely because they exist.

Five, we believe that it has been demonstrated that major changes occur within the Basin-Dakota Pool porosities, permeability, connate water, saturation and sand thickness, all of which are the major and important factors in determining the actual recoverable reserves within a given Dakota drilled section. We hope to propose to demonstrate direct relationship between deliverability and recoverable reserves.

Six, it is our contention before your honorable body that if any changes are to be made in the proration formula such a change should be in favor of one hundred per cent deliverability. Pubco's position is that it objects to the introduction of minimum or maximum allowables, their reduction would actually in effect substantially change the proration formula in favor of a straight acreage allocation of market and would be a violation of correlative rights.

MR. MORRIS: If the Commission please, Richard Morris appearing for the Commission Staff. We will have one witness to



present testimony concerning the establishment of minimum allowables.

MR. PORTER: Are there any other appearances? Mr. Stockmar, if you are ready.

MR. STOCKMAR: Yes.

MR. HOWELL: If the Commission please, it appears from the number of appearances and the divergence of opinion that we are about to step forth on another of the hassles regarding pro-ration in the Basin with which so many of us are familiar in the past; and in fairness to the proponents here, I think that I should tell them now that I would move for a continuance after their testimony is completed and ask that if possible, this case be set at a date other than the regular hearing date, because it looks very much as if we can run into two or three days. Now, unfortunately for a lot of us there is a hearing tomorrow in Texas that requires the presence of some people there; that is the hearing at which they want the executives to speak and many of the executives want some of their hands around there with them before they talk and we do run into somewhat of an embarrassing conflict. I think it's only fair that we tell you now that we will propose to make that motion for a continuance at the end of your testimony.

MR. STOCKMAR: Ted Stockmar, appearing for the applicant. Thank you for your candid statement, Mr. Howell. In immediate response to it, I would like the Commission to hear a



little history in connection with this matter. Under date of January 19th, Consolidated, the applicant, invited all of the operators in the field whose names actually appeared as such in the proration schedules, to attend a meeting in Denver to discuss this very important problem. There was very substantial representation there which to me is evidence that there is a problem. Only one party absolutely declined to attend and that was Pubco who has just made a statement. I make this statement because as part of that invitation, and at that meeting, Consolidated made it very clear that as soon as possible it would seek this application which it has done. I feel that ample time in the five to six weeks that has passed since that time, ample time has been made available to parties to prepare themselves for this hearing. Consequently when the motion is made we will certainly resist any continuance of the matter.

We believe that the problem is a paramount one and it should be solved as soon as possible. I don't know that I need to restate too much the existing situation. As you know, under the existing order B-1670-C, the Basin-Dakota Gas Pool is spaced on three hundred and twenty acre spacing and the allowable is allocated on the basis of a formula which gives 25 per cent weight to acreage and 75 per cent weight to acreage times deliverability. Our application is to alter that substantially in favor of acreage and we are asking for a 60 per cent weight for acreage alone and a 40 per cent weight for acreage times deliverability.

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We believe in addition that the matters raised by the Commission on its own motion with respect to maximum and minimum allowables might be substantially solved if our proposal is adopted. There is a lot of history also behind this particular formula. I'm sure that members of this Commission will recall the many difficult hearings that were heard in 1954 and early in 1955 concerning spacing, in fact proration et al and the allowable formula, I would like to recall to your attention that at least in some of the fields involved there is a substantial problem created by a hundred and sixty acre spacing in certain areas and three hundred and twenty acre drilling in other areas. This also creates a very complicated allowable problem and it is, it has always been my view that this formula as it was initiated gave some weight to the disparity in acreage in drilling areas that then existed. I'm glad that Mr. Howell raised the question of Texas because this now gives me an opportunity to do the same.

I would like to call to the Commission's attention the February 19, 1962 issue of the Oil and Gas Journal. On Page 62 thereof, there is an analysis of the dramatic change that has taken place in Texas in the last eight months concerning the allocation of allowables in fields. Of the thirty-one gas fields they are spaced over 70 per cent, or twenty-two, where the allowables were allocated on the basis of one hundred per cent acreage; three of them were 75 per cent acreage; three of them were two-thirds acreage; one was fifty-fifty, none was twenty-five seventy-

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five; and only two were on the basis of the Texas equivalent of deliverability. I think this dramatic change will be of interest to you; it shows that Texas at least is making some progress in the right direction here.

We recognize the difficulty of strict engineering proof with respect to the Basin-Dakota Pool in this early stage of its development. The volumetric reserve studies are very difficult. The pressure withdrawal history is very limited. None the less, it is clear to us that this Basin-Dakota Pool is substantially different from the Pictured Cliffs Reservoir or the Mesaverde, and it does seem obvious that this formula is a carry-over from those considerably different pools.

We also recognize that the deliverability concept as such is a difficult one. It certainly has a value in terms of measuring the relative capacities of the wells to produce into the pipeline, as you will see. We'll resist the impression that deliverability measures reserves. There are certain limitations inherent in the deliverability concept itself.

We recognize and applaud the work that Mr. Utz has done in determining deliverabilities with precision, but I feel sure that he would be the first to recognize that the same standards do not necessarily apply in all reservoirs; and we do have here inherent in the present system a use of a common back pressure curve which is admittedly different for the various horizons. We recognize these defects; the deliverability is still useful, no question of

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it. We do feel that overweighting or excessive weighting of the deliverability factor with its inherent defects serves to magnify and enlarge those defects.

There's also another thing that to me seems very important. We recognize that there was no surface weight existing under this present formula nor would it exist under any allocation formula if no gas was flared, but it is fair to state that the deliverability idea, if we had a hundred per cent deliverability formula, this would be the simple adoption of the rule of capture without surface waste. Now, the Commission is charged first with preventing waste. This it can accomplish with any formula. Its secondary responsibility is to protect correlative rights. This we submit has not been done, and experience to date has shown that the present formula does not do this. We have no quarrel with three hundred and twenty acre spacing. We believe this has been established, that it provides the right mechanism for getting ultimate recovery. We think it sets the appropriate economic atmosphere for the development of this pool, but we submit that the allocation formula must protect correlative rights and this is what we are here asking for.

I would like at this time to call a witness, Harry Trueblood.

MR. PORTER: I believe we have another statement.

MR. EVERETT: Having just come from Texas, I will not undertake at this point to answer your illusions thereto, Mr. Stockmar, but I would say that whatever is purported in the Oil

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and Gas Journal merely may not be correct, but a lot of my friends are suffering under that very system down there, but what the Journal reports and what the fact is might be different. In all fairness to Mr. Stockmar and his client, I wanted to make a very brief statement before I join in the motion that is going to be made by Mr. Howell later on, as I understand it.

We were the one operator who was not notified of the Denver meeting, through no fault of Mr. Stockmar or his client, but we have about three per cent interest in the gas allocated in the Basin-Dakota Pool as does his client, so our interest there is about the same, percentagewise, of the total allowable. We read in Nancy Royal's report the latter part of February of this case, whereupon Mr. Spielis of our company telephoned someone with Consolidated in Denver and they very graciously sent to us some of the material which was presented to the operators at that meeting in Denver.

A day or two after that I called the Commission and we actually received a notice of this hearing on March 5th together with the copy of the application; and in all fairness to Mr. Stockmar, I wouldn't want him to proceed, and I thought it might be helpful both to him and his client and certainly so far as I'm concerned, my client. We just haven't had time to get ready to put on the kind of a defense we feel is demanded in this instance, so that we would join in the request for the continuance; but I wonder if Mr. Stockmar wanted to go ahead with his testimony, exhibits and



witnesses at this time and then would recall those witnesses for a later hearing should the Commission be disposed to grant the motion. If they would do that, why, I think it might save some of us and save all of us a good deal of time to proceed in that fashion so that we in effect hear part of their case, recess, and then come back and put on our defense. Now that is not normal procedure except for the Federal Power Commission, and I don't want to imply I'm recommending anything to this Commission that might follow that one, but that is the effect of it and I just wonder what Mr. Stockmar's view with reference to that procedure is, because you might prefer to wait and have us be prepared to cross examine at a later date. We are not prepared to do complete cross examination today. What are your views?

MR. STOCKMAR: Well, gentlemen of the Commission, we would, of course, much prefer to complete the entire hearing at this time. We are ready to proceed, others have had ample time. It would seem a waste of our time and yours at this time to present our case in full when it would largely have to be done again. If you are of a mind to continue the entire matter I think our position must be that if you elect to continue it that we will not proceed beyond this point.

MR. PORTER: Mr. Everett, do you have something further?

MR. EVERETT: Well, I have tried to state our position. We are certainly not ready with any defense today although we are opposed to the motion. When you consider there are approximately



five hundred seventy-five wells in this field, and we are considering a rule that has been in effect by the Commission for a number of years statewide and for more than a year in this pool, I think we have to consider the whole pool and it's going to take our engineers some time to study all the wells and see the effect of this. I can go this far in my defense today, that the net effect of what the applicants seek here is to increase their income about \$12,000.00 a month and decrease my client's income by \$12,000.00 a month, so we take more than a passing interest in it. We think the economics are involved more than any correlative rights and maybe they are measured by dollars and if they are, they are measured by our dollars.

MR. STOCKMAR: I would like to correct one statement Mr. Hume Everett made, and that is that Consolidated is higher, has interest in wells exceeding 10 per cent of those drilled in the pool at this time, and then another implication at the last, said "our dollars." We are not trying to get Ohio's dollars, we are trying to get Consolidated's dollars.

MR. EVERETT: A point of view, Mr. Stockmar.

MR. HOWELL: Mr. Stockmar, might I ask one question? How long do you think it will take you to put your case in chief?

MR. STOCKMAR: Certainly less than one hour, Mr. Howell.

MR. KELLAHIN: Southern Union will also have a witness that would take approximately thirty minutes, I would estimate.

MR. PORTER: Sir?



MR. KELLAHIN: I say Southern Union will also have a witness that will take twenty to thirty minutes.

MR. PORTER: Mr. Davis.

MR. DAVIS: Quilman Davis, representing Aztec Oil and Gas Company. I did not join in the discussion about a continuance motion that will be offered at a later time. I would be very happy for Consolidated to put on their case today and listen to them, but Aztec, it so happens, is in the same position. We did have notice of the meeting in Denver but we were not able to send anyone up there. We have not had the opportunity to prepare any witnesses for the opposition of this application and in view of the apparent motion to be made, I would like to move now that this case be continued to a date certain, either after the regular meeting, say in the next month or in between, to start off in the morning with this case because I personally think that it will take more than one day to finish this.

MR. PORTER: Mr. Davis, as I understand your motion, it's just a simple motion to continue with this case until a special date or the next regular hearing date or something that might be convenient by the Commission to be heard in its entirety, that is the case to be heard in full at that time.

MR. DAVIS: Well, I don't think--if I did go that far I didn't intend to. I always want to reserve the right to ask for any additional continuance if I was surprised.

MR. PORTER: After that time is what I had reference to.

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MR. DAVIS: Yes, but the idea is to continue this case over to either the regular meeting or as Mr. Howell suggested, maybe a separate date for it would be ideal.

MR. PORTER: Anyone care to comment?

MR. EVERETT: I would like to join in that motion and make this little statement. The reason I stated before and asked Mr. Stockmar what his view would be because I have always been under the impression, to try this case or a case of any sort, that both the applicant and those opposed to the application should go into the Courthouse prepared to fight it out; and that it's unfair to ask Mr. Stockmar to put on his testimony and witnesses today and let me have a month to go and dig it apart and work up cross examination and so forth, so I would join in the gentleman's motion to continue to a day certain. I would hope that we could have at least thirty days so that we could make an adequate study of the facts concerning this pool and this rule so as to formulate our defense and then we will not make our case on the failure of the applicant to make its case. We make our case on our own defense; so I join in your motion and ask the Commission to continue the matter for a complete hearing commencing sometime not less than thirty days from date.

MR. PORTER: Anyone else care to comment concerning the motion?

MR. STOCKMAR: I appreciate the attitude shown by Mr. Everett. It so happens that our particular witness is very



important to our presentation; and if the Commission determines not to proceed with the entire matter at this time, then we would prefer not to do it piecemeal and would like something less than thirty days because after the middle of April he will be very badly, already is very badly obligated for the rest of that month and through May. It would seem that sometime in the forepart of April would be adequate time for the others to prepare.

MR. PORTER: The Commission has decided to continue the case and will not hear any testimony today, but to continue the case to the regular hearing date, the 18th of April. It is hoped that we can get to the case fairly early that day and the Commission will be prepared or we hope we can be prepared to spend another day if necessary at that time.

The case will be continued to the regular April hearing, which is the allowable hearing day.

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I, MARIANNA MEIER, NOTARY PUBLIC in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached transcript of hearing was reported by me in stenotype and that the same was reduced to typewritten transcript under my personal supervision and contains a true and correct record of said proceedings, to the best of my knowledge, skill and ability.

NOTARY PUBLIC

My Commission Expires:

April 8, 1964

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