

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
February 28, 1963

January

IN THE MATTER OF:

Application of Phillips Petroleum
Company for a special allowable, Lea
County, New Mexico.

Applicant in the above-styled cause
seeks an order extending the temporary
special allowable authorized by Order No.
R-2362 for its Mexco "A" Well No. 2,
located in Unit I of Section 2, Township
17 South, Range 32 East, Maljamar Pool,
Lea County, New Mexico. Said well off-
sets and has received a response from the
Boller-Nichols Waterflood Project in said
Section 2.

Case No. 2745

BEFORE:

Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

MR. NUTTER: The hearing will come to order. The
first case will be Case 2745.

MR. KELLAHIN: Jason Kellahin of Kellahin and Fox,
Santa Fe, representing the applicant. We have one witness we
would like to have sworn.

(Witness sworn.)

MR. KELLAHIN: Before we start the testimony, I would
like to state that this is, in effect, a continuation or renewal

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of the original case which was presented before the Commission Examiner, I believe, the same Examiner, on November 8, 1962, in Case Number 2640, which resulted in the Commission's Order R-2362, granting a capacity allowable for a temporary period of 60 days. I believe it will expedite matters if we were to offer the record in the other case. Do I have that number right?

MR. CZIRR: Case 2690.

MR. KELLAHIN: We would like then, to offer the record of Case 2690 as a part of the record in this proceeding.

MR. NUTTER: The record of 2690, without objection, will be incorporated into the record of this hearing.

(Whereupon, record of Case 2690 was admitted to the record.)

D. L. C Z I R R

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A Don L. Czirr.

Q By whom are you employed and in what capacity?

A Area Reservoir Engineer, for Phillips Petroleum Company, Area Office Engineer.

Q Have you testified before the Commission and made your qualifications as an engineer a matter of record?

A Yes, sir.



MR. KELLAHIN: Are the witness's qualifications acceptable?

MR. NUTTER: They are.

Q (By Mr. Kellahin) Mr. Czirr, are you familiar with the application of Phillips in the case that is before the Commission at this time?

A Yes, sir.

Q Would you state briefly what is proposed by Phillips?

A Phillips proposes, or requests authorization to operate its Mexco "A" Well No. 2 at its capacity rate as a means of preventing the loss of oil that is being forced in this direction by the adjacent water flood. The operation of the well at the capacity rate is the only means, solely in the control of the operation, for reducing or eliminating the possibility that oil will bypass the well into the edge and non-commercial portion of the area. The exhibits that we have submitted today are similar, and in many cases identical to the exhibits presented at the November hearing, and which were incorporated into the record; but were furnished again today as a matter of convenience and to show the more recent production information that has become available since the initial hearing.

The situation is that the Boller-Nichols Waterflood which is shown as blue in Exhibits 1 and 2 is an approved waterflood project and is operating successfully. The operation of the water injection on the Boller-Nichols Waterflood Project has



caused oil to migrate, not only to the producing wells but also stimulated the Phillips Mexco "A" Well No. 2.

(Whereupon, Applicant's Exhibits No. 1 and 2 were marked for identification.)

Q Mr. Czirr, you are discussing the fact that the Phillips Mexco A Well No. 2 has received a substantial response as a result of the Boller-Nichols Waterflood Project, is that correct?

A That is correct. As shown on Exhibit 2, the wells designated by the arrow is on the edge of the field and along the commercial limits of the field, so that in our judgment it is not economical to extend development to the north by drilling wells, and at the same time this reservoir does not determinate by fault or any positive field at that point; it is a gradual reduction in permeability. So, over a large area that you would have on the edge of a field, that way you do have migration of fluid; so without the prospect of being able to drill wells to the north of our Number 2A, the only way we can prevent this migration and loss of oil to the extremities of the structure, is by operating that well at capacity, and preventing the oil from migrating past the well. Now, in the next exhibit it is the same exhibit that has been submitted previously, to show the Boller-Nichols project was operating successfully, and that it has received substantial response.

Q To which exhibit?

A That is a schematic sketch of the wells of the Boller-



Nichols waterflood area and includes the Phillips Mexco "A" Well No. 2; the curves are put on the sheet in accordance with each well's location, which shows the Mexco "A" Well No. 2 has received substantial response from the pressure maintenance and waterflood operation of the Nichols Project. Also the Nichols Project is operating successfully.

Q Now, you say that exhibit is identical to the one that is issued in the previous hearing, is that correct?

A It is the same exhibit that has been up-dated to include the performance of the Mexco "A" Well No. 2; and, for example, shows the production increase that was allowed by the Commission's previous order. This also shows the production on the Mexco "A" Well No. 2 is above the allowable that would have been the normal allowable of 37 barrels for November and December, and 36 for the latter part of January.

MR. PORTER: How far is that exhibit brought up to date?

A In the case of our well, where we had the information to the first of the year, it is brought up to the first of the year, and the Boller-Nichols well is also shown to the first of the year. I obtained that information from the operators responsible for the Commission records for the month of December.

MR. PORTER: So this exhibit in all respects is current through January 1st?

A Yes, sir.

MR. PORTER: Thank you.

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A The other exhibit was submitted previously also, and the next one I would like to refer to, unless there are specific questions, would be the production curve from the Phillips Mexco "A" Well No. 2, which again shows in more detail the fact that the well has clearly received response from the adjacent water injections; that we did, in fact, increase production as a result of the Commission's granting us a capacity allowable for a period of 60 days, and in my judgment this oil would not have been recoverable in the absence of that. The oil allowable would have been on the order of 1,100 barrels per month, and that production that would be above the 1,100 barrels per month, in my judgment, would have been lost to the non-commercial portion of this field.

Q It would not have been producable from any other well than yours, is that right?

A That is my judgment, yes, sir. The problem being, as brought out in part of the previous testimony, this is a "Y" tight rock and gets progressively tighter as you go to the edge of the field, to where a well drill may encounter some porosity and permeability, but it will not be at a commercial rate, or of commercial quality, where the repression going into the well bore are large. So with the low permeability you don't have a commercial rate. But it does not mean there is a complete absence of porosity and permeability; that over a thirteen hundred and some odd foot area, or half a mile, there would be migration



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Our economics of the matter, as presented previously, are that as of November 1 our Mexco "A" Lease had \$116,017 yet to pay out that would not pay out from prior operations and probably will not recover any return to the investment through any secondary efforts we are able to perform. The three Mexco "A" wells were drilled for the sole purpose of trying to find a portion of this field. Then it was drilled as a, not the Maljamar but the Roberts area, to try to extend it into this waterflood area, and we cored two of our wells so we have fairly good control. As to whether or not the commercial limits, or because we were looking to a portion in an area that maybe one of sand structure could be extended may be commercial. Following the drilling of the three wells our judgment was that in none of the three locations could we possibly continue development. So, solely from the factors that will be under the control of Phillips, the only thing we believe that can be done to prevent this migration, or reduce this migration is to operate this well at capacity, and that was anticipated in the language of the 701, or appeared to be. There are other possibilities, as pointed out by the Commission in that order, not that would alleviate the situation as it existed at the time of our November hearing, or for that matter now, but they did make certain suggestions and we pursued those suggestions.

Q Could you discuss just what was done in that connection, Mr. Czirr?



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A One possibility in a situation like this, and probably the one Phillips normally follows historically, is to not have isolated tracts in a waterflood area. That has been our position through the years. We do look at this possibility of unitizing from time to time; and in the Commission Order it was suggested that we contact the operator of the Boller-Nichols Project to determine if there was an equitable basis that our Mexco "A" No. 2 could be incorporated into their property and participate in the waterflood, and at the same time it would have the water flood allowable, and at the same time it would have been sufficient to permit the well to operate at capacity.

I have included in with this brochure a copy of a letter to waterflood associates, written by Mr. Jack Carter, who is now a manager of our property acquisition, suggesting, or pointing out that the Commission had suggested that this would be one solution, and asking for waterflood associates comment as to the feasibility and possibility of incorporating the Phillips Mexco "A" No. 2 tract into the Boller-Nichols Project. We received a reply from Mr. H. C. Porter, Superintendant for Waterflood Associates. His letter of December 17th, which is included in the brochure, states that they do not know of any basis in which our Mexco "A" 2 tract could be incorporated with their operation. As I understand it, their tracts are not common throughout their project area, and I am not familiar with the ownership, but I understand that there are numerous owners in the Boller-Nichols



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Project area, and in discussing it with Mr. Porter, his judgment was from that standpoint, the unitization or incorporation of our tracts would be very difficult, and not be practical.

Q In fact he said it would not be possible, did he not?

A That was his judgment, yes. Now, this is also the question that had concerned us, is, when you have a project that is in a rather advanced stage of operation, it is always difficult to evaluate. We could, I think, evaluate it; to find an agreement would be difficult. But if that was the sole problem we could certainly be attacked, but judging from the response of information that we have received from Waterflood Associates, plus our own experience in similar cases, our conclusion was that we cannot make that particular consolidation. So we have asked now to continue to operate our Mexco "A" Well No. 2 at the capacity rate as the only means and full control of the operation preventing this migration.

Q Are you saying then, in effect, that the only means of recovering this oil which is being forced toward your well is to produce your well at capacity?

A Yes, sir, and that we do require capacity allowable if we are to do it in any manner that is under our full control.

Q And if you are not allowed to produce at that capacity would there be a loss of oil in the reservoir, in your opinion?

A In my opinion, the difference between what the well could produce, which is indicative of the migration, and what we



we would be allowed to produce. If it were restricted the oil would be lost and would not be recoverable commercially.

Q Now, the Commission, in its order, made a suggestion for the conversion of a well to water injection. Did you examine that possibility?

A Yes, sir, we did. The map is a little misleading in that regard, in that the Mexco "A" Well No. 3 was the one suggested for injection, and from the map it would appear to be a good injection prospect. The situation however, is that there are several producing zones in the Maljamar area, and in the Mexco "A" Well No. 3 the Grayburg sand did not have sufficient permeability to be a water injection well. It is, in fact, producing from what we designate as San Andres.

Q Now, your Mexco "A" No. 2 Well, what, originally, does it produce from?

A It produces from the Grayburg.

Q Your No. 3 is producing from the San Andres?

A Yes, sir, which was common in this area by accepted practice. In fact, those are separate sands from the operational standpoint.

Q Now, you referred to capacity allowable throughout, what is the capacity of the well at the present time, Mr. Czirr?

A In the first part of January when we were operating the well at capacity, our capacities were running around 67 barrels per day. We have attempted to find, to take representa-

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tive tests since that date and indications are that the well capacity has actually increased over the 67 barrels. We had one test that was a hundred barrels per day, but the conditions are substantially the same as they were at the previous hearing with the exception the well's capacity and the migration of fluid as it now represents, has actually increased from some 57 barrels the first part of November to in excess of 67 barrels at the present time, and, as I say, it, as of our last test, was a hundred barrels per day. But, having been prorated we cannot be fully certain that that would be a stabilized test, but it is certainly in excess of the 57 barrel rate per day.

Q How long would you anticipate you would need a capacity allowable, assuming you cannot unitize with the operators of the waterflood project?

A This is not a large problem. In terms of the total oil output, or time, around five or six months would probably represent the length of capacity allowable that would be required to allow this well to recover all the oil, that it can reduce this migration. After that period of time we think that it would be on a decline, based on our observation of our properties and other properties in this Maljamar area.

Q Is this well presently making any water?

A It is not making any measurable water at the present time that would be indicative of water breakthrough, but at the same time, with just the one well for control, insofar as we



are concerned, there is no way for us to place the waterflood with any assurance or accuracy, to know whether in this particular area we are flooding the full section, or whether the well could be subject to being watered out within a short time.

MR. KELLAHIN: Off the record.

(Whereupon an off the record discussion was held.)

Q (By Mr. Kallahin) Mr. Czirr, was Exhibit "A" prepared by you or under your direct supervision?

A Yes, sir.

Q MR. KELLAHIN: At this time I would like to offer into evidence Exhibit A.

MR. NUTTER: Without objection, Phillip's Exhibit A will be admitted.

(Whereupon, Applicant's Exhibit A was admitted in evidence.)

Q (By Mr. Kallahin) Do you have a summary comment to make in connection with this case?

A More by way of summary, we definitely feel that we cannot drill additional wells based on the information we have or take any other particular action that would be solely within our own control; that we would request the capacity allowable for the reasons we have set out, and our suggestion would be that, rather than attempt to predict the time that this capacity allowable would be required, either from a mechanical standpoint, or administrative standpoint, would be to make it subject to



cancellation in the event the circumstances were to change; and Phillips could, and would be happy to furnish the Commission with any information on a periodic or monthly basis, that would be required to show that we were operating this well correctly and in accordance with their desires. As I say, then should circumstances change, that in the Commission's judgment the allowable should not be continued, it could be terminated; but at this time it would be difficult for us to predict accurately how long that the performance would require the operating of this well at capacity to prevent waste. Also, it would not be possible for us to predict, timewise, any administrative procedures or negotiations that Phillips might have in this area, to increase the efficiency of this portion of the Maljamar water flood.

MR. KELLAHIN: That completes my direct examination, Mr. Nutter.

MR. NUTTER: Does anyone have any questions of Mr. Czirr?

CROSS EXAMINATION

BY MR. DURRETT:

Q Mr. Czirr, I am interested in the well that directly offsets your Mexco "A" Well No. 2, to the west. I believe it is designated on your first map in your exhibit as the Kennedy Well No. 1 and on the second map I believe it is listed as Vaughn State Well No. 1. It is directly west of your Mexco Well No. 2.

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A Yes, sir. It is carried in the New Mexico Commission records as the Kennedy State No. 1, and I know from having talked with the operators that as the correct designation, it was drilled the Vaughn State, and certain of our files carry it as such.

Q Referring now to your exhibit concerning the accumulated production, that I believe is designated as well performance

A Yes, sir.

Q The Kennedy State Well No. 1 does not seem to have had a response from the water flood. Is that correct?

A It would appear to be correct. That is the tabulation of the monthly production as shown by the Commission's records.

Q Would you have any opinion or reason that you might believe that could cause this to happen?

A It would be difficult for me to give a final opinion, not having the information from the operators of the well. There is no obvious reason as to why it should not have acted much the same manner as any other well, but again there being many reasons that it would take a thorough study, having all the operations in it.

Q Would you have an opinion as to the possibility of a communitization agreement with the Kennedy operators concerning the operation of this well in conjunction with yours?

A Yes, I think it is possible. It has been considered for some time. It was considered prior to the initiation of Boller-Nichols waterflood as a matter of fact. I would think,

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however, that this particular application, from our standpoint anyway, is separate and apart. There is no question but we are continuing working with all our property to try to arrange the operation where it is more profitable and most efficient, but I believe that it would be, or would make our position more difficult if we tied the two problems together to make any continuity from one to the other. It would make any negotiations on our part more lengthy and difficult. Our proposal today is that we do have this situation, and this is out best and only means that we have at hand at the moment to reduce or prevent this waste is to operate our well and produce the oil. As a matter of fact we are trying to increase the efficiency in this area, as we are in other areas, but I really believe that from our standpoint they should not be tied together, but that the situation as it concerns the operation of our Mexco "A" No. 2 is a distinct problem, and we have only one alternative at the moment.

Q You have not had any recent negotiations with Kennedy Oil Company concerning this well?

A Yes, sir, we have been in contact with Mr. Payne.

Q Has he indicated anything to you concerning his desires recently?

A Yes, we have had recent correspondence the starting of this fall with Mr. Kennedy; we have not concluded any negotiations with him, we have not determined anything. Still, as far as our normal operation would be concerned, we are still



working towards that.

Q Do you think that there is a good possibility that you might work something out with the Kennedy Oil Company?

A I think it is logical from everyone's standpoint; so when that situation exists, normally you are able to find an equitable and fair way to do what is the best for everyone; so that is the only way I would have to say what the chances are. Negotiations between independent parties can be unpredictable.

MR. DURRETT: That, I believe is all I have.

By MR. NUTTER:

Q Mr. Czirr, one of the suggestions made in the finding of the Commission Order was that you consider the feasibility of water injection in the Mexco 3, and restoration of production in the McLaughlin 1, and you recall on January 7th you did state that the company had been investigating the McLaughlin 1, and cost estimates and job outlines had been submitted by the Hobbs Office, and was under consideration by the company for approval. What was the establishment of the job estimate by the Hobbs Office?

A It is in our Roswell Office at the moment. We have not received approval for it, nor has Bartlesville.

Q Have they given any indication as to what they are thinking along those lines?

A No, sir.

Q So you don't know what the status is along those lines?

A No, sir.



Q What is the cost estimate for restoration of the wells to production in dollars?

A We believe that if we are fortunate in reentry we can re-enter it for around \$19,000.00. Of course, if we are unfortunate there is no upper limit, and that's our problem, and one that we had to spend a lot of thought about, and I am sure one that has caused our other office some concern. Should you gamble \$19,000.00 on going into shot-pipe, or should you drill a new well? It is a difficult problem.

Q In attempting to read this production performance curve on your Mexco "A" No. 2, it would appear that this well probably had its lowest rate of production in 1962. If you would refer to that draft there, Mr. Czirr, at about April of '62, is that about the time?

A You said lowest?

Q The lowest in '62.

A Oh, yes.

Q Was that about April?

A Yes.

Q Do you know how much oil that well has made since that date? Do you have it?

A Yes, sir, I have the production sheet. Would you like to have me read it into the record?

Q Yes, sir, I would like to have the monthly production throughout 1962.

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A Starting with January, 242; 207; 218; 269; 326; 351; 441; 993; 894; 1,435; 1,622; 1,799. That's throughout December.

Q Now, what was the production in the year, 1961? Just the total production for the year, if you can find it.

A 3,342 barrels.

Q 3,342?

A Yes, sir.

Q Well, now, from your monthly production in 1962, it would appear that possibly the stimulation from the waterflood first made itself evident in the month of April with 269. Would you agree with that?

A That would be the best point to pick, judging from the amount of production.

Q Well, then, assuming, Mr. Czirr, that you had a total of 667 barrels in the months of January, February and March, and that the production for the remainder of the year was 7,463 barrels it would be evident that the well has produced since response to waterflood more than twice as much as it produced in all of 1961, making that assumption, is that correct?

A It sounds in the proper order and magnitude, I did not add up the numbers.

Q Then, tentatively you reseek an exception to an order of this type, that capacity allowable would be necessary for approximately five or six months?

A Yes, sir, I believe that the well will be capable of

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producing in excess of the scheduled allowable for five or six months, but again, without control of injection that is certainly a rough estimate.

Q So, if the Mexco "A" No. 2 responds in this manner and the McLaughlin No. 1 would respond in a similar manner, it is a good possibility in case of work-over and restoration of McLaughlin No. 1, that it would be a paying proposition, is that correct?

A That's correct. Our thinking is that we would not have considered anymore drilling or re-entry or expenditures in that area without the response from the wells in that area..

Q Now, referring to the performance chart of Phillip's Mexco State No. 2, I see that it received a ~~kick~~ in the last part of 1962. Would that be attributable to the water injection program, do you think, or is this a similar ~~kick~~ to the one in 1961, which came right back down?

A The Mexco State No. 2?

Q Yes, sir.

A There, of course, it is up to the operator of a lease to make, and by his judgment, it would appear that that well was offset by input, and should have responded, the production has increased. So knowing no more than the production, that would be what I assume.

Q This well is operated by the waterflood?

A Yes, sir.

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Q And it includes the waterflood project?

A Yes, sir.

Q Now, in order to efficiently operate a waterflood project and counteract drainage with counter-drainage, it would appear that the most equitable type of injection program here would call for Kennedy State No. 1 to go on injection to offset the Lexco 2, is that correct, which is directly south of your Mexco 2A?

A You are talking about the Kennedy State 1?

Q That is ~~correct~~, it is a continuation? Is that the proposal in your negotiations with Kennedy, that that well would be put on injection?

A That would be my judgment for the best thing to do, but again I feel that from our own standpoint that to tie this application with any of our negotiations would certainly help our progress.

Q Well, in your Exhibit Number 10 the letter from Waterflood Associates, Mr. Porter states that Kennedy Oil Company has contacted your Hobbs Office regarding unitization of your well with his well. Did he make any proposal when he contacted your Hobbs Office?

A Yes, sir.

Q Was his proposal simply that his well could go on injection --

A Yes, sir.

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Q -- and that the unitization would be between your Mexco "A" No. 2 and his well?

A That's correct.

Q Yours would be a producer and his an injection?

A That's correct.

Q I never did understand, in response to the questioning by Mr. Durrett, exactly what the status of those present negotiations is.

A A negotiation is being handled by our Acquisition Department, and we are attempting to make a counter offer, would be my judgment, but I can't quote what our department is doing at this moment.

Q Have you made any determination -- I presume that is all State acreage here in Section 2?

A Yes, sir.

Q Have you made any determination as to whether the State benefits are the same under the various leases?

A I am sorry, I don't have that information with me.

Q In your opinion, is all of the oil that is being produced, and will be produced from the Mexco "A" No. 2 going to come to the Mexco "A" No. 2 Lease, or will some of that oil come from the lease directly to the south?

A In any group of leases like that I don't think you could say that all the oil from any particular well comes from



this particular 40-acre tract. All you are contending is that if we don't recover it where the oil is that is not now being produced from No. 2 "A", if we do not recover it, it will not be recovered by any other operator.

Q You would not even hazard a guess that some of the oil might come from the lease to the south?

A No.

MR. NUTTER: Are there any other questions of Mr. Czirr?

REDIRECT EXAMINATION

BY MR. KELLAHIN:

Mr. Czirr, in your opinion has the Mexco State 2 "A" well reached its, or approximately reached its peak of production? Do you think it will continue to increase before it declines?

A I think it is about at its peak, but again we ran out of testing room about the time we got this hundred barrel test, so I would say that the well has increased from November 8th and probably will peak out in the order of 80 to 100 barrels per day.

Q Now, would you say you need perhaps five or six months in order to produce at that capacity, or that the well will produce in excess of allowable for five or six months? Do you mean by that that it will produce at its present rate?

A No, it will produce in the excess of 1,100, roughly, barrels per month, that would be the allowable rate; this is



based just on our experience of the performance in that area and similar areas, and it is just evaluation of like cases. We do not have any performance that would give us a firm judgment on that matter.

Q Isn't it true that in this area the wells peak out and then re-decline rather rapidly?

A Yes, sir, I believe that is shown by our sketch of the production, that your peak is of a rather short duration.

Q And you would expect the same thing on your well?

A Yes, sir, that is where the estimate came from

MR. KELLAHIN: That is all I have.

RE-CROSS EXAMINATION

BY MR. NUTTER:

Q What has the normal rate of allowable been in this area, approximately 1,100 barrels per month?

A Yes, 36 barrels is the January rate, I believe, for 31 days. That is 1,116 barrels, I believe.

Q Well, now, on your well performance chart, referring to the Nichols Taylor "A" No. 1, which is second from the bottom and second from the left, how many months has that well produced in excess of 1,100 barrels?

A Quite some time, in excess of a year, just glancing at it. This is a center, and has good injection response all the way around, and should have a higher rate.

Q As a matter of fact, it is actually surrounded by four



injection well?

A Yes, sir.

MR. NUTTER: Are there any other question? Mr. Czirr you may be excused.

(Witness excused.)

MR. NUTTER: Do you have anything further?

MR. KELLAHIN: I would just like to make a very brief statement, and point out that while we are attempting to work out some utilization both to the south and to the west, the problem in New Mexico is that you have no utilization. All we can do is negotiate, and certainly Phillips is negotiating in good faith; but the immediate problem is that in our opinion and the testimony before the Commission, shows that unless this is granted, waste will occur. In other words, there is going to be oil swept by this well that will never be recovered by mere operation, on that basis, and that is our primary concern, to produce this oil and prevent waste. Our case is based on prevention of waste, and we submit that the Commission should give full consideration to that factor, simply because we do not and the commission doe not want to leave oil in the reservoir that will never be recovered by mere operation.

The witness has already testified that their well has been an uneconomic well and to go beyond there and drill any wells and recover any oil that is swept in that direction, it is just ~~uneconomical and will not be done, the witness has also pro-~~

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posed rather than have a definite time limit as was done before, in this order, if the Commission sees fit to grant it, it should be of an indefinite nature, reserving the right to cancel it for good cause. We certainly would not have any objection to that. If we disagree with the cause we can ask for a hearing. We are willing to furnish the Commission any reports at any intervals they so specify and want on this section, and determine whether the order is needed or not as the production continues.

MR. NUTTER: Does anyone else have anything to offer in Case 2745? The case will be taken under advisement and the hearing is adjourned.



