NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date JUNE 27, 1990 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
William L. Carr	Campbell and Black, P.A.	Santa Fe
Bryan C. Cotner	Chevron U.S.A.	Hobbs
Rick Jones	Chevron U.S.A.	Hobbs
Alan Bohling	Chevron U.S.A.	Hobbs.
Jerry Hoover	Conoco	Midland
Perry Pearce	Montgomery, Andrews, PA	Santa Fe
Larry L Benner	Jay & Benner	Albuquerque
Tommy Roberts	Tansey Law Firm	Farmington
Karen Aubrey	Kellahin, Kellahin + Aubrey	Santa Fe
John Cook	Hixon Development	Farmington
David R. Vandiver	Fisk + Vandiver	Artesia
Robert Bullock	Yates Petroleum Corp.	Artesia
James Bruce	Hinkle Law Firm	ABQ
Ernest L. Padilla	Padilla + Snyder	SF
RICK RICKETTS	PEOC	MIDLAND, TX

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NAME	REPRESENTING	LOCATION
SCOTT HALL	MILLER, STRATVERT FIRM	SF
[illegible] Kellahin	Kellahin Kellahin and Aubrey	Santa Fe
[illegible]	MERIDIAN OIL	FMN, NM.
Bill [illegible]	YATES ENERGY	ROSWELL N.M
Sharon R. Hamilton	Yates Energy	Roswell, NM
MIKE STEWART	DOYLE HARTMAN	MIDLAND TX
[illegible] Gallegos	Gallegos Law Firm	Santa Fe
[illegible]	Doyle Hartman	Midland
Dan Miller	[illegible] Energy	Santa Fe

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 9969

EXAMINER HEARING

IN THE MATTER OF:

Application of Hixon Development Company for Downhole Commingling and a non-standard oil proration unit, Rio Arriba County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

June 27, 1990

ORIGINAL

A P P E A R A N C E S

FOR THE DIVISION:

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Attorney at Law
Natural Gas Programs
P.O. Box 2088
Room 206, State Land Office Building
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

TANSEY, ROSEBROUGH, GERDING & STROTHER, P.C.
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P.O. Box 1020
Farmington, New Mexico 87401

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I N D E X

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E X H I B I T S

APPLICANT'S EXHIBITS:

* * *

WHEREUPON, the following proceedings were had at 8:22 a.m.:

EXAMINER CATANACH: At this time we'll call Case 9969.

MR. CARROLL: Application of Hixon Development Company for downhole commingling and a non-standard oil proration unit, Rio Arriba County, New Mexico.

EXAMINER CATANACH: Are there appearances in this case?

MR. ROBERTS: Mr. Examiner, my name is Tommy Roberts with the law firm of Tansey, Rosebrough, Gerding & Strother in Farmington, New Mexico.

I'm appearing on behalf of the Applicant.

EXAMINER CATANACH: Any other appearances?

Will the -- Do you have witnesses?

MR. ROBERTS: I have one witness to be sworn.

EXAMINER CATANACH: Witness please stand and be sworn in.

(Off the record)

(Thereupon, the witness was sworn)

JOHN CORBETT,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

EXAMINATION

BY MR. ROBERTS:

Q. Would you please state your name and your place of residence for the record?

A. My name is John Corbett. I'm from Farmington, New Mexico.

Q. What is your occupation?

A. Petroleum Geologist with Hixon Development Company.

Q. Have you testified before the New Mexico Oil Conservation Division on any prior occasion?

A. Yes, I have.

Q. And in what capacity?

A. As a petroleum geologist.

Q. Have your qualifications as an expert in the field of petroleum geology been made a matter of record and accepted by the Oil Conservation Division?

A. Yes, they have.

Q. Are you familiar with the operations of Hixon Development Company in the Mancos Oil Pool, Gavilan-Mancos Oil Pool area?

A. Yes, I am.

Q. And are you familiar with the Application of Hixon Development Company in this case?

A. Yes, I am.

Q. Have you made a study of pertinent data for purposes of providing testimony in this case?

A. I have.

MR. ROBERTS: Mr. Examiner, we would tender Mr. Corbett as an expert in the field of petroleum geology.

EXAMINER CATANACH: He is so qualified.

Q. (By Mr. Roberts) Mr. Corbett, would you briefly summarize the purpose of this Application?

A. Hixon Development Company has acquired a 320-acre lease adjacent to but outside of the boundary of the Gavilan-Mancos Oil Pool in Rio Arriba County, New Mexico.

We have developed that lease as a 320-acre -- on a 320-acre proration unit in the Gavilan-Greenhorn-Graneros-Dakota Pool. The well is economic at present but very marginal.

We seek to recomplete that well in the Gavilan-Mancos Pool and are requesting a 320-acre nonstandard proration unit for the Gavilan-Mancos.

Q. And does your Application also seek to obtain approval for the downhole commingling of production

from both zones?

A. We do because of the limited potential in the Gavilan-Greenhorn-Graneros-Dakota Pool. We're seeking to commingle downhole the Greenhorn-Graneros-Dakota and the Gavilan-Mancos Pools.

Q. Mr. Corbett, would you elaborate a little bit on the lease history regarding the lease that Hixon Development Company owns covering the west half of Section 5?

A. Covering all of Section 5, if I may, the east half of the section was originally developed by J.P. McHugh. In 1986 they drilled the Lady Luck, and in May of 1986 that well was first produced in the Gavilan-Mancos.

Subsequent to that, the well was sold to Sun Operating, now Oryx Energy.

The well was operated on a standard 320-acre proration unit in the Gavilan-Mancos.

In August of 1988 the Gavilan-Mancos Pool was respaced to 640-acre proration units. This well was left on the 320-acre proration unit. The pool boundary divided the section east/west, or into an east half which was producing and a west half which was at that time leased by El Paso Production. That was nonproducing in the Gavilan-Mancos.

El Paso's lease was purchased by the land owner from them in February of 1989. He was attempting to get the lease brought into production. El Paso Production didn't feel that it would be economic to drill the Mancos or Dakota, so the land owner bought back the lease, which was HBP, and resold it -- or re-leased it -- to Hixon Development in July of 1989.

In January of 1990, Hixon Development Company drilled the Evans Number 1 and completed it in the Gavilan-Greenhorn-Graneros-Dakota on a standard 320-acre proration unit, and we're now seeking to recomplete in the Mancos.

Q. Now, you mentioned that the east half of Section 5 had been developed with Sun Operating Limited Partnership, Lady Luck Number 1 Well. Where is that well located within the east half of Section 5?

A. That well is in the northeast-northeast of Section 5.

Q. As a point of clarification, you referred to the land owner having purchased the rights from El Paso Production Company. Is the land owner the mineral-interest owner in this case?

A. Yes, that's correct. It was Mr. Curtis Evans, who is the mineral owner.

Q. Okay. Let's turn your attention to the

exhibit package and refer to what has been marked as Exhibit Number 1, and would you identify that exhibit?

A. Exhibit Number 1 is a plat showing Section 5, Township 24 North, Range 2 West. Outlined on -- and the adjacent sections.

The plat is illustrating offset operators to the Evans Number 1. It shows that the west half of Section 5 is operated by Hixon Development Company. A number of sections adjacent to that are operated by Mobil Producing Texas & New Mexico. And the east half of Section 5 and one other section on the plat are operated by Sun Operating Limited Partnership for Oryx Energy.

Q. Okay. This exhibit also illustrates the location of the Evans Number 1 Well, which is Hixon Development Company's Gavilan-Dakota-Greenhorn-Graneros oil completion. Is that location a standard location for a recompletion in the Gavilan-Mancos Oil Pool?

A. That's correct. We're 790 feet off of the north and west lines of the section.

Q. Refer to what's been marked as Exhibit Number 2 and identify that exhibit.

A. Exhibit Number 2 is a similar plat illustrating the ownership in the offset sections. Again, a large number of adjacent tracts owned by

Mobile Producing Texas & New Mexico, with working interests owned by Conoco and TOC Rocky Mountain.

The east half of Section 5 is owned by Sun Operating Limited Partnership. And also a part of Section 33, the northeast quarter of Section 33 of 25 North and 2 West, is owned by Prime Energy Corporation.

The west half of Section 5 is -- The lease is owned by Hixon Development Company.

Q. Then is it accurate to say that the difference between Exhibits 1 and 2 is that Exhibit 1 identifies offset operators, operators of offset tracts, and that Exhibit 2 identifies owners of leasehold interests immediately adjacent to the proposed proration unit?

A. That's correct.

Q. Do you have any information regarding the nature of the mineral ownership in these offsetting acreages, whether they be federal, state or fee-owned tracts?

A. The west half of Section 5 is fee-owned. The balance, I'm not acquainted with.

Q. Okay. Refer to Exhibit Number 3, identify that exhibit.

A. Exhibit Number 3 illustrates the -- is the notification requirements whereby Hixon Development

Company has notified the offset owners and operators of this cause and received from them waivers of objections.

Q. Mr. Corbett, would you go through, with respect to each owner, and identify what we have in this package with respect to that owner?

A. The first page is a cover letter from Oryx Energy, which was returned. We sent the offset operators and owners a sign-and-return letter where we had worded the disclaimer, also notifying them of this case and their opportunity to appear.

The second page is the actual letter -- or a photocopy of the letter sent to Oryx which was signed -- or their objections were waived by a reservoir engineering supervisor.

Q. Let me stop you there, and can you testify as to the relationship between Oryx Energy Company and Sun Operating Limited Partnership?

A. The leases owned and operated by Sun -- It's Sun Operating Limited Partnership for Oryx Energy, which is actually the parent company.

Q. Okay, go ahead with your description of what's contained in Exhibit 3.

A. Okay.

Q. I believe you were at the point where you

were referring to the return receipt from Oryx Energy?

A. That's correct. The next page is our certified mail return receipt from Oryx Energy.

The next page is from -- a return letter from Mobil Oil Corporation. This is the letter that we sent to them, which was signed and approved by an environmental and regulatory loss-prevention supervisor with Mobil.

The next page is the return receipt to and from Mobil.

Q. And did Mobil's return letter indicate no objection to your proposed plans for a nonstandard proration unit as well as downhole commingling?

A. That's correct.

Q. Okay.

A. Next page is our waiver, as it was returned from Conoco. Again, they had no objection to our proposed commingling or proration unit.

Next page is our return receipt from the Post Office on that.

Next page is a cover letter from Amoco whereby they waived their objection to a nonstandard proration unit and downhole commingling. They note that their objection is contingent upon us receiving half of the Gavilan Well.

Q. Okay.

A. The next page is from the same company. Our -- Because the record title owner is TOC Rocky Mountains, Inc., which is wholly owned by Amoco Production, we sent the letter to TOC Amoco on the preceding page back.

The next page is return receipt information on the TOC Rocky Mountains letter.

The final return letter is from Prime Energy, who is not an operator but an owner, and whereby they waived their objection to our nonstandard proration unit and downhole commingling.

And the final page of Exhibit 3 is the return receipt information from Prime Energy.

Q. Mr. Corbett, you indicated that Prime Energy had waived any objection to your Application. The copy of the letter that I have in my exhibit package does not indicate it's been signed by Prime Energy. Can you review that and --

A. This -- Prime Energy has verbally notified us that they have no objection. They have informed us that they were sending a waiver letter such as this is a copy of, returned to us.

This letter was sent out, allowing them over the 20 days notification period as required, and you

can verify that from the return receipt information on the final page of this exhibit. We had not at the time we were preparing for this exhibit received that letter.

Q. In your opinion, have the notice requirements set forth in the Rules and Regulations of the Oil Conservation Division been satisfied?

A. They have.

Q. Refer to Exhibit Number 4, please, and identify that Exhibit.

A. Exhibit Number 4 is a base map, structure contours on the Gavilan, the top of the Gavilan-Mancos Oil Pool Formation.

It illustrates in yellow our proposed nonstandard proration unit, which is also our standard proration unit in the Gavilan-Greenhorn-Graneros-Dakota Pool.

There is an arrow highlighting the location of the Evans Number 1. There are also marked in red commingled Gallup Dakota oil wells within the Gavilan-Mancos and Gavilan-Greenhorn-Graneros-Dakota Pools.

Q. Are the boundaries of the Gavilan-Mancos Oil Pool coexistent with the boundaries of the Gavilan-Dakota-Greenhorn-Graneros Oil Pool?

A. Within the vicinity of the Evans Number 1,

they are.

Q. What is the significance of the contour -- of the structure contours that are depicted on this map?

A. This illustrates that the Gavilan -- the Mancos Formation, as it produces in the Gavilan-Mancos Pool, is continuous across the leasehold.

Q. It would appear also that this area map depicts the location of offset wells to the Evans Number 1. Is the Lady Luck Number 1 Well depicted?

A. It's shown. It's in the northeast quarter of the northeast quarter of Section 5, 24 North and 2 West.

Q. And who is the operator of the well in the east half of Section 6, which is labeled the 73 B Unit?

A. That's Mobil Producing.

Q. Okay. Now, refer to Exhibit Number 5 and identify that exhibit, please, and describe it.

A. Exhibit Number 5 is a decline curve from the Sun Lady Luck Number 1.

This was plotted from data from Dwight's Energy Data, a public data base. It shows the historical production and decline of that well, along with a curve that illustrates a best-fit curve model for a decline from that well.

The decline and the parameters shown in the

lower right of the corner are the production as of January of 1990, and the decline rates were used in calculations determining whether or not we should attempt to join this well and whether or not we should attempt to recomplete the Evans Number 1 in the Gavilan-Mancos.

Q. What is the cumulative production from the Lady Luck Number 1 Well as of January, 1990?

A. The cumulative, January of 1990, is 31,832 barrels of oil and 85,433 MCF gas.

Q. And what is the rate of decline?

A. This well shows a 63-percent annual decline rate.

Q. Okay. Let's turn to Exhibit Number 6, and identify that exhibit and explain its significance to the Application.

A. Exhibit Number 6 is the calculation of the present value of the Lady Luck Number 1, which is the well in the northeast-northeast of Section 5 in the Gavilan-Mancos.

The second page of the exhibit is the economic calculations. The final page is input data which has been derived from both Hixon's experience operating wells within the pool and adjacent to the pool.

There's also input data from the decline curve taken from Dwight's Energy Data. We used a 63-percent decline rate, production as of January of 1990 of 130 barrels per month, the current price of oil, posted as of the beginning of this week, also the current spot-market price of gas, operating expenses of $1000 per well per month, which is what our experience has been operating in this pool.

The economic parameters suggest that this well has already reached its economic limit as of July of 1990. The well is essentially -- While it still produces oil, it's operating without a positive cash flow.

Q. Mr. Corbett, I would think that one alternative to the Application of Hixon Development Company in this case might be to reform the spacing unit for the Lady Luck Number 1 Well as to the Gavilan-Mancos Oil Pool, reform it from the currently existing 320 acres to 640 acres, and to bring in the owners of the interest under the west half in that well.

Do you have an opinion as to the impact on the correlative rights of the parties in the west half of Section 5 with regard to that particular alternative?

A. Feeling since the Lady Luck has reached its

economic limit, there would be no benefit to joining in ownership of that well. Our correlative rights would not be protected by joining that, as we would receive no benefit from production from that well.

Q. Let's turn to Exhibit Number 7. Describe that exhibit.

A. Exhibit Number 7 is present value of the Evans Number 1 as it's currently producing from its completion within the Gavilan-Greenhorn-Graneros-Dakota Oil Pool. The input parameters are taken from actual production expenses and production rates.

The well produces about three barrels per day. It's at or near its economic limit. According to these economic calculations, there are under 1000 barrels remaining recoverable in the economic life of the well.

Q. And what would be the remaining economic life of this well in terms of days or months?

A. Approximately six months.

Q. Okay. What conclusions do you draw from the data depicted in Exhibit 7?

A. This data illustrates that the Gavilan-Greenhorn-Graneros-Dakota Pool here is not economically productive on its own. If we're confined to producing from this pool, within approximately six months it will

be time to plug and abandon the well.

Q. Let's turn to Exhibit Number 8. Identify that exhibit.

A. Exhibit Number 8 is a projected economic scenario based on the Lady Luck decline curve, taking the existing producing Evans Number 1, added $50,000 for a recompletion in the Gavilan-Mancos Pool, and then estimated the present value in reserves attributable to the well, based on the Lady Luck decline, using the same IP and reserves that Sun and Oryx has had in the Lady Luck.

This is probably a best-case scenario. It suggests that there are approximately 36,000 barrels of oil that could be recovered in this scenario from the Evans with a present value of $350,000.

Q. How would the best-case scenario compare with the worst-case scenario?

A. The worst-case scenario is that the Gavilan-Mancos is nonproductive, in which case at the point where the Gavilan-Greenhorn-Graneros-Dakota is economically completed or below its economic limit, we'll plug the entire well.

Q. So what is the economic risk to Hixon Development Company of an attempted recompletion in the Gavilan-Mancos Oil Pool?

A. $50,000 for recompletion.

Q. Now, if the Gavilan-Mancos Oil Pool recompletion attempt results in production, do you propose an allowable?

A. We would propose, because our nonstandard proration unit is half of the Gavilan current proration unit, we would propose half of the allowable or 400 barrels of oil per day.

Q. What do you project to be the initial rate for production from the Gavilan-Mancos Oil Pool?

A. Our initial rate, based on the analogous Lady Luck, is 100 barrels of oil per day.

Q. Okay. Turn to Exhibit Number 9 and identify that exhibit.

A. Exhibit Number 9 is a proposed projected economic scenario whereby we're allowed to recomplete the Evans in the Gavilan-Mancos for $50,000 and commingle downhole production from the Gavilan-Greenhorn-Graneros-Dakota and the Gavilan-Mancos.

We've combined the production streams, but because we can operate in both horizons for the same costs if we're allowed to downhole commingle, the costs for operating simply the Gavilan-Mancos are included.

What this illustrates is that by downhole commingling we can produce the Gavilan-Greenhorn-

Graneros-Dakota beyond its economic limit and will receive approximately another 1000 barrels of oil from the wellbore.

Q. And how does that convert to dollar value?

A. It's a present value of approximately $15,000.

Q. Mr. Corbett, it appears that there would be another alternative to the Application of Hixon Development Company in this case, and that would be the alternative where the spacing unit for the Lady Luck Number 1 Well would be reformed or enlarged from 320 acres to 640 acres as to the Gavilan-Mancos Oil Pool, and then have Hixon Development Company recomplete the Gavilan-Mancos Oil Pool in its Evans Number 1 Well on an infill basis.

Do you have an opinion as to the impact on correlative rights of the interest owners in the west half with respect to that alternative?

A. We feel that this would deny the interest owners their correlative rights. The east half has produced without any benefit to the owners in the west half.

There is some possibility that the west half is, at least in part, depleted from production in the east half. We feel that if in fact the west half is

depleted, the economic risk is all Hixon Development Company's.

But it's a small risk compared to drilling a new well. We feel that it's worth the risk, because the well is soon going to be at its economic limit.

Q. What -- Go ahead.

A. The -- Well, maybe I haven't answered your question.

Q. Well, I just wanted to have you elaborate on another issue. Let's assume that the alternative I have suggested were to be adopted. Do you have any opinion as to the impact of that alternative on your lease situation?

A. Because the minerals in the west half of the section were leased at the time that the Lady Luck was drilled and completed and at the time that the Gavilan-Mancos was respaced to 640-acre spacing, if that lease were being depleted by the Lady Luck, then you could make a case that it was producing.

Mr. Evans bought back the lease from El Paso Production in order to obtain some benefit from production on the west half.

It's possible that if we were to reform the proration unit and have Hixon Development participate in historical production in the Lady Luck -- Is that

what you're suggesting?

Q. Yes.

A. -- that some benefit of that should have gone to El Paso Production, because at the time the Lady Luck was producing during its economic life, El Paso Production owned a lease in the west half.

There may be some revenue due them, and if in fact the lease was producing then -- and it could be that Hixon would not actually have -- or, Mr. Evans in buying those minerals to bring it into production would have erred, it could be that their lease could have been considered held by production.

Q. So in summary, it would be your position that the Hixon lease could be in jeopardy and might not be valid?

A. A case could be made that the El Paso lease could still be the valid lease on the west half.

Q. Let's turn your attention to the portion of the Application dealing with downhole commingling. How would you physically affect the downhole commingling of production in the wellbore?

A. Our intent is to recomplete the Gavilan-Mancos and then pump using one tubing string to the Gavilan-Mancos and the Greenhorn-Graneros-Dakota Pool.

Q. Would you expect the total value of the oil

produced from the Evans Number 1 to be diminished as a result of downhole commingling?

A. In the offset wells in this area, the character of the oil is very similar, and downhole commingling as it's already been effected in the Gavilan-Mancos Pool, has not diminished the character of the oil or the value of the oil.

Q. Based on your knowledge of ownership, is the working interest, the overriding royalty interest, and the royalty interest ownership of the two zones to be commingled common?

A. If our case for a nonstandard proration unit is approved, ownership is common in the two pools in the west half of Section 5.

Q. In your opinion, would the commingling jeopardize the efficiency of future secondary-recovery operations in either of the zones to be commingled?

A. No, I don't believe that it would.

Q. And would you expect the fluid characteristics to be compatible in the wellbore?

A. They are.

Q. Do you have enough information at this point to be able to propose an allocation formula?

A. We don't have adequate information at this point to propose an allocation formula, because pending

our approval of a nonstandard proration unit we have not completed in the Gavilan-Mancos Pool.

We're lacking production information, rates, pressures, that type of data that you'd need to have an allocation formula.

Q. There would seem to be other information that is not available at this time, just by virtue of the fact that the recompletion in the Mancos has not been done. Do you propose to submit pertinent information to a request for downhole commingling at a later date?

A. We would propose to submit that as information is obtained after completion in the Gavilan-Mancos.

Q. By way of summary, would you just briefly recap the productive capabilities of the Dakota Formation as you have seen it in the Evans Number 1 Well?

A. The Evans Number 1, which is currently producing from the Dakota, is marginal at best. It has a relatively flat decline, but at approximately three barrels per day it's very marginal economic production.

We feel that there are economic reserves or reserves that can be recovered but that those can most efficiently be recovered by commingling.

Q. And describe the anticipated rate of

production or the anticipated productive capabilities of the Mancos Oil zone.

This is a bit of an unknown. Our scenario modeled after the Sun Lady Luck would be approximately a 100-barrel-a-day well, which would be economic and allow us to continue to produce both the Mancos and Dakota zones for five to ten years.

Q. What result will there be if the downhole commingling request is not granted?

A. If downhole commingling is not granted and the nonstandard proration unit is, we will plug the Dakota zone, thereby wasting the Dakota reserves. That would result in waste of reserves in the Dakota.

If the nonstandard proration unit -- Did I say if it was approved or if it was not? At any rate, if the nonstandard proration unit is approved and downhole commingling is not approved, we will produce the Mancos, plugging, possibly prematurely, the Dakota.

If nonstandard proration is not approved, the well in its entirety will be plugged at the economic -- the end of the economic life of the Dakota production, thereby wasting reserves.

Q. In your opinion, will the granting of this Application result in the prevention of both economic and physical waste, would it be in the interests of

conservation, and would it result in the protection of correlative rights?

A. Yes, it would.

Q. Were Exhibits 1 through 9 either prepared by you or at your direction or under your supervision?

A. They were.

MR. ROBERTS: Mr. Examiner, we move the admission of Exhibits 1 through 9.

We have no further questions for the witness.

EXAMINER CATANACH: Exhibits 1 through 9 will be admitted as evidence.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Corbett, are there any wells in the sections surrounding Section 5 besides 6, besides Section 6?

A. There is in Section 32 of 25 North and 2 West, the Mobil Lindrith B Unit Number 34.

Also to the south in Section 8 the Mobil Lindrith B Unit Number 72.

In Section 4 to the east, the Mobile Lindrith B Unit 37 and 38; and in Section 9, which has an adjacent common corner to the southeast, the Mobile Lindrith 74 B.

Our lease was -- well, it's geographically

within the area; it's landlocked, if you will, by the Mobile Lindrith B Unit.

At the time that the unit was formed, Mr. Evans's father would not sign the pooling clause -- would not sign the lease with the pooling clause. This lease was effectively left out of Mobil's unit.

Q. I see. Okay, so Mobile would be the operator of all the offset acreage except for Sun? Mobile and Sun would be the two operators, offset operators?

A. That is correct.

Q. Now, the Amoco and the TOC interest, those are just interest owners with Mobil?

A. That's correct.

Q. The proration unit for the Lady Luck Number 1, was that approved by the Division by some order that you know of, or was that grandfathered in when they changed the Rules?

A. That was grandfathered.

Q. It was? And you said that well has already reached its economic limit?

A. In -- to -- Based on the published, public data available to us and our economic calculations, it's reached its limit.

Q. In the Gavilan-Mancos Pool?

A. That's correct. The well was drilled only to

the Gavilan Mancos -- No, I believe at that time that he was going to the Dakota, but he has not attempted -- or his son has not attempted to complete in the Dakota.

Q. All right.

A. The proration unit for that would be a 320-acre Greenhorn-Graneros-Dakota spacing. That's standard, the east half.

Q. Okay. You said the Evans Number 1 is producing three barrels of oil per day, currently, approximately?

A. That's correct.

Q. Any water or gas?

A. It does produce gas. As shown on the Dwight's curve, it's producing approximately 2000 MCF per month.

MR. ROBERTS: Is that the Evans?

THE WITNESS: Oh, I'm sorry. The Evans or the Lady Luck?

Q. (By Examiner Catanach) Evans.

A. Oh, the Evans does produce some gas. It's currently not tied in, based on the limited reserves estimated.

Q. How did you arrive at the estimate of 100 barrels a day potential for the Evans Number 1 in the Gavilan?

A. That's based on the analog of the Lady Luck, the Dwight's decline curves there. Initial production was -- Or their peak production was 3000 barrels per month or about 100 barrels per day.

Q. Okay. Have you done an analysis to determine that -- Well, is it your opinion that the Lady Luck Number 1 has not drained all of the west half of that section?

A. We're -- We believe that there are recoverable reserves from the Mancos in the west half of the section.

The best-case scenario is -- or well, that will -- If the well is not drained at all, if in fact the Lady Luck drained 320 acres, it's at any rate reached its economic limit.

We feel that if it will drain the west half or if it's capable of draining the west half, it already has because it's reached -- the well is all played out. In that instance, we think it's worth the attempt.

Q. Do you know at this point whether the well will flow when you complete in the Gavilan-Mancos Pool, or will it have to be pumped?

A. Based on the offset wells, it will need to be pumped. We don't have pressure data at our location on

the Gavilan-Mancos yet.

Q. Do you have pressure information on the Dakota?

A. The Dakota, we have some. I can't quantify that, but we are pumping the well.

Q. Currently?

A. Yes.

Q. You don't have any -- You don't see that there will be any problems with cross-flow of any kind between the two zones?

A. Not at the anticipated rates. I'm sure that we'll be able to keep the well pumped off.

Q. Let me ask you this: The Lady Luck Number 1, did that produce at a GOR of less than 2000 to 1?

A. It did originally. I haven't calculated the GOR most recently.

Q. Now, the -- All of the west half is commonly owned by Hixon; Hixon is the only interest owner in that section?

A. Our lease covers from the base of the Mesa Verde, so that the ownership of the Gavilan-Mancos and the Greenhorn-Graneros-Dakota are common.

Q. Okay. And you propose to work with the District Supervisor to come up with an allocation formula if commingling is approved?

A. That's correct, once we have adequate data to calculate a formula.

EXAMINER CATANACH: I have no further questions of the witness.

MR. ROBERTS: I have no --

EXAMINER CATANACH: You're excused.

Anything further in this case?

If not, Case 9969 will be taken under advisement.

(Thereupon, these proceedings were concluded at 9:07 a.m.)

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL July 8, 1990.

STEVEN T. BRENNER
CSR No. 106

My commission expires: October 14, 1990

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9465, heard by me on June 27 1990.

David R. Catanach, Examiner
Oil Conservation Division