

1 STATE OF NEW MEXICO
2 ENERGY AND MINERALS DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BLDG.
5 SANTA FE, NEW MEXICO

6 4 March, 1987

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Applications of Curtis J. Little for CASE
10 the promulgation of Special Pool 9095
11 Rules for the Ojito Gallup-Dakota
12 Oil Pool, or in the alternative to
13 abolish the Ojito Gallup-Dakota Oil
14 Pool and to concomitantly expand the
15 West Lindrith Gallup Dakota Oil Pool
16 Rio Arriba and Sandoval Counties,
17 New Mexico.

18 BEFORE: Michael E. Stogner, Examiner

19 TRANSCRIPT OF HEARING

20 A P P E A R A N C E S

21 For the Commission: Jeff Taylor
22 Legal Counsel for the Division
23 Oil Conservation Division
24 State Land Office Bldg.
25 Santa Fe, New Mexico 87501

26 For Curtis J. Little: W. Thomas Kellahin
27 Attorney at Law
28 KELLAHIN, KELLAHIN, & AUBREY
29 P. O. Box 2265
30 Santa Fe, New Mexico 87501





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MR. STOGNER: This hearing will
come to order.

Call Case Number 9095, which is
the application of Curtis J. Little for the promulgation of
Special Pool Rules for the Ojitos Gallup-Dakota Oil Pool or
in the alternative to abolish the Ojitos Gallup-Dakota Oil
Pool and to concomitantly expand the West Lindrith Gallup-
Dakota Oil Pool, Rio Arriba and Sandoval Counties, New Mex-
ico.

Call for appearances.

MR. KELLAHIN: If the Examiner
please, I'm Tom Kellahin of Santa Fe, New Mexico, appearing
on behalf of the applicant Curtis J. Little.

MR. STOGNER: Any other ap-
pearances, may it please the Examiner, I am W. Perry Pearce
of the Santa Fe law firm of Montgomery & Andrews, appearing
in this matter on behalf of Amoco Production Company.

MR. CARR: May it please the
Examiner, my name is William F. Carr, with the law firm
Campbell & Black, P.A., of Santa Fe, appearing on behalf of
T. H. McIlvain Oil & Gas Properties.

MR. STOGNER: Any other appear-
ances?



1 Mr. Kellahin?
2 I'm sorry, would you please
3 stand up and approach us?
4 MR. CAYIAS: Jack Cayias, C-A-
5 Y-I-A-S, for Minel, Inc.
6 MR. STOGNER: And you're with
7 who?
8 MR. CAYIAS: Minel, Inc., I-N-
9 C.
10 MR. STOGNER: Okay, and what's
11 your affiliation with Minel?
12 MR. CAYIAS: I'm the manager of
13 it.
14 MR. STOGNER: Are you a part-
15 nership in the corporation or anything, president, treasur-
16 er, secretary?
17 MR. CAYIAS: Just the secre-
18 tary.
19 MR. STOGNER: You are the sec-
20 retary.
21 Any other appearances?
22 Mr. Kellahin.
23 MR. KELLAHIN: Mr. Examiner,
24 we'd like to have your permission to continue this case un-
25 til the Examiner docket for April 8th, 1987.



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MR. STOGNER: Are there any objections to continuing this case to April 8th, 1987?

Okay. In that case, Case Number 9095 will be continued henceforth to the April 8th, 1987, Examiner's Hearing.

(Hearing concluded.)



C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true, and correct record of this portion of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a correct and true copy of the proceedings in the Examiner hearing of Case No. 9095, heard by me on 4 March 1987.

Michael P. Stoyne, Examiner
Oil Conservation Division



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
Santa Fe, New Mexico

8 April 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of Curtis J. Little for CASE
the promulgation of Special Pool Rules 9095
for the Ojito Gallup-Dakota Oil Pool
or, in the alternative, to abolish the
Ojito Gallup-Dakota Oil Pool and to
concomitantly expand the West Lindrith
Gallup-Dakota Oil Pool, Rio Arriba and
Sandoval Counties, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

OIL CONSERVATION DIVISION

JUN 11 1987

A P P E A R A N C E S

RECEIVED

For the Division:

Jeff Taylor
Legal Counsel to the Division
Oil Conservation Division
State Land Office Bldg.
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For the Applicant:

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I N D E X

A. R. KENDRICK

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MR. STOGNER: Call next Case Number 9095.

MR. TAYLOR: The application of Curtis J. Little for the promulgation of special pool rules for the Ojito Gallup-Dakota Oil Pool or in the alternative, to abolish the Ojito Gallup-Dakota Oil Pool and to concomitantly expand the West Lindrith Gallup-Dakota Oil Pool, Rio Arriba and Sandoval Counties, New Mexico.

MR. STOGNER: This case was called on March 4th, 1987, at which time appearances were made by Mr. Perry Pearce for Amoco, William Carr for McIlvain Oil and Gas Company, and Tom Kellahin for Curtis J. Little.

At that time the applicant requested that this case be continued for today's docket.

At this time we're going to call for appearances.

MR. KELLAHIN: If the Examiner please, I'm Tom Kellahin of Santa Fe, New Mexico, appearing on behalf of the applicant, Curtis J. Little, and I have one witness to be sworn.

MR. STOGNER: Are there any other appearances?

MR. CAYIAS: I didn't hear what

1 you said.

2 MR. STOGNER: Are there any
3 other appearances?

4 MR. CAYIAS: Jack Cayias, with
5 --

6 MR. STOGNER: Will you please
7 stand up and approach?

8 MR. CAYIAS: Jack Cayias of
9 Minel, Incorporated.

10 MR. STOGNER: Minel, M-I --

11 MR. CAYIAS: M-I-N-E-L.

12 MR. STOGNER: Mr. Minel, were
13 you a party of the original hearing on March 4th?

14 MR. CAYIAS: Yes.

15 MR. STOGNER: Okay. I'm sorry,
16 Mr. Cayias.

17 And what is your affiliation
18 with --

19 MR. CAYIAS: I'm Assistant Sec-
20 retary of the corporation.

21 MR. STOGNER: Are there any
22 other appearances? Thank you, Mr. Cayias. Are there any
23 other appearances?

24 Okay. Mr. Kellahin?

25 MR. KELLAHIN: We'd like to

1 swear Mr. Al Kendrick as our expert witness.

2 MR. TAYLOR: Do you guys have
3 any witnesses? Are you going to put on a case or --

4 MR. CAYIAS: No.

5

6 (Witness sworn.)

7

8 MR. STOGNER: Before we get
9 started, are there any opening comments?

10 No opening statements? Before
11 we get started, Mr. Kellahin, we've got preliminaries we
12 need to cover.

13 MR. TAYLOR: Would you just
14 clarify for us who is carrying on this case? Was Curtis J.
15 Little incorporated and is the --

16 MR. KENDRICK: No.

17 MR. TAYLOR: -- corporation
18 carrying on the case or what's -- how's the --

19 MR. KELLAHIN: His surviving
20 widow is carrying on his business still using the name Cur-
21 tis J. Little as the operator. She's not posted new bonds
22 and --

23 MR. TAYLOR: Is Curtis J. Lit-
24 tle a partnership or an individual, just a sole proprietor-
25 ship, or what was it?

1 MR. KELLAHIN: Individual, sole
2 propriotership, I suppose.

3 MR. TAYLOR: So is she the per-
4 sonal representative of him?

5 MR. KELLAHIN: That's my under-
6 standing from talking to their attorney, that she is in the
7 capacity to carry on for his estate.

8 I don't have copies of the ap-
9 pointments yet, and if you like, we'll be happy to supply
10 all those when they're available. At this point they're not
11 yet available.

12 MR. TAYLOR: Okay. I'm not
13 even sure if it's appropriate but I just wondered what's --
14 what's the status of whoever is carrying on the case.

15 MR. KELLAHIN: Surviving widow
16 has taken over the operation of the business. Sylvia is her
17 name, I believe.

18 MR. TAYLOR: Do you think she's
19 acting as personal representative?

20 MR. KELLAHIN: That's my under-
21 standing.

22 MR. TAYLOR: Okay.

23 MR. STOGNER: Mr. Kellahin.

24 MR. KELLAHIN: Thank you, Mr.
25 Examiner. Exhibit Number One, the document that's marked as

1 Curtis Little Exhibit Number One, is a certificate of mail-
2 ing and compliance with the notice rules. It sets forth on
3 that exhibit the information Mr. Kendrick has supplied us
4 with regards to the operators that operate within the Ojito
5 Gallup-Dakota Pool.

6 Exhibit Number Two is a supplemental not-
7 ification, which was sent on February 23rd to operators that
8 had operations within a mile of the outer boundary of the
9 Ojito Gallup-Dakota Pool.

10 So Exhibit One is the pool operators; Ex-
11 hibit Two are the offset operators to the pool, and those
12 constitute our notices to all those individuals and com-
13 panies.

14 MR. STOGNER: Mr. Kellahin, do
15 you know if these notices were sent certified?

16 MR. KELLAHIN: No, sir, the
17 notices (not understood) were sent by regular mail.

18 MR. STOGNER: Is this the same
19 letter that was sent out on February 10th?

20 MR. KELLAHIN: On February 10th
21 a copy of the actual application itself, plus the cover let-
22 ter by which we filed that application, were the enclosures
23 that were sent out on February 10th to the parties.

24 MR. STOGNER: And that's the
25 same listing that's listed on the very back page of the ap-

1 plication.

2 MR. KELLAHIN: Yes, sir.

3 MR. STOGNER: In looking at
4 this, operators of wells, Ojito Gallup-Dakota Oil Pool, now
5 the West Lindrith Gallup-Dakota Pool was involved in this
6 also. Were they notified?

7 MR. KELLAHIN: Only insofar as
8 they were adjoining the Ojito Gallup-Dakota Pool within a
9 mile of that pool boundary. The notices were to the Ojito
10 Gallup ownership. The West Lindrith ownerships were noti-
11 fied only to the extent that they had acreage within a mile
12 of the subject pool.

13 MR. STOGNER: So since the
14 operators in West Lindrith Gallup weren't going to be af-
15 fected, per se, it was only those that were in the Ojito
16 Gallup Pool, these are the operators in that pool.

17 MR. KELLAHIN: That's right.
18 The West Lindrith Pool rules are to remain the same. We are
19 seeking in the Ojito Gallup to either change to their same
20 spacing pattern with our own rules or to simply abolish the
21 Ojito Gallup and extend the same rules that they have in
22 West Lindrith, so for that reason we did not notify any fur-
23 ther operators.

24 MR. STOGNER: And what was the
25 reason why the February 23rd letter went out? Why were't

1 they included in February 10?

2 MR. KELLAHIN: We failed to de-
3 velop an entire list of those operators that operated out-
4 side the pool boundary that were not included on the orig-
5 inal list.

6 MR. STOGNER: Okay, I under-
7 stand now. Please continue.

8 MR. KELLAHIN: All right.

9

10 A. R. KENDRICK,

11 being called as a witness and being duly sworn upon his
12 oath, testified as follows, to-wit:

13

14 DIRECT EXAMINATION

15 BY MR. KELLAHIN:

16 Q Mr. Kendrick, let me have you identify
17 yourself and describe what it is that you do.

18 A I'm A. R. Kendrick, petroleum consultant.
19 I live in Aztec, New Mexico, and I work primarily in the
20 range of the San Juan Basin of New Mexico.

21 Q As a petroleum engineering consultant,
22 have you been retained by Curtis J. Little and now his sur-
23 viving widow to make a presentation to the Oil Conservation
24 Commission today about the subject pool?

25 A Yes, sir.

1 Q Pursuant to that employment, Mr. Ken-
2 drick, have you made a study of the facts surrounding the
3 Ojito Gallup-Dakota Pool?

4 A Yes, sir.

5 Q And have you previously testified as an
6 expert petroleum engineer with regards to other hearings
7 that have been involved in the Ojito Gallup-Dakota Pool?

8 A Yes, sir.

9 Q Were you a participant in and an expert
10 witness for the Amoco case that established the Northeast
11 Ojito Gallup Oil Pool?

12 A Yes, sir.

13 Q Pursuant to that consulting employment,
14 Mr. Kendrick, have you compiled certain exhibits for
15 presentation to the Examiner today?

16 A Yes, sir.

17 MR. KELLAHIN: We tender Mr.
18 Kendrick as an expert petroleum engineer.

19 MR. STOGNER: Mr. Kendrick is
20 so qualified.

21 Q Mr. Kendrick, let's take a few minutes
22 and identify for the Examiner the principal areas that
23 you're attempting to cover with this application and perhaps
24 as an illustration we might take Exhibit Number Three and
25 have you first of all identify for us what we're looking at

1 when we look at Exhibit Number Three.

2 A Exhibit Number Three is an area plat
3 showing Township 25, 3, and some sections of each township
4 surrounding Township 25 North, Range 3 West.

5 The Gallup and Dakota Pools that are oil
6 pools are identified separately on this map.

7 The Ojito Pool is confined totally within
8 Township 25 North, Range 3 West, and is stippled with one
9 dot per 10 acres.

10 To the northeast or northern part of the
11 plat, the Northeast Ojito Gallup Oil Pool is in Sections 35
12 and 36 of Township 26 North, Range 3 West, and is also in-
13 cluded in areas off of this map.

14 On the righthand side of the plat the
15 Gavilan Mancos Oil Pool and the Gavilan Greenhorn-Graneros-
16 Dakota Pools overlap and one pool has slashed in one direc-
17 tion, the other pool slashes in the other direction, and
18 they almost make X's where they overlap.

19 In the south part of Township 25 North,
20 Range 3 West, and in other townships to the west and south,
21 are portions of the West Lindrith Gallup-Dakota Oil Pool,
22 which extends extensively in townships to the west and south
23 beyond this plat.

24 The area we want to affect today is the
25 Ojito Gallup-Dakota Oil Pool in the north part of Township

1 25 North, Range 3 West, and it's stippled with one dot per
2 10 acres.

3 Q Summarize for us the principal changes
4 that you want to accomplish in terms of special rules that
5 would apply to the Ojito Gallup-Dakota Pool, starting off,
6 first of all, with the well spacing question.

7 What do you propose to utilize for well
8 spacing prospectively in the Ojito Gallup-Dakota Pool?

9 A At the present time the pool is on state-
10 wide 40-acre spacing with 40-acre allowables and the pro-
11 posal is to change the spacing pattern in this pool to 160
12 acres with the footage requirements as required in the West
13 Lindrith Gallup-Dakota Oil Pool of 330 feet from the bound-
14 ary of the proration unit and not closer than 660 feet to
15 the nearest well drilling to or capable of producing from
16 the same formation, the limiting gas/oil ratio at 2000 feet
17 per barrel.

18 Those are the principal rules that we
19 were looking for here in the Ojito Gallup-Dakota Oil Pool.

20 Q Currently the statewide spacing on the
21 Ojito Gallup-Dakota Pool is on 40-acresd oil?

22 A That's correct.

23 Q When we look at the West Lindrith Gallup-
24 Dakota Pool to the south and west, what is the oil spacing
25 for wells in that pool?

1 A 160 acres.

2 Q When we look at the Northeast Ojito Gal-
3 lup Oil Pool in the two sections up in the northeast, what
4 is the oil spacing for those wells?

5 A 160 acres.

6 Q And we look at the Gavilan Mancos Pool to
7 the east, what is the oil spacing for wells over in that
8 pool at this time?

9 A I'm not sure at this time whether it's
10 160 acres or 320 acres.

11 Q I believe it's 320 acres there, Mr. Ken-
12 drick.

13 All right, within -- within the area,
14 then, described as the Ojito Gallup-Dakota Pool, the appli-
15 cation is in the alternative. It asks either for the
16 abolishment of the Ojito Gallup-Dakota Pool and the exten-
17 sion of the West Lindrith, or in the alternative, simply to
18 keep the Ojito Gallup-Dakota Pool and change that spacing
19 now to 160 acres plus the corresponding adjustments in pro-
20 duction rates and well locations.

21 A That's correct.

22 Q All right. Do you have a recommendation
23 to the Examiner as to which of those two options might be
24 the most efficient in terms of management of the rules and
25 regulations?

1 A As far as the producers are concerned it
2 would make no difference.

3 As far as the administration by the Oil
4 Conservation Division it may be easier to abolish the name
5 of the Ojito Gallup-Dakota Oil Pool and just encompass these
6 wells within the existing West Lindrith Gallup-Dakota Oil
7 Pool.

8 The proposed proration rules that we have
9 as a later exhibit are identical to the spacing and prora-
10 tion rules in the West Lindrith Gallup-Dakota Oil Pool.

11 Q So in order to establish revised rules
12 for the Ojito Gallup-Dakota Pool you've simply taken the
13 West Lindrith rules and rewritten them to apply to the sub-
14 ject pool.

15 A Yes, sir.

16 Q Describe for us what has been the his-
17 toric development in the Ojito Gallup-Dakota Oil Pool in
18 terms of well spacing.

19 A The pool was discovered back about 1958.
20 The first well was the Texaco -- was at that time Skelly Oil
21 Company C. W. Roberts No. 4. It was drilled to the Dakota
22 formation and completed as a Dakota single completion in
23 July of 1958.

24 Q What has been the development pattern of
25 wells in the Ojito Gallup-Dakota Pool in terms of whether or

1 not they have available to them 160 acres to dedicate or
2 whether the drilling has been on closer than 160-acre drill-
3 ling?

4 A At the present time there are no 160-acre
5 tracts within the pool that have more than one well. There
6 are places where permits to drill have been approved for
7 more than one well within the 160-acre drill tracts but at
8 this time no well has been drilled, or no quarter section
9 has been developed with more than one well per quarter sec-
10 tion.

11 Q What's the basic reason that you're re-
12 commending the Commission change the spacing in the Gallup
13 -- Ojito Gallup-Dakota Pool, moving it from 40's to 160's?

14 A The cost of development is so high and
15 the ultimate recovery is going to be so low that the econo-
16 mics is the primary reason for the request for 160-acre spa-
17 cing.

18 Q Let's turn now to Exhibit Number Four and
19 have you identify and describe Exhibit Number Four.

20 A Exhibit Number Four is a 2-page list of
21 the wells in Township 25, 3, and the righthand column of
22 which shows the pool that the wells are in.

23 The wells are arranged on the list in lo-
24 cation order within each of the pools. There are the wells
25 in the Northeast Ojito Pool shown in Township 26 North,

1 Range 5 West -- or excuse me, 26 North, Range 3 West, and
2 there is a series of wells in Township 25 North, Range 3
3 West that are in the West Lindrith Gallup-Dakota Oil Pool,
4 all included on this list, and one well that at the present
5 time is proposed as an extension for the Gavilan Greenhorn-
6 Graneros-Dakota Pool in the southwest of Section 13 of Town-
7 ship 25 North, Range 3 West.

8 This list shows the location of the
9 wells, the operator, the well name and number, the footage
10 location of the well from the section line, the completion
11 date, the initial potential, and the pool that the wells are
12 currently identified as being in.

13 Q Let me have you direct your attention to
14 Exhibit Number Five, Mr. Kendrick, and would you identify
15 and describe Exhibit Number Five?

16 A Exhibit Number Five is a 2-page exhibit.
17 The top page is a photocopy of the January through April oil
18 proration schedule, the left column of which would be the
19 Ojito Gallup-Dakota Oil Pool.

20 In reviewing this schedule I noticed sev-
21 eral mistakes or differences, where I had a difference of
22 opinion with what was printed there, so I went to the Aztec
23 Office of the Oil Conservation Division and talked with them
24 about the problem, and they told me that their problem was
25 that they had just entered this into the computer and had

1 be 382 barrels per day.

2 Q If we have, if we want to grandfather in
3 an existing well on 40-acre spacing, and cause that to be
4 approved as a nonstandard spacing and proration unit, what
5 would the allowable be for a 40-acre spaced well in a 160-
6 acre pool? You'd simply take 382 and divide that by 4?

7 A Yes.

8 Q Is that how you do it?

9 A Or multiply that times the 40 acres
10 divided by 160 acres as the standard unit, which would be
11 the effect of dividing by 4.

12 Q And what will that give you, then?

13 A 95.5, so the allowable would be assigned
14 as 96 barrels.

15 Q Do we have any wells currently producing
16 in the pool that are able to produce in excess of 96 barrels
17 a day?

18 A Yes. Not shown on this list, a new com-
19 pletion by Minel, Incorporated, the NZ No. 2 Well, has re-
20 cently been reported as a new completion with an initial po-
21 tential of 200 barrels per day.

22 Q Other than the Minel well are there any
23 other currently producing Ojito Gallup-Dakota wells that
24 have the capacity to produce in excess of 96 barrels a day?

25 A No, sir.

1 Q So that one Minel well constitutes a well
2 that would have its deliverability restricted under the
3 change.

4 A Yes.

5 Q Okay, the difference is that that well
6 now could produce 142 barrels under 40-acre spacing and under
7 the revised change it would produce a maximum of 96 a day.

8 A The well actually is on an oversized lot
9 and the allowable calculated for it would be 1.45 times the
10 40-acre allowable of 142 barrels per day, which would be 206
11 barrels is the current allowable on 40-acre spacing.

12 Q All right, let's find the Minel well so
13 that the Examiner correct, is in a position to correctly
14 understand that well.

15 MR. STOGNER: What exhibit are
16 we looking at?

17 MR. KELLAHIN: We're going to
18 turn, I think, for convenience, if you'll look at Exhibit
19 Number Six. That might be a helpful exhibit to spot this
20 well.

21 Q Show us where --

22 A The --

23 Q -- that well is.

24 A The NZ No. 1 Well is shown as a spot in
25 the Unit letter C of Section 1 of Township 25 North, 3 West,

1 and the NZ No. 2 Well is not shown on this exhibit and would
2 be in Unit letter A of Section 1, Township 25 North, Range 3
3 West. It would be, Mr. Examiner, it would be in
4 approximately this position.

5 MR. STOGNER: That would be in
6 Unit letter C?

7 A No, in Unit letter A.

8 MR. STOGNER: A, okay.

9 A The new well.

10 MR. STOGNER: Okay, now, in --

11 A The well shown in Unit letter C is the NZ
12 No. 1 Well.

13 MR. STOGNER: Okay, now Unit
14 letter A, would that be a standard 40-acres?

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1 A No, sir. It's a 58-acre lot.

2 MR. STOGNER: How about B?

3 A 58-acre lot.

4 MR. STOGNER: C?

5 A 58-acre lot.

6 MR. STOGNER: D, as in dog?

7 A 58-acre lot, to the nearest acre.

8 MR. STOGNER: Are all --

9 A Or excuse me, to the nearest half acre.

10 MR. STOGNER: Are all the rest

11 40-acre units --

12 A All --

13 MR. STOGNER: -- throughout that

14 section?

15 A All south of the north tier are 40-acre

16 lots in that section.

17 MR. STOGNER: So lots E through

18 --

19 A E through P would be 40 acres each.

20 Q The north half of the north half of each

21 of the sections on the north end of this township are over-

22 sized tracts, are they not?

23 A Yes, sir.

24 Q And we can follow it across the township

25 from Section 1 through Section 6 and the north half of the

1 north half of each of those sections if the same oversized
2 section for each of those tracts.

3 A Each of those lots is approximately 50
4 acres across the north side of the township.

5 Q All right. When you make the adjustment
6 for the acreage factor for those wells, they are allowed to
7 produce at what top allowable rate?

8 A On 40-acre spacing the 142 barrel allow-
9 able is raised to 206 barrels.

10 Q Under the proposed rule change where we
11 have 160-acre spacing and we would dedicate the 58 acres to
12 that tract, what would be the allowable for that well?

13 A The north -- the quarter section would
14 have a total of 196 acres. We'd divide that by 160, multi-
15 ply that by 382, and we would wind up with 468 barrels for
16 the quarter section.

17 Q And if I reduce that, then, because I
18 didn't have a full acreage allowable, do we reduce that fur-
19 ther?

20 A Yes. Excuse me.

21 Q Have you already computed the short ac-
22 reage in that calculation?

23 A No, this is the long acreage for the full
24 quarter section.

25 Q All right. Let's assume I don't want ot

1 dedicate the long acreage, I just want to stay with the 58
2 acres, create a nonstandard proration unit for that well un-
3 der the new rules, what is my maximum daily producing rate
4 for that well?

5 A 139 barrels.

6 Q For that particular well using the over
7 -- the acreage discrepancy on 40-acre spacing, then, his top
8 allowable is 206, and if we make the changing in the special
9 pool rules, then his top allowable is reduced to 139 barrels
10 a day.

11 A That's correct.

12 Q Let's look at Exhibit Number Six now for
13 a moment and let me ask you some more questions, Mr. Ken-
14 drick.

15 Do you recognize this exhibit?

16 A Yes, sir, this is an exhibit, a copy of
17 Amoco's Exhibit Number One in Case 8822 that was submitted
18 about a year ago and is a copy of the official document --
19 official exhibit.

20 Q This was used in support of Amoco's ap-
21 plication to create the Northeast Ojito Gallup Oil Pool on
22 160-acre spacing?

23 A That's correct.

24 Q Okay. Let' use this to let me ask you
25 some questions.

1 Based upon your study of this area are
2 you aware of or have you seen any geologic reason that would
3 cause you to continue the separation between the West Lin-
4 drith Gallup-Dakota and the Ojito Gallup-Dakota?

5 A No, sir.

6 Q Is there a geologic explanation as best
7 you know as to the separation of those two pools?

8 A No, sir.

9 Q Why is the reason they've grown together
10 like this, Mr. Kendrick?

11 A Because in my opinion they're all produ-
12 cing out of the same common source of supply and the discov-
13 ery wells for the pools were quite far apart and as the
14 pools were developed they grew together.

15 Q When we look at the Northeast Ojito Gal-
16 lup are you aware of or have you seen any geologic evidence
17 to distinguish the Ojito Gallup-Dakota from the Northeast
18 Ojito Gallup Oil Pool?

19 A Not as a source of supply.

20 Q That was the purpose of my question. Are
21 we still dealing with the same common source of supply?

22 A Yes, we're dealing with the same common
23 source of supply. We're dealing with different reservoir
24 parameters in parts of the two pools up there, but the com-
25 mon source of supply is common.

1 Q This exhibit from last year's hearing de-
2 picts some of the wells that are in the Ojito Gallup-Dakota
3 Pool. There have been some that have been drilled since
4 then, have they not?

5 A I think the only well that I know of that
6 has actually been drilled since then is the NZ No. 2 Well in
7 Unit letter A of Section 1, that we discussed earlier.

8 Q With the addition of that well, then,
9 it's your opinion that the plat does in fact locate all
10 producing wells in the Ojito Gallup-Dakota Pool?

11 A Well, there's a problem there in Section
12 8 in that they have four wells spotted there and there are
13 only two wells drilled in it to the Ojito Gallup-Dakota
14 pool.

15 Q Which -- which two wells should we delete
16 from the exhibit?

17 A I'll have to look on the list here and
18 find out what's actually in Section 8.

19 The two wells in Section 8 are in Unit
20 letters G and J.

21 The well in A and the well in C are not
22 in Section 8.

23 Q All right. By deleting those two well
24 spots, then, this demonstrates your earlier testimony that
25 we in fact only have one well in each of the 160-acre

1 quarter sections for each of the sections?

2 A Yes, sir.

3 Q Is there anything else about this exhibit
4 you'd like to direct our attention to before we move on?

5 A Only that the exhibit shows that the re-
6 servoir has wells completed in it on essentially all quarter
7 sections along the trace of the line from the left to the
8 upper -- lower left to the upper right across the three
9 pools there, showing that the pool is essentially developed
10 on each quarter section.

11 Q All right, sir, let's turn to Exhibit
12 Number Seven and have you identify and describe this exhi-
13 bit.

14 A Exhibit Number Seven is a copy of Exhibit
15 Number Three from Case 8822 that was submitted last year.
16 It's on -- based on the same base map, so the two additional
17 wells, or extra wells in Section 8 are shown on this exhibit
18 as well, and the NZ No. 2 Well has not been shown up in Sec-
19 tion 1.

20 This exhibit was presented by Amoco to
21 show the structure of the formation and the structure has no
22 radical changes as we go across there so that the common
23 source of supply is indicated on this exhibit and we have no
24 challenge with their testimony in that other case that the
25 source of supply is common for all the wells on this part of

1 the exhibit.

2 Q Let me direct your attention now, Mr.
3 Kendrick, to the subsequent exhibits and have you discuss
4 for us the basic premise upon which you have testified and
5 that is that wider spacing is necessary in order to make
6 further drilling and development economic.

7 Have you had an opportunity to review the
8 data submitted by Amoco in the hearing last year with re-
9 gards to their spacing case in the -- in the Northeast Ojito
10 Gallup-Dakota Pool?

11 A Yes. I have reviewed their Exhibits Ten,
12 Eleven, Twelve, and Fourteen, and they are identified as our
13 Exhibits Eight, Nine, Ten, and Eleven, and we have no quar-
14 rel with their testimony of the production or the economics
15 as depicted on their exhibits.

16 Exhibit Number Eight shows that the num-
17 ber of wells selected in their analysis was ten wells and
18 their production history showed an average daily rate of 12
19 barrels of oil per day, which --

20 Q Now, when we talk about the wells selec-
21 ted, we are looking, then, within the area identified on the
22 exhibits as the Northeast Ojito Galluyp-Dakota area?
23 Those were the ten wells selected, were they not?

24 A I think they probably were, and those
25 rates were shown very low, even though they have some high

1 production wells in that pool, but they selected these two
2 wells and the information was from sparse production due to
3 the lack of gas connections for their wells.

4 Q How does that production information from
5 the Northeast Ojito compare to the production information
6 from the Ojito Gallup-Dakota Pool?

7 A This indication is about average for
8 what's in the Ojito Pool. We have some wells that produce
9 quite a bit better but we also have some wells that don't
10 produce as well as the 12 barrels per day shown as an aver-
11 age here.

12 Q All right, sir, let's turn to Exhibit
13 Number Nine, Little Exhibit Humber Nine, and have you iden-
14 tify and describe that exhibit for us.

15 A Exhibit Number Nine is an economic survey
16 showing the cost of the wells at \$650,000; a beginning oil
17 price of \$20.00 per barrel; and identifies there that with a
18 50-barrel per day well the undiscounted return on interest
19 is about .6; discounted -- excuse me, return on investment.
20 The discounted return on investment at 15 percent depletion
21 would show a negative .3 return on investment, but with 100
22 barrels of oil per day the return would be a positive cash
23 flow, and this is based on the oil price of \$20.00 per bar-
24 rel.

25 Q Do the estimated costs that Amoco had for

1 February of last year with regards to the Ojito Gallup-Dak-
2 ota, how do those compare to costs applicable today to the
3 Ojito Gallup-Dakota Pool itself?

4 A Their costs are a little higher than in-
5 dependents would be spending to drill wells in that area,
6 but their using an abnormally high price of oil here, also.

7 Q So if you discount the oil price to cur-
8 rent levels and discount the well costs price now at current
9 levels, you'd get approximately the same type of results?

10 A Be very close, yes.

11 Q All right, sir, let's turn to Exhibit
12 Number Ten.

13 A Exhibit Number Ten is an identical survey
14 utilizing an oil price of \$12.00 per barrel, which is abnor-
15 mally low, and the discounted return on investement at 50
16 barrels per day would be a negative .6; at 100 barrels per
17 day would be a negative .07; and at 200 barrels per day
18 would be a positive .97, which is very meager returns on the
19 investment.

20 Q What conclusion do you draw from examin-
21 ing these exhibits in terms of whether or not the area ought
22 to be spaced on 40's or be converted to 160-acre spacing?

23 A Based on this we're going to need all the
24 gas that we can sell to help pay out a well, and this means
25 lesser density of wells.

1 Q You'll need the reserves available for
2 you on 160-acre tract as opposed to a 40-acre tract in order
3 to justify the expenditures of sums of this nature and for
4 oil prices that we experience now?

5 A Yes.

6 Q Let's turn to Exhibit Number Eleven, Mr.
7 Kendrick, and have you identify and describe that exhibit.

8 A Exhibit Number Eleven is a review of some
9 wells in the West Lindrith Gallup-Dakota Pool that have --
10 had at the beginning of 1985 cumulative production of about
11 1.8-million barrels of oil; that have a cumulative per well
12 average of 36.6 thousand barrels -- 36.6 thousand barrels is
13 a little more than a break even situation under the current
14 price of oil and the current cost of drilling; that is, the
15 current cost of drilling for an independent. If we can
16 drill a well for \$450,000 to \$500,000 saving a substantial
17 amount from Amoco's cost of drilling, the recoveries don't
18 need to exceed 30,000 barrels at \$17.00 per barrel to pay
19 out total.

20 We need the additional acreage to supply
21 the product to amortize the well.

22 Q Let's turn to Exhibit Number Twelve, now,
23 Mr. Kendrick, and have you identify and describe that
24 exhibit.

25 A Exhibit Number Twelve is a proposed set

1 for the Ojito Gallup-Dakota Oil Pool, which are essentially
2 copied verbatim from the West Lindrith Gallup-Dakota Pool
3 Rules, the difference being under Rule 3, at the end of the
4 rule in parentheses, it says, "Nothing in this rule shall
5 prevent the drilling of more than one well per proration
6 unit."

7 The current policy followed by the Aztec
8 Office of the Oil Conservation Division is to approve the
9 drilling of as many as four wells per quarter section in the
10 West Lindrith Gallup-Dakota Pool.

11 There are places within the Ojito Gallup-
12 Dakota Pool where due to ownership situations and one or two
13 places of some geologic conditions, that more than one well
14 per quarter section would be desirable.

15 The permission to drill more than one
16 well per quarter section is part of the request for the pool
17 rules to be spaced at 160-acre spacing, to take care of
18 those few places where the second well, or additional wells
19 for the quarter section is needed.

20 Q This was the proposed rules that you dis-
21 tributed to those parties in attendance at the prior hearing
22 of this case back on March 4th, 1987?

23 A Yes, sir.

24 Q Since doing that, Mr. Kendrick, have you
25 determined whether or not there are any additional revisions

1 or suggestions you want to make with regards to the proposed
2 rules?

3 A No, sir, the proposed rules would be the
4 same as we proposed back in March of 19 -- excuse me, on
5 March the 4th, so that the drilling of additional wells
6 would be available at such few places as it is desirable be-
7 cause of ownership problems or because of geological prob-
8 lems.

9 Q Let's focus in again, then, on the single
10 well in the current pool for which there is any possibility
11 of having its current production restricted because of the
12 change in the rule.

13 And that is the Minel well in the north-
14 east quarter of Section number 1. In regard to that, Mr.
15 Kendrick, I want to show a copy of the order entered that
16 established the Northeast Ojito Gallup-Dakota Pool, a copy
17 to the Examiner, a copy to Mr. Cayias, and I'll give you a
18 copy, also, Mr. Kendrick.

19 Under those -- under those rules, what is
20 the maximum producing rate for the Amoco wells that are just
21 north of the common line separating the Minel well from the
22 Amoco well and in fact separating all the Amoco wells from
23 -- from the two wells to the south of that common line be-
24 tween the townships?

25 A Under Rule 7 it says, during the time

1 that the temporary special rules are in effect no well lo-
2 cated in the south half of Sections 35 and 36 of Township 26
3 North, Range 3 West, in the Northeast Ojito Gallup-Dakota
4 Oil Pool shall be allowed to produce at a rate in excess of
5 that which would be allowed for a well if statewide 40-acre
6 oil well spacing were applicable as established by Rule 505.

7 And Rule 505 would establish an allowable
8 there of 142 barrels per well per day.

9 Q So the wells in the Northeast Ojito-Gal-
10 lup Oil Pool that are along the common line, while they may
11 have 160 acres dedicated to it, at least presently they are
12 limited to no more than 142 barrels of oil a day?

13 A That's correct.

14 Q Do you have knowledge, Mr. Kendrick, as
15 to whether those wells are capable of producing more than
16 142 barrels of oil a day?

17 A Based on the initial potentials shown on
18 our Exhibit Three, I think, the list of wells, when we get
19 to the Northeast Ojito Pool there, the well in the southwest
20 of Section 35 was potentialed at 275 barrels per day, which
21 would exceed the 142 barrel allowable.

22 The well in Unit P of Section 35 was ini-
23 tial potentialed at 63 barrels per day.

24 The well in Unit letter N of Section 36
25 was potentialed at 233 barrels per day, and the well in Unit

1 P of 36 was potentialized at 310 barrels per day.

2 The wells in Section 35, one of the wells
3 in Section 35, cannot make the 142 barrels per day. At this
4 time I'm not sure how many of the other three wells can make
5 the 142 barrels per day.

6 Q Do you have a recommendation to the Exam-
7 iner as to what he should do, if anything, with regards to
8 establishing an allowable for the Minel Well that is any
9 different from the way the rest of the pool wells will be
10 handled?

11 My question is what are we going to do
12 with the Minel well, Mr. Kendrick?

13 A Well --

14 Q Do we cut it some slack or do we make it
15 live with the rest of the world?

16 A My client would rather make it go with
17 the rules of the pool in that it simplifies things if every
18 well in the pool is operated by the same set of rules. We
19 would not object to the well continuing to produce at the
20 40-acre allowable so long as the Amoco wells are restricted
21 to that same 40-acre allowable basis. Well, this Minel well
22 would be granted a bonus due to the larger acreage lot that
23 it's drilled on, but having -- having the same formula apply
24 to it as applies to its offset well should not create any
25 problem there for so long as the Amoco wells are reduced to

1 the 40-acre basis. We would have no objection to the Minel
2 well producing at the 40-acre basis.

3 Q Other than that problem unique to the
4 Minel well, are you aware of any other kinds of difficulties
5 with the balance of the pool that would cause the Examiner
6 any type of concern in making the conversion from 40-acre to
7 160-acre spacing?

8 A No, I know of one other instance in the
9 pool where there is an ownership problem where the nonstan-
10 dard units would be requested.

11 For the most part it's my belief that the
12 wells in the Ojito Pool are on large leases and would cause
13 a deluge of nonstandard units for all the wells within the
14 pool. I only know of one other section that has a well on
15 -- not available for 160-acre dedications. There may be
16 others that I don't know about but for the most part they're
17 all large leases, so the quarter sections would be avail-
18 able.

19 Q All right, sir, is there anything else
20 you'd like to present to the Examiner with regards to the
21 case before him today?

22 A No, sir.

23 Q All right, sir.

24 MR. KELLAHIN: We'd move the
25 introduction of Exhibits One through Twelve.

1 MR. STOGNER: Exhibits One
2 through Twelve will be admitted into evidence.

3
4 CROSS EXAMINATION

5 BY MR. STOGNER:

6 Q Mr. Kendrick, do you have any reservoir
7 testimony or any geological evidence showing that (unclear)
8 wells in the center of the pool are capable of draining 160
9 or do you know if they will even drain 160?

10 A No, sir, we have no evidence to that ef-
11 fect. The only evidence we have is that it's our belief
12 that all the wells shown on Exhibit Six are in the same com-
13 mon source of supply, as evidenced by Exhibit Number Seven,
14 that there are no major changes in the geologic structure in
15 that area.

16 Q Does this give me any indication of any
17 possible increase in permeability or porosity between north
18 and south? As we go up north, do you have any testimony on
19 that?

20 A The only other testimony that we have in
21 that regard would be that uncontested testimony of Amoco
22 when they submitted this exhibit that the wells are com-
23 pleted in the same geologic interval on the same spacing
24 pattern of one well per quarter section. I think it would
25 be the identical effect of expanding the West Lindrith Gal-

1 lup-Dakota Pool one quarter section at a time through this
2 same reservoir with individual wells completed as they were
3 drilled.

4 MR. STOGNER: Are there any
5 other questions?

6 MR. KELLAHIN: No, sir.

7 MR. STOGNER: No other ques-
8 tions for Mr. Kendrick? He may be excused.

9 Does anybody else have anything
10 further in Case Number 9095 they'd like to offer at this
11 time?

12 MR. CAYIAS: May I?

13 MR. STOGNER: Mr. Cayias. Are
14 you appearing here to make a statement or a witness or what
15 is your function?

16 MR. CAYIAS: I'd like to make a
17 statement. I'm the Assistant Secretary of Minel, Incorpor-
18 ated, and I'd like --

19 MR. STOGNER: Are there any ob-
20 jections to him making a statement?

21 MR. KELLAHIN: Certainly not.
22 I'd be happy to hear what Mr. Cayias has to say.

23 MR. STOGNER: Mr. Cayias.

24 MR. CAYIAS: The notices were
25 sent under regular mail and Rule Number 1206 states that

1 they must be certified by mail.

2 Our engineers, unfortunately,
3 are sick and couldn't be here today and what we would like
4 is an extension of time to allow them to come up here pro-
5 perly prepared to defend the matter.

6 MR. KELLAHIN: Mr. Examiner,
7 Rule 1206, in my opinion, does not require certified mail
8 notice when you're making a change in special pool rules.

9 MR. STOGNER: Okay, I'm looking
10 at both Rules 1207-A, 4 and 7, which take about the rules of
11 notice in this particular incident.

12 Mr. Kellahin, of these two
13 rules, which applies in this case?

14 MR. KELLAHIN: I'll have to
15 look at the rules, Mr. Examiner, I don't have (not clearly
16 understood.)

17 MR. CAYIAS: In my opinion it
18 wasn't proper notice.

19 MR. STOGNER: Is your attorney
20 here today?

21 MR. CAYIAS: No, unfortunately
22 he's tied up in --

23 MR. STOGNER: Thank you, Mr.
24 Cayias.

25 MR. CAYIAS: -- Federal Court.

1 MR. STOGNER: Thank you, Mr.
2 Cayias.

3 MR. CAYIAS: Yes.

4 MR. KELLAHIN: Mr. Examiner,
5 it's 1204 that applies to this case about changing special
6 rules for a pool.

7 If you'll note Subsection 7
8 uses the word "other" and it simply means that when none of
9 the first six apply and you have another type of application
10 or another case, which would involve the change in a percent-
11 tage of the ownership with regards to that particular well,
12 then, notice is by certified mail.

13 If you read it the way Mr.
14 Cayias wants to read it, then you're going to have to strike
15 out the word "other" because it has no sense or meaning
16 within the rule.

17 MR. CAYIAS: I might add that
18 --

19 MR. KELLAHIN: Let me finish,
20 Mr. Cayias.

21 The mere fact of the matter is
22 that Mr. Cayias has -- was here on March 4 with all his en-
23 tourage and he's been involved in this matter for some time.
24 It's very difficult to pretend he's not standing here, Mr.
25 Chairman. He's had notice and he's here, he was here at the

1 last hearing, and he's had plenty of time to prepare and get
2 his act together.

3 Our obligation is to give him
4 notice by regular mail and that is what we have done. This
5 is the procedure you have followed with all special rule
6 change cases. It was the procedure followed for the Gavilan
7 Mancos, West Puerto Chiquito Mancos hearing last week, in
8 which there was a book four inches thick of notices. It's
9 the procedure we always use. There is no obligation on our
10 part to give him notice by certified mail, and that's the
11 end of my discussion.

12 MR. STOGNER: Mr. Cayias, do
13 you have any reply on that?

14 MR. CAYIAS: Just going through
15 the ones he put in the mail here, we're not listed.

16 Only on the original one.

17 MR. KELLAHIN: I have sworn un-
18 der oath, Mr. Chairman, that Minel, Inc., received a notice
19 on February 10th at their address on Washington, Southeast,
20 Albuquerque, New Mexico, 87108. It must have worked because
21 he was here at the last hearing.

22 MR. STOGNER: Mr. Cayias, I
23 both show on my application and on Exhibit Number One that.

24 MR. CAYIAS: I'm looking at his
25 letter here of February the 23rd.

1 MR. STOGNER: Mr. Cayias, I'm
2 looking at Exhibit Number One and I'm also looking at the
3 application for this order. I'm not speaking of Exhibit
4 Number Two, which in fact they show that they -- or state
5 that they mailed or notified you all by letter dated Feb-
6 ruary 10th.

7 Were you all notified on Feb-
8 ruary 10? Did you get that copy of that application?

9 MR. CAYIAS: I personally
10 didn't, no.

11 MR. STOGNER: And we covered, I
12 believe, on the listing of Exhibit Number Two that this was
13 an additional copy of those people outside of the proposed
14 pool, and the ones on the 10th are people that were in the
15 pool, is that correct?

16 MR. KELLAHIN: Yes, sir.

17 MR. STOGNER: Well, Mr. Cayias,
18 it appears to me that you were here on February 4th, and
19 you're here today. Obviously you got notified one way or
20 another.

21 MR. CAYIAS: Well, the thing
22 I'm objecting to, our people, our engineers, are not avail-
23 able at this particular date because of some illness with
24 them, and I can't properly defend this matter myself.

25 I would like an extension here

1 long enough to get the people who are competent enough to
2 present our case properly.

3 Q Did you have any contact with Mr. Kella-
4 hin prior to today?

5 MR. CAYIAS: No.

6 MR. STOGNER: Asking for this?

7 MR. CAYIAS: No. I didn't know
8 they were going to be sick.

9 MR. STOGNER: Mr. Cayias, I can
10 definitely sympathize you but we are here today and we're
11 all assembled, and I'm prepared to take this case under ad-
12 visement.

13 You have made an appearance in
14 this case and there is proper ways if my decision is not to
15 your liking, there is a way to take it to the Commission and
16 hear it at that time.

17 MR. CAYIAS: May I make a
18 statement in defense of what I know here at the moment?

19 MR. STOGNER: Sure.

20 MR. CAYIAS: We have been in
21 contact with Amoco against the situation where we made an
22 (not understood) here on the last case. We at that time
23 agreed to leave those four lots as they were until we had
24 some further tests run on those wells. We're in the process
25 of doing it. Frankly, at the rate it's going, it would be

1 probably another six months before we actually have the en-
2 gineering data to know whether there's any tie-in to what
3 wells exist there. They are unusual wells in this area.
4 They react entirely different than any other area around
5 there.

6 And Amoco has agreed with us.
7 In fact, we had one more well staked in here, which with the
8 understanding of Amoco that would be drilled, which would be
9 the NZ No. 3 and which they agreed to allow us to go ahead
10 and they in turn would cooperate with us to allow all of
11 these wells in that area to be bottom hole testeds to see
12 what type of reservoir fractures you could come up with out
13 of the drilling of third well.

14 That is in the process of being
15 done. We have expended roughly \$30-\$40,000 in that direc-
16 tion already. The well has been approved for location. All
17 the documentation is there to drill it, and based on the
18 evaluation of that well, it would determine what type of
19 spacing really ought to be done there, which from the indi-
20 cations right now that even 40 acres might not properly
21 drain a wellsite in there the way those wells are behaving.

22 It may even go down to 10.
23 It's something you won't know till that third well gets
24 drilled in there and properly evaluated.

25 I'm not an engineer, all I can

1 tell you is Amoco has more or less agreed with us along this
2 line of approach, because down the line here three years
3 from now this area has got to be pressured again because
4 it's a gas driven field. The question is how to repressure
5 that thing properly so you get the ultimate recovery out of
6 those areas, and I don't think you know, because even they
7 admit it's a confused situation there at the moment due to
8 the number of wells they've drilled.

9 I think that's one reason they
10 haven't showed up here today is the fact that we had assumed
11 that four lots across there was the way that we'd settled
12 that thing in the past, to leave it alone until we had real-
13 ly had time enough to evaluate that thing properly, and I
14 don't think we've got enough detailed engineering here at
15 the moment to make any kind of recommendation on the basis
16 that they're approaching here to put that thing (not under-
17 stood) because it would kill your capacity to go in and
18 evaluate it properly.

19 MR. STOGNER: Do you have any-
20 thing further, Mr. Cayias?

21 MR. CAYIAS: No.

22 MR. STOGNER: Thank you. Mr.
23 Kellahin, do you have any closing statement at this point?

24 MR. KELLAHIN: Yes, Mr. Exam-
25 iner. There are two points I'd like to direct your atten-

1 tion to.

2 The first one is the competi-
3 tion over the northeastern portion of the pool and the other
4 one addresses itself to whether or not the Commission can
5 base spacing on economic factors alone.

6 Let me address the first point
7 initially and tell you that Amoco was here last hearing and
8 it was well aware and what Curtis Little seeks to accomplish
9 is to minimize the areas in which operators in various por-
10 tions of this same common source of supply may be in a posi-
11 tion where they'll have significant disagreements. We think
12 we have made substantial progress in removing some of the
13 difficulties we may have by moving an area which is no lon-
14 ger suitable for 40-acre development and put it on wide spa-
15 cing, change it from 40's to 160's, so that when you're dea-
16 ling from West Lindrith Gallup-Dakota all the way through
17 the Amoco pool in the northeast, we are in fact dealing with
18 the maximum spacing of 160 acres. That removes the poten-
19 tials to have a series of wells drilled on Minel's acreage
20 south of the common township line in which you've got 40-
21 acre wells that are out producing and out performing wells
22 drilled directly on the other side of that common line
23 spaced upon 160 acres.

24 It's the kind of competitive
25 operations that Mr. Cayias wants to do in this area that

1 have caused us to file the application. It's that very com-
2 petitiveness of over-drilling to get these reserves that
3 we're trying to control now before it's too late to control
4 them.

5 We can always reduce the spac-
6 ing later. We can infill drill, but we can't undrill and
7 relocate these wells if we've drilled them too close
8 together, and that really is the focus of what we're trying
9 to accomplish. We think that the Minel situation is unique;
10 that we've handled virtually all the rest of this pool, you
11 can see by the absence of objection from any operators, that
12 they obviously agree with us with the exception of Mr.
13 Cayias and Minel, who's very concerned over what happens to
14 his producing rate on his particular well.

15 That leads me into my next
16 question and you don't often see spacing cases based upon an
17 economic presentation alone, but that does not mean that
18 they're deficient.

19 Classically you see engineers
20 in here, like the Conoco fellow did earlier, he's got his
21 drainage calculation, he's got his reservoir parameters out
22 and you makes you a calculation. That is normally the way
23 you see it done, but I can show you on this very exhibit
24 that we utilized earlier today that you've got a pool on
25 this very exhibit that was done the way we're talking about

1 doing it now, and that was the Gavilan Greenhorn-Graneros-
2 Dakota Pool. When we spaced that pool on 320-acre spacing
3 there was not one shred of engineering evidence that told
4 you a Dakota well was going to drain 320 acres. It was sim-
5 ply an economic presentation and that's well within your
6 rules, and that's how we established that pool.

7 The fact of the matter is that
8 when you have low ultimate recovery reservoirs you cannot
9 closely drill those wells. It's simply not economic.

10 In that Dakota case we put on
11 several years ago, there is a detailed memorandum we filed
12 that has citations of authority in support for making that
13 change.

14 Simply because we're not
15 confronted with the classic spacing case where you can
16 determine an area that a well will drain and develop doesn't
17 mean that you can't space it. You certainly can. You're
18 confronted with a situation here where the question is one
19 of economics and efficiency in draining and developing that
20 acreage.

21 It's the presentation that was
22 made by Amoco when they developed the Northeast Ojito Gallup
23 Oil Pool. It's the presentation that was done for the
24 Gavilan Dakota Pool, and it's the same presentation we're
25 seeking to do for the Ojito Gallup, and we believe it's well

1 within your discretion and certainly within the statute to
2 do so. Thank you.

3 MR. STOGNER: Thank you. Any-
4 thing -- anybody have anything further in Case Number 9095?

5 MR. CAYIAS: Yes, may I? This
6 Minel No. 2 Well, if I may state so, is a problem well to
7 begin with. It's a high wax well. To cut back that pro-
8 duction creates a problem and I'm certain that most of the
9 wells to the north of us, this is why Amoco has come to us
10 and we started to work out a program here as to how to han-
11 dle this problem.

12 They've come in with us on the
13 assumption that what we do on this third well, because
14 there's not enough adequate data engineeringwise to really
15 determine what should and what should not be done in this
16 area here, and until I think you get that third well and you
17 get this production lined out here for at least another six
18 months or so, you're in no position to base anything here on
19 engineering data that would be reliable, and that's all
20 we're asking for, is some time here to get the engineering
21 data in here so we could be factual enough to determine what
22 ought to be done.

23 MR. STOGNER: Thank you, Mr.
24 Cayias.

25 Mr. Kellahin, in all fairness,

1 do you have anything to add?

2 MR. KELLAHIN: No, sir.

3 MR. STOGNER: Okay. Case Num-
4 ber 9095 will be taken under advisement.

5

6 (Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true, and correct record of this hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9095, heard by me on 8 April 1987.
Michael P. Stogner, Examiner
Oil Conservation Division