

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

6
7 16 March 1988

8 EXAMINER HEARING

9 IN THE MATTER OF:

10 Application of Union Texas Petro- CASE
11 leum for a nonstandard oil prora- 9334
12 tion unit, Rio Arriba County, New
13 Mexico.

14 BEFORE: David R. Catanach, Examiner

15
16 TRANSCRIPT OF HEARING

17
18 A P P E A R A N C E S

19 For the Commission: No attorney appearing.

20
21 For the Applicant: William F. Carr
22 Attorney at Law
23 CAMPBELL & BLACK, P. A.
P. O. Box 2208
Santa Fe, New Mexico 87501-2208

24 For Amoco: Kent Lund
25 Attorney at Law
Amoco Production Company
P. O. Box 800
Denver, Colorado 80201-0800

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I N D E X

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4 ROBERT C. FRANK

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MR. CATANACH: Call next Case 9334, the application of Union Texas Petroleum for a non-standard oil proration unit, Rio Arriba County, New Mexico.

Are there appearances in this case?

MR. CARR: May it please the Examiner, my name is William F. Carr with the law firm Campbell & Black, P. A., of Santa Fe. We represent Union Texas Petroleum and I have one witness.

MR. CATANACH: Are there other appearances in this case?

MR. LUND: Kent Lund on behalf of Amoco and we have one witness. We are protesting the application.

MR. CATANACH: Any other appearances?

Will the two witnesses please stand and be sworn in?

(Witnesses sworn.)

MR. CATANACH: You may proceed.

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ROBERT C. FRANK,
being called as a witness and being duly sworn upon his oath,
testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your full name and place
of residence?

A My name is Robert C. Frank. My address is
4705 Caspian, Farmington, New Mexico.

Q Mr. Frank, by whom are you employed and
in what capacity?

A I'm employed by Union Texas Petroleum,
Inc., Farmington, as a permit coordinator.

Q Do you also have a degree in geology or
engineering?

A Yes, sir. I received a Bachelor's degree
in 1979 from Miami University, Oxford, Ohio.

Q And what was that degree in?

A Geology, Bachelor of Arts.

Q Have you previously testified before the
Oil Conservation Division and had your credentials as a
geologist accepted and made a matter of record?

A Yes, I have.

1 Q Are you familiar with the application
2 filed in this case and the subject area?

3 A Yes, I am.

4 MR. CARR: Are the witness'
5 qualifications acceptable?

6 MR. CATANACH: They are.

7 Q Mr. Frank, will you briefly state what
8 Union Texas seeks with this application?

9 A Union Texas seeks a nonstandard proration
10 unit as a result of the initial pool, the Ojito Gallup-
11 Dakota Pool, being abolished and the acreage concomitantly
12 dedicated to the West Lindrityh Gallup-Dakota Pool.

13 Q And you're seeking a nonstandard unit?

14 A Correct.

15 Q What is the standard spacing now for a
16 well in this area?

17 A The spacing for a West Lindrith Gallup-
18 Dakota well is 160 acres.

19 Q And what are you proposing?

20 A An 80-acre spacing.

21 Q Is this a new well?

22 A No.

23 Q When was the subject well drilled?

24 A Initial production was in 1983

25 Q And is the well at a standard location?

1 A It is.

2 Q Would you refer to what has been marked
3 for identification as UTP Exhibit Number One, identify this
4 and review the information on this exhibit for Mr. Catanach?

5 A Exhibit Number One is a plat indicating
6 the proration units that have been granted, the operators of
7 those proration units, surrounding the McCroden "C" 1, the
8 subject well.

9 Q There are other wells in the area?

10 A There are.

11 Q And are they in the same horizon?

12 A They are.

13 Q Would you review the information con-
14 tained on the bottom of this exhibit?

15 A The information on the bottom indicates
16 the name of the well, the year completion, the initial
17 potential, the 1987 production through November of '87, and
18 that's shown in barrels of oil and MCF, and the cumulative
19 production through 11-87.

20 The first well I'll refer to is the
21 Cayias well, Cayias 2, up in the northeast northeast of Sec-
22 tion 2.

23 The well was initial potentialed at 40
24 barrels of oil a day and was IP'ed in December of 1987;
25 therefor, there are no cumulative production data available.

1 The second well that is shown in the bot-
2 tom is our McCroden No. "C" 1.

3 The well was completed in 1983; had an IP
4 of 35 barrels of oil a day, with cumulative production of
5 26,562 barrels of oil and 30,380 MCF.

6 The third well listed on the tabulation
7 is our McCroden 6.

8 The well was IP'ed in 1985 at 48 barrels
9 of oil a day with cumulative production of 10,216 barrels of
10 oil and 20,221 MCF.

11 The fourth well in the right corner is
12 Amoco's Fred Phillips "G" 1-A.

13 It was completed in 1985 with an IP of 69
14 barrels of oil a day, with a cumulative production of 3996
15 barrels of oil and 85,041 MCF.

16 Q Under present Division rules what pool
17 are these wells included within?

18 A West Lindrith Gallup-Dakota.

19 Q And is this an oil pool or a gas pool?

20 A It is an oil pool.

21 Q And are there depth bracket allowables in
22 effect?

23 A The depth bracket allowable for 160-acre
24 spacing unit is 382 barrels a day.

25 Q Now, you are proposing the dedication of

1 a nonstandard 80-acre unit. In your opinion is the prora-
2 tion unit capable of producing oil and gas?

3 A Yes, in my opinion it is.

4 Q What is the nearest well in this pool?

5 A The nearest well that is completed today
6 appears to be our McCroden 6. There is one well proposed by
7 Curtis J. Little called the Hurt Federal No. 5, and it will
8 be when it's drilled and completed the closest well.

9 Q Your nonstandard unit consists of the
10 north half of the southwest quarter. What is the status of
11 the south half of the southwest quarter?

12 A The south half of the southwest quarter,
13 the operator of record is Jerome McHugh.

14 Q And why --

15 A There have been no wells drilled.

16 Q And why are you not including that 160
17 acres -- I mean that 80 acres to make a standard 160-acre
18 tract?

19 A In consultation with the land manager for
20 McHugh, I indicated to them that our well has a current po-
21 tential of 11 barrels a day. We have a gross well cost of a
22 little over \$828,000, cumulative revenue to date is
23 \$528,700.

24 Q In your opinion will this well ever pay
25 out?

1 A No.

2 Q Is Mr. McHugh interested in acquiring
3 half of your well?

4 A By no means.

5 Q Are you interested in pooling Mr. McHugh
6 into your well?

7 A No. The hardships involved in the ac-
8 counting end of it would be a nightmare, to say the least.

9 Q In other words, he would have to come in
10 and then you would have to carry him as nonconsent and you
11 don't think you'd ever even get to payout.

12 A I don't believe so.

13 Q You think that effort would be futile and
14 unnecessary?

15 A Yes.

16 Q Would you now refer to what has been mar-
17 ked as Exhibit Number Two and identify that, please?

18 A Exhibit Number Two is a copy of the OCD
19 Order R-8544.

20 The order was the culmination of several
21 meetings between the operators in the Ojito Gallup-Dakota
22 Pool prior to the abolishment. These meetings were conduc-
23 ted in San Juan College in Farmington.

24 The purpose of this order, or this exhi-
25 bit, is to indicate on page two, I'd like to read --

1 Q And that's the order paragraph that
2 you're reading?

3 A Yeah.

4 Q Okay, if you'd read that, please.

5 A I will read from the order. "Pursuant to
6 Section 70-2-18 contained in Chapters 271, Laws of 1968, any
7 well which, by virtue of any of the above pool extensions is
8 subject to pool rules providing for spacing or proration
9 units larger than the one which is presently dedicated
10 thereto, shall have 60 days from the effective date of this
11 order in which a new Form C-102, dedicating a standard unit
12 for the pool to said well, or to obtain a nonstandard unit
13 approved by the Division.

14 Pending such compliance the well shall
15 receive a maximum allowable in the same proportion to a
16 standard allowable for the pool that the acreage dedicated
17 to the well bears to a standard unit for the pool.

18 Failure to file Form C-102 dedicating a
19 standard unit to the well or to obtain a nonstandard unit
20 approved by the Division shall subject the well to cancella-
21 tion of allowable."

22 Q And you are here today pursuant to that
23 paragraph, seeking a nonstandard unit?

24 A Sure; correct.

25 Q Would you go back to Exhibit Number One

1 and I'd ask you to identify other nonstandard units in
2 Section 2.

3 A In Section 2 the Cayias No. 2 is a
4 nonstandard unit comprising the north half of the northeast
5 quarter. The acreage dedicated to that well is 116 acres.

6 Sylvia Little, with Curtis J. Little, has
7 just received a -- it's 160-acre dedication; however, it is
8 unorthodox in the sense that it comprises the south half of
9 the northeast quarter and the north half of the southeast
10 quarter.

11 Q How many acres are there in the northwest
12 quarter of Section 2, do you know?

13 A It would be in the neighborhood of 228
14 acres.

15 Q And so there is an unavoidable situation
16 for a nonstandard unit there, also, is there not?

17 A Correct.

18 Q And if Mr. McHugh's south half of the
19 southwest quarter was dedicated to your well, he would be
20 left with 80 acres, the south half of the southeast. Is
21 that not also true?

22 A That is true.

23 Q In your opinion will granting this appli-
24 cation enable you to most efficiently and effectively pro-
25 duce the remaining reserves that can be produced from the

1 existing well?

2 A Yes.

3 Q Has notice of this application been pro-
4 vided as required by Division rules?

5 A Yes, it has.

6 Q And has an affidavit and a copy of those
7 notice letters been marked as Exhibit Number Three?

8 A Yes, they are.

9 Q Were Exhibits One through Three compiled
10 by you or prepared under your direction and supervision?

11 A Yes, they were.

12 MR. CARR: At this time, Mr.
13 Catanach, we would offer into evidence Union Texas Exhibits
14 One through Three.

15 MR. CATANACH: Exhibits One
16 through Three will be admitted as evidence.

17 Mr. Lund.

18 MR. LUND: Thank you, Mr. Exa-
19 miner.

20

21 CROSS EXAMINATION

22 BY MR. LUND:

23 Q Mr. Frank, turning to your Exhibit Number
24 One and the area that you are seeking a nonstandard
25 proration unit, that is not an irregular section, is it?

1 A Not terribly. It's essentially 80 acres.

2 Q And there aren't any survey problems or
3 size problems with this particular area, are there?

4 A Not this area in question, no.

5 Q I think you mentioned in your direct exa-
6 mination that you were concerned about accounting problems
7 if the McHugh section to the south were included in the
8 unit. What accounting problems were you referring to?

9 A The accounting problems would be the
10 backing in of royalties through McHugh, their royalty in-
11 terest folks, and the fact that the well is not close ot
12 payout. McHugh would most likely go nonconsent thereby
13 creating (sic) us to force pool him; those are the type of
14 accounting things I was referring to.

15 Q So you're concerned with accounting and
16 administrative problems if your application is not granted?
17 Is that right?

18 A I believe it would burden a marginally
19 economic well to the point that it is not necessary in the
20 interest of conservation, no.

21 Q Is it fair to say that the economics and
22 the accounting problems you're referencing are the driving
23 forces behind your application?

24 A I would suggest that an 11 barrel a day
25 well burdened by anything would not help its economics what-

1 ever.

2 Q So the answer to my question is yes?

3 A Yes.

4 Q Have you considered the future develop-
5 ment of this area if your application were granted and
6 therefor additional nonstandard proration units would have
7 to be formed?

8 A Right. Union Texas has no plans to drill
9 any additional wells out here. These concerns were address-
10 sed in the meetings in Santa Fe, in which Amoco took place
11 -- or excuse me, meetings in Farmington in which Amoco took
12 place (sic), and I cannot speak on behalf of McHugh as to
13 how they further intend to develop this acreage.

14 Q But isn't it fair to say that if your ap-
15 plication is granted, it's going to have what I would call a
16 domino effect of development throughout this area of more
17 and more nonstandard proration units would have to be for-
18 med?

19 A It would appear that there would have to
20 be more nonstandard proration units formed; albeit not
21 necessarily nonstandard in the essence that it's less than
22 160 acres.

23 There are currently a number of wells in
24 Section 1 that are nonstandard units, and in addition, there
25 are two nonstandard units currently in Section 2.

1 Q And Section 1 is drilled up quite a bit
2 more, isn't it?

3 A Yes, it is.

4 Q I think in response to a question from
5 Mr. Carr you talked about an unavoidable need to form a
6 nonstandard proration unit. Do you remember that testimony?

7 A Those weren't my words. They might have
8 been Mr. Carr's.

9 Q Well, did you agree with his -- his --

10 A Yes.

11 Q In your opinion what is an -- what
12 constitutes an unavoidable need to form a nonstandard
13 proration unit?

14 A The basis for my statement was once again
15 the result of the uneconomic nature of this well; that being
16 to me something that should be avoided, to burden the well
17 further by creating these -- these administrative and
18 accounting problems.

19 Q Thank you.

20 MR. LUND: Nothing further.

21 MR. CARR: I have nothing on
22 redirect.

23

24

25

1 MR. LUND: We have one witness,
2 Mr. Examiner.

3

4

CROSS EXAMINATION

5 BY MR. CATANACH:

6 Q Mr. Frank, if you were to form a
7 nonstandard -- I mean a standard unit in the southwest quar-
8 ter of Section 2, you'd still have an 80-acre unit in the
9 southeast quarter that would be nonstandard, is that cor-
10 rect?

11 A Correct, unavoidably.

12 MR. CATANACH: That's all I
13 have.

14 MR. CARR: I have nothing fur-
15 ther.

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JAMES HAWKINS,

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

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21

DIRECT EXAMINATION

22 BY MR. LUND:

23 Q Would you please state your name and bus-
24 iness address, please?

25 A James Hawkins, 1670 Broadway, Amoco Pro-

1 duction Company in Denver, Colorado.

2 Q By whom are you employed and in what cap-
3 acity?

4 A Amoco Production Company, Senior Petro-
5 leum Engineering Associate, responsible for proration and
6 regulatory affairs.

7 Q Have you testified as an expert petroleum
8 engineer before this Division and have your qualifications
9 been accepted?

10 A Yes I have.

11 MR. LUND: We will tender him
12 again as an expert petroleum engineer.

13 MR. CATANACH: He is so quali-
14 fied.

15 Q Mr. Hawkins, would you please turn to
16 your Exhibit Number One, identify it and explain it's signi-
17 ficance, please?

18 A Exhibit Number One is a plat map showing
19 Sections 1 and 2 in the West Lindrith Pool and shown in the
20 outline, hachured outline, are the nonstandard proration
21 units that have been created by the NMOCD recently.

22 We see four nonstandard proration units
23 have been created in the north half of Section 1 and two
24 nonstandard proration units have been created in the east
25 half of Section 2. Also noted in a dashed outline around

1 the McCroden No. 1 Well is the applicant's requested non-
2 standard proration unit.

3 Amoco is a leaseowner and operator in
4 Sections 35 and 36 immediately to the north of West Lindrith
5 in the Northeast Ojito Pool and Amoco is also a leaseowner
6 and operator in Section 10, which is in the southwest corner
7 of your exhibit, again, immediately adjacent to the Section
8 2 that's in the applicant's request for a nonstandard unit.

9 Q Just very quickly about Section 1, is
10 there anything different about Section 1 than other areas of
11 the map?

12 A Section 1 is one of the only sections in
13 Northeast Ojito that had been substantially developed or
14 let's say over-developed in that wells had been drilled on
15 40-acre spacing or tighter spacing than one well per quarter
16 section. Every other section that's shown on this exhibit
17 has been developed on one well per quarter section, which
18 would be in compliance with the current existing West
19 Lindrith Pool rules.

20 Q Let's turn to Exhibit Number Two, please.
21 Would you identify it and explain its significance?

22 A Exhibit Number Two is -- indicates that
23 will be left with the owner of the south half south half of
24 Section 2 in the event that the applicant's request is
25 granted for a nonstandard 80-acre proration unit.

1 It appears to us that the owner of that
2 south half south half Section 2 would have one, an alterna-
3 tive to create either two nonstandard 80-acre proration
4 units, which will cause the drilling of an additional well
5 in the southwest quarter of Section 2, and this well may not
6 be necessary in order to develop the reserves there.

7 The second alternative is to create a
8 nonstandard 160-acre proration unit that is a long, rectan-
9 gular shape, along the whole south half south half and de-
10 pending on where wells are drilled in that spacing unit, it
11 would create a disproportionate allowable to be dedicated to
12 wells that are located in either the southwest or the south-
13 east quarter, and this can create potential violation of
14 correlative rights with the offset leaseowners.

15 Q I think you were present when you heard
16 Mr. Frank testify that the well that they're concerned with
17 is not a very good well.

18 A Right.

19 Q Does that change your opinion as to some
20 of the consequences of granting the application?

21 A Not really, because we see that in West
22 Lindrith there is the opportunity to drill additional wells
23 within the 160-acre spacing units, as long as you are sub-
24 ject to the location requirements, the distance between
25 wells.

1 We don't know what future development
2 might take place, either on the south half south half or in
3 the applicant's 80-acre, you know, nonstandard unit that
4 he's requesting.

5 What we see is that the potential exists
6 that additional wells can be drilled and either they would
7 be forced to be drilled, which is -- clearly may not be
8 necessary, or if the operator elected to drill that, they
9 could potentially start to exceed the allowable that would
10 normally be assigned to a quarter section, and we see that
11 as a potential violation of correlative rights.

12 Q Would you turn to Exhibit Number Three,
13 please, identify it, and explain its significance?

14 A Exhibit Number Three is a copy of the
15 letter that Amoco sent to the NMOCD concerning Curtis
16 Little's application for a nonstandard 80-acre proration
17 unit in Section 1. That was Case 9302.

18 In this letter Amoco did not protest the
19 application, or the -- for that nonstandard unit; however,
20 we did make very clear the concerns we had on
21 disproportionate withdrawals that might occur when
22 nonstandard proration units are developed, particularly when
23 they create an opportunity for potential development of
24 wells in a given quarter section to have an allowable
25 greater than any of the other standard 160-acre proration

1 units and we see that the wells that were producing there
2 right now would not exceed those allowable conditions; how-
3 ever, there is the opportunity for those operators to drill
4 those wells in the future, potentially exceed that allow-
5 able, and in our letter we reserve the right to challenge
6 this matter in the future should this situation arise.

7 And we see that some of those same con-
8 cerns that we expressed in Section 1 we share in Section 2.

9 Q Do you have an opinion as to whether
10 granting this application and forming a nonstandard prora-
11 tion unit would lead to the orderly development of this par-
12 ticular area?

13 A Well, no, I don't think it would at all
14 because I think by creating as many nonstandard proration
15 units as we have already seen and then trying to create ad-
16 ditional ones, will simply cause wells to be drilled and
17 more than one well per quarter section. It cause operators
18 to drill additional wells to protect their interests and
19 possibly cause some problem in the distribution of allow-
20 ables throughout those sections.

21 Q Were Exhibits One through Three prepared
22 by you or under your supervision and control?

23 A Yes, they were.

24 MR. LUND: We offer them into
25 evidence, Mr. Examiner.

1 MR. CATANACH: Exhibits One
2 through Three will be admitted as evidence.

3 MR. LUND: Thank you. I have
4 nothing further and tender Mr. Hawkins for cross examina-
5 tion.

6 MR. CATANACH: Mr. Carr.

7

8 CROSS EXAMINATION

9 BY MR. CARR:

10 Q Mr. Hawkins, what interest does Amoco
11 have in Section 2?

12 A Amoco has no interest in Section 2.

13 Q So you don't have anything, any interest
14 that's being excluded by the creation of this particular
15 nonstandard proration unit.

16 A No, sir.

17 Q You are aware that the pool was recently
18 spaced on 40 acres and just in the last 6 months has gone to
19 160-acre spacing.

20 A Yes, sir.

21 Q And you testified that you supported one
22 well per quarter section.

23 A The order supports one well per quarter
24 section. It also allows for the drilling of more than one
25 well per quarter section.

1 Q And in what circumstance?

2 A I think -- I don't know if I can answer
3 that without looking at the order itself.

4 MR. LUND: Is there a particu-
5 lar paragraph you want to know about?

6 MR. CARR: I just wondered if
7 there was anything -- if he'd identify what provision in the
8 order provided for the drilling of additional wells.

9 A I don't see the paragraph that I'm fami-
10 liar with . I think the one that I had seen indicated that
11 each well shall be dedicated to 160-acre proration unit.

12 Q Now, if we look at the southwest quarter
13 of -- of Section 2, you're familiar with the Union Texas
14 well, which is the subject of this hearing, I assume.

15 A Yes.

16 Q And it's producing ability?

17 A Yes.

18 Q And you're familiar with the producing
19 capabilities of the wells that offset it in Section 3?

20 A Based on the evidence that Union Texas
21 has submitted today, yes.

22 Q And you're familiar with your well down
23 to the southwest in Section 10?

24 A Yes.

25 Q Are there any wells in this immediate

1 area that can make their depth bracket allowable?

2 A Not that I know of.

3 Q Is there any well here that can even make
4 half its depth bracket allowable?

5 A I couldn't say for sure.

6 Q Do you know of any that you think might
7 be at that level, 160+ a day?

8 A I don't believe so in that section.
9 There may be -- I think there are some wells in Section 1
10 that can do that.

11 Q In fact, the nonstandard unit and the Un-
12 ion Texas Well really don't pose an immediate threat at all
13 to you, the correlative rights of Amoco, do they?

14 A Not an immediate threat, no.

15 Q And an 11-barrel a well -- 11-barrel a
16 day well over half a mile away doesn't really ultimately
17 ever pose a threat in and of itself, does it?

18 A I'd be reluctant to say "never" but I
19 take your point.

20 Q Do you think that it might some day pose
21 a threat?

22 A I think there may be an opportunity to
23 drill wells in these areas, in this quarter section, that
24 could potentially pose a threat, especially if it's more
25 than one well that's drilled in that area.

1 Q And if a well was drilled in this area in
2 the south half of the southwest quarter, it would be re-
3 stricted by an 80-acre depth bracket allowable, would it
4 not?

5 A It would be if it was in an 80-acre non-
6 standard unit.

7 Q All right, and if it were in 120 -- 320,
8 it would have a 320-acre allowable, right, and if that was
9 proposed 320-acre or an 80, you'd have an opportunity as an
10 offsetting operator to come in and oppose it, would you not?

11 A Same as we do here, I believe.

12 Q And yet at this point in time you don't
13 have any interest in the section at all, do you?

14 A We are immediate offset owners.

15 Q Not to this tract, are you?

16 A Not to that tract, no, but to that quar-
17 ter section.

18 Q And you're offsetting a quarter section
19 and your concern is about a well at a standard location,
20 isn't that right?

21 A Which would be a standard proration unit.

22 Q All right, and there could be an addi-
23 tional well drilled in the southwest of the southwest at a
24 standard location, isn't that true?

25 A That's correct.

1 Q And no matter what we do here today, that
2 possibility might still exist, isn't that right?

3 A Yes, it might.

4 Q And if the well was good enough it could
5 produce its depth bracket allowable, could it not?

6 Q Yes.

7 Q And if it had a 320-acre unit dedicated,
8 as you understand there could be more than one well and
9 there was a standard well in the southwest of the southwest,
10 it would get a 320-acre depth bracket allowable minus the 11
11 barrels a day that are being produced out of the existing
12 well, isn't that true?

13 A That's correct.

14 Q Do you think anybody in their right mind
15 would base -- would offset an 11-barrel a day well based on
16 the data that's known here now?

17 A Not based on the data that we've seen to-
18 day, but there may be other evidence -- data that we're not
19 familiar with or people may have other interpretations that
20 we're not familiar with.

21 Q Well, we have an inquiring mind; we're
22 curious about what you think might be done out here to im-
23 prove the production.

24 A I don't think the subject of this hearing
25 is what -- is how to improve the production. I think the

1 subject of the hearing is whether or not to creat a non-
2 standard unit and whether that is the protection of correla-
3 tive rights or prevention of waste.

4 Q I believe you testified you were concer-
5 ned about a potential violation of correlative rights and
6 with the wells producing -- showing the capability that they
7 do, I was curious if you had some idea how that might actu-
8 ally happen.

9 A It would have to occur through the future
10 drilling.

11 Q And if that occurred, you'd have an op-
12 portunity to come in and oppose whoever was proposing that,
13 wouldn't you?

14 A But I think the outcome of this hearing
15 is going to force that leaseowner of the south half south
16 half to make some decisions that will require, you know, or
17 may force him to drill wells that he may not want to drill
18 rather than give him an election of whether to drill it at
19 some point in time.

20 Q If I look at your Exhibit Two, these are
21 alternatives that might be available to the owner of the
22 south half of the south half, is that right?

23 A That's correct.

24 Q Did you discuss any of these with Mr.
25 McHugh?

1 A No, I have not.

2 Q Did you consider possibly not developing
3 the acreage because it didn't look like economically a wise
4 decision to make?

5 A That may be his evaluation.

6 Q And that would be a third alternative.

7 A True.

8 Q That wouldn't bother Amoco at all, would
9 it? No matter what we do down here we're still confronted
10 with an oil well, are we not, or an oil pool?

11 A That's correct.

12 Q We'd still have allowables.

13 A That's correct.

14 Q And they'd still (unclear) the acreage
15 involved.

16 A Yes, sir.

17 Q And before anything can be done offset-
18 ting Amoco directly, there would have to be another hearing
19 for a nonstandard (unclear).

20 A That's correct.

21 Q And if we put the southwest quarter to-
22 gether today and dedicated it to the Cayias well, we still
23 would have a nonstandard unit in the south half of the
24 southeast, isn't that right?

25 A As a result of previous nonstandard units

1 that have been created in that area, yes.

2 Q And you were aware that those were being
3 created, were you not?

4 A Yes, I was.

5 Q Now, if we look at the letter you sent to
6 Mrs. Little, you reference in the third paragraph --

7 A Are you referring to Exhibit Three?

8 Q Yes, I am. Case 9297 and the order
9 authorizing 160-acre spacing in the -- in this area in the
10 West Lindrith. Are you also familiar with Order 8544, which
11 Mr. Frank reviewed here today?

12 A Well, I have seen it. I have been as,
13 you know, have not been as -- you know, have not looked at
14 it as closely as I -- as you have, apparently.

15 Q Are you -- did you -- did you personally
16 participate in any of the operators meetings at Farmington
17 that resulted in that order being entered?

18 A No, I did not.

19 Q You're not aware of any conversations had
20 among operators concerning grandfathering in old wells or --

21 A I know there were some discussions on
22 that. I wasn't present at the meeting to speak exactly what
23 was said.

24 Q In the next paragraph in that letter Amo-
25 co is concerned about Little and I assume the same concern

1 applies here since you've offered it in this case, about the
2 nonstandard unit may allow disproportionate withdrawals from
3 wells in this reservoir.

4 A Located in the quarter section as com-
5 pared to other wells or other quarter sections, yes.

6 Q And so you're just concerned that some
7 day somebody might drill a well offsetting you that would
8 make it (not clearly understood).

9 A I think that the creation of a nonstand-
10 ard 160 in Section 2 here certainly gives that opportunity
11 to occur.

12 Q Okay. And so really the worst situation
13 for Amoco would be a south half unit in the south half of
14 the south half of Section 2, and a well diagonally offset-
15 ting you in the southwest of the southwest that could make
16 its depth bracket allowable, right?

17 A Well, that would allow -- let's say this:
18 that would allow wells in this southwest quarter section in
19 total to exceed what every other quarter section around it
20 is limited to.

21 Q And that would -- that would be a result
22 of the Cayias well having its allowable --

23 A Cayias well or a future well.

24 Q -- up there having its allowable and then
25 the allowable also being assigned to the well down below --

1 A Yes.

2 Q -- in the south half of the south half.
3 If Union Texas has no further plans to develop, and we're
4 looking at just the existing well that produces 11 a day,
5 the worst that could happen would be that this could have an
6 11-barrel-a-day advantage over Amoco, right?

7 A Well, we have to kind of take Union
8 Texas' word that they have no further plans and nobody's
9 plans are fixed forever, and their plans may change in the
10 future.

11 Q And so then they might be able to locate,
12 say, again in the north half of the southwest quarter.

13 A Sure.

14 Q And that's what Amoco's worried about.

15 MR. LUND: Objection; that's no
16 all it's worried about.

17 MR. CARR: Well, what is it?
18 We're trying to find out.

19 A We are concerned with the orderly devel-
20 opment of this end of West Lindrith in that we are major
21 leaseowners immediately adjacent to these sections --

22 Q Uh-huh.

23 A -- and the creation of some of the non-
24 standard units, as we see in Section 1, is somewhat under-
25 standable because those sections or quarter sections have

1 already been over-developed and have already more than one
2 well per quarter section.

3 We feel like that to allow this nonstand-
4 ard creation of units to occur somewhat at the whim of the
5 operator and for no technical reason other than it's simple
6 for them accounting-wise to, you know, pursue that course,
7 is not really the, you know, what the ideal basis of spacing
8 units and orderly development of a field is all about, and
9 we're concerned that at some point in the future there may
10 be some problem with violation of our correlative rights as
11 a result of creating all these nonstandard units.

12 Q And at that point in time you would have
13 an opportunity to come in and protest it.

14 A I think we would as a basis of standing
15 in Section 1 and Section 2 as a result of these cases.

16 What we would like to see occur -- or not
17 even give it the opportunity to occur.

18 Q And so it's your recommendation that a
19 standard unit be dedicated to -- being the entire southwest
20 quarter --

21 A Yes, sir.

22 Q -- to an 11-barrel-a-day well --

23 A Yes, sir.

24 Q And that way you wouldn't be afraid of
25 it. Is that it?

1 A I think that would be the proper way to
2 develop the pool under the pool rules, yes.

3 Q And that way you could head off today
4 something that might happen in the future.

5 A Well, I can't head off anything that
6 might happen in the future. There's always an opportunity
7 for people to do some additional drilling, but I don't think
8 that the pool rules should either force that additional drill-
9 ing to occur nor create the opportunity for disproportion-
10 ate allowables to --

11 Q Amoco agreed now that it would not object
12 to --

13 A -- to occur.

14 Q -- multiple wells in the southwest quar-
15 ter and simultaneously dedicating them to produce a single
16 depth bracket allowable?

17 A I'm sorry, say that one more time.

18 Q Would Amoco be willing to agree that if a
19 160 was created down here additional wells could be drilled
20 and share an allowable?

21 A The way that I read 9227 is that each
22 well shall be located on a standard 160; however, there is
23 the opportunity to locate other wells in that as long as
24 they're a certain distance from an existing well, and that
25 may be somewhat in conflict with Order 8544, I don't know.

1 MR. CARR: That's all I have.

2 MR. CATANACH: I have no ques-
3 tions of the witness. He may be excused.

4 Is there anything further in
5 Case 9334?

6 MR. CARR: I have a brief
7 statement, and I would go last to the applicant if Mr. Lund
8 wants to close.

9 MR. CATANACH: All right, Mr.
10 Lund.

11 MR. LUND: Very quickly, as Mr.
12 Hawkins testified, we're just concerned with the orderly
13 development of the West Lindrith Pool and the problem is,
14 and you can see it happening on the exhibits, Mr. Examiner,
15 (not clearly understood) granting of nonstandard proration
16 units, we're starting to get a crazy quilt pattern and what
17 it -- what is resulting is a domino effect; everything's
18 moving out; because if a nonstandard proration unit is gran-
19 ted, everybody else has to do it and it just isn't leading
20 to the orderly development of the field, and that's why
21 we're objecting and I think that Mr. Hawkins explained it
22 very well.

23 And so we request that the ap-
24 plication be denied.

25

1 MR. CARR: Amoco's here, I
2 guess, (not clearly understood) to talk about the orderly
3 development of a field, concerned about a domino effect.

4 The fact of the matter is the
5 die is already cast and whether you approve this nonstandard
6 proration unit or not, you're not ever going to be able to
7 develop the south half of this section because you've got
8 three 80-acre tracts and you've got only one, you could only
9 come up with one possible 160 standard unit, so you've got
10 already nonstandard units.

11 Amoco's concerned, being an
12 offset, diagonal offset in another section about a nonstand-
13 ard proration unit. They wouldn't even be entitled to
14 notice under the notice rules. They're not an interest
15 owner being excluded by the nonstandard unit. Mr. McHugh
16 is. Mr. McHugh is not here opposing it, yet Amoco has come
17 in and is trying to propose the alternatives available to
18 Mr. McHugh and yet they've missed the very one that's most
19 likely, and that is that nobody will drill.

20 If you go out there and refuse
21 to approve this nonstandard unit, we're confronted with hav-
22 ing the allowable cancelled; we won't be able to make our 11
23 barrels a day. We'll be confronted with having to come in
24 and with a well we can't even give half of it away to Mr.
25 McHugh, of having to pool him in and run through a bunch of

1 unnecessary accounting, increasing the cost.

2 We submit to you that the oppo-
3 sition is -- is absurd in this case; that the application is
4 appropriate. It's consistent with prior orders governing
5 the spacing of this pool and that it ought to be granted.

6 MR. CATANACH: There being
7 nothing further in this case, it will be taken under advise-
8 ment.

9

10 (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 that 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 the 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. 9334,
heard by me on March 16, 1988.

David R. Cotamb, Examiner
Oil Conservation Division