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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

30 January 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Damson Oil Corpor- CASE
ation for exemption from the New 8469
Mexico Gas Pricing Act (NMPA).

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Jeff Taylor
Division: Attorney at Law
 Legal Counsel to the Division
 State Land Office Bldg.
 Santa Fe, New Mexico 87501

For the Applicant:

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MR. STOGNER: Call next Case No. 8469, which is also an application of Damson Oil Corporation for exemption from the New Mexico Natural Gas Pricing Act.

At the applicant's request, this case will be continued to the Examiner's Hearing scheduled for February 27 1985.

(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 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 Examiners hearing of case no. 8469 heard by me on 30 January 19 85.
Michael E. Hagan, Examiner
Oil Conservation Division

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

27 February 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Damson Oil Corporation CASE
for certain findings for an infill 9469
well in San Juan County, New Mexico.

BY: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division:	Jeff Taylor Attorney at Law Legal Counsel to the Division State Land Office Bldg. Santa Fe, New Mexico 87501
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For the Applicant:

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MR. STOGNER: Call next Case
No. 8469.

MR. TAYLOR: The application of
Danson Oil Corporation for certain findings for an infill
well in San Juan County, New Mexico.

I believe the applicant has re-
quested this case be continued.

MR. STOCNER: Case No. 8469 will
be so continued to the Examiner's Hearing scheduled for
March 27, 1985.

(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 Con-
servation Division was reported by me; that the said tran-
script 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. 8469
heard by me on 27 February 1985.

Michael E. Stagner Examiner
Oil Conservation Division

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

6
7 27 March 1985

8 EXAMINER HEARING

9 IN THE MATTER OF:

10 Application of Damson Oil Corpor-
11 ation for certain findings for an
12 infill well in San Juan County,
13 New Mexico.

CASE
8468
8469

14 BEFORE: Michael E. Stogner, Examiner

15 TRANSCRIPT OF HEARING

16 A P P E A R A N C E S

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19 For the Oil Conservation
20 Division:

Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

21
22
23 For the Applicant:

Karen Aubrey
Attorney at Law
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501

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A P P E A R A N C E S

For El Paso Natural Gas: John Nance
 Attorney at Law
 El Paso Natural Gas Company
 P. O. Box 1492
 El Paso, Texas 79978

IN CASE 8468

For Crown Central &
Consolidated Oil & Gas: Scott Hall
 Attorney at Law
 CAMPBELL & BLACK P.A.
 P. O. Box 2208
 Santa Fe, New Mexico 87501

For Getty Oil &
Texaco, Inc.: William F. Carr
 Attorney at Law
 CAMPBELL & BLACK P.A.
 P. O. Box 2208
 Santa Fe, New Mexico 87501

IN CASE 8469

For Mesa Petroleum: William F. Carr
 Attorney at Law
 CAMPBELL & BLACK P.A.
 P. O. Box 2208
 Santa Fe, New Mexico 87501

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I N D E X

JAMES W. HANKINSON

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MR. STOGNER: The hearing will
come to order.

We will call now Case Number
8468.

MR. TAYOR: The application of
Damson Oil Corporation for certain findings for an infill
well in San Juan County, New Mexico.

MR. STOGNER: I will now call
for appearances.

MS. AUBREY: Karen Aubrey, Kel-
lahin and Kellahin, representing the applicant, Damson Oil
Corporation.

I have one witness to be sworn.

MR. HALL: Mr. Examiner, my
name is Scott Hall from the law firm of Campbell and Black,
appearing on behalf of Crown Central Petroleum Corporation
and Consolidated Oil and Gas in Case 8468 alone.

No witnesses.

MR. STOGNER: Mr. Scott, may I
ask what Crown Central and Consolidated, how they are con-
nected with this case?

MR. HALL: Yes, Mr. Examiner.

Crown Central is appearing to
oppose the application to the limited extent that Damson as-
serts any operating rights in the property subject to the
application.

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MR. STOGNER: Are they a working interest owner or are they objecting?

MR. HALL: They are in fact operator of the property which has been farmed out to Texaco and Getty.

MR. STOGNER: Thank you. How about Consolidated?

MR. HALL: Consolidated is a working interest owner.

MR. STOGNER: Okay, that's sufficient.

Okay, any more appearances?

MR. NANCE: Mr. Examiner, my name is John Nance. I'm appearing on behalf of El Paso Natural Gas Company.

El Paso has a working interest in the well that is the subject of Case Number 8468, New Mexico Federal State No. 1-E Well.

El Paso's working interest is being sold intrastate, similar to the interest of Damson, and El Paso supports the application for exemption.

MR. STOGNER: Any -- any more appearances?

MR. CARR: May it please the Examiner, my name is William F. Carr with the law firm Campbell and Black, P. A., of Santa Fe.

I'm appearing on behalf of Get-

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ty Oil Company and Texaco, Inc.

I have one witness.

MR. STOGNER: Okay, Mr. Carr, Getty Oil Company is indeed the operator, is that right?

MR. CARR: Yes, that's right. Getty is, and has been, the operator of the well.

Of course, Getty has been taken over by Texaco and my witness is a former Getty employee who is now with Texaco.

MR. STOGNER: Okay, so the way this was advertised as Getty Oil Company (Texaco, Incorporated) is the operator.

MR. CARR: And I believe that's -- that's sufficient. I'm not certain what the C-104 states but the well has been operated by Getty, was drilled by Getty, and the records that have been reviewed are Getty records but they are now in the possession of Texaco.

MR. STOGNER: Thank you, Mr. Carr.

Are there any further appearances in 8468?

Ms. Aubrey?

MS. AUBREY: Mr. Examiner, at this time I'd move that 8468 and 8469 be consolidated for purposes of the testimony.

MR. STOGNER: Are there any objections to consolidating for purposes of testimony Cases

1 8468 and 8469?

2
3 There being none, so at this
4 time we will now call Case Number 8469.

5 MR. TAYLOR: The application of
6 Damson Oil Corporation for certain findings for an infill
7 well in San Juan County, New Mexico.

8 MR. STOGNER: We will call for
9 appearances in this case.

10 MS. AUBREY: Karen Aubrey, Kel-
11 lahin and Kellahin, representing the applicant, Damson Oil
12 Corporation.

13 MR. CARR: May it please the
14 Examiner, my name is William F. Carr with the law firm Camp-
15 bell and Black, P. A., of Santa Fe, appearing on behalf of
16 Mesa Petroleum Company.

17 MR. STOGNER: Mr. Carr, is Mesa
18 Petroleum Company the operator of this well?

19 MR. CARR: Mesa Petroleum Com-
20 pany is the operator of this well.

21 MR. STOGNER: The sole oper-
22 ator?

23 MR. CARR: Yes.

24 MR. STOGNER: Thank you.

25 MR. CARR: The only operator.

MR. STOGNER: And Phillips has
nothing to do with this well, is that right, Mr. Carr?

MR. CARR: At the moment, no.

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MR. STOGNER: Thank you, Mr. Carr.

Any other appearances in Case Number 8469?

MR. NANCE: Mr. Examiner, on behalf of El Paso Natural Gas Company I am John Nance.

El Paso's interest in the McLeod Federal No. 2-E Well is that of interstate purchaser of gas produced from the well. We understand that El Paso takes all of the gas produced from the well; that a portion of the gas may be subject to an exchange arrangement with Southern Union Gathering Company and therefore the gas may not all be the subject of interstate sales contracts, but the actual production does in fact go into El Paso's interstate system.

I needed to mention on both Case 8469 and the previously mentioned 8468, I am associated with the firm of Montgomery and Andrews of Santa Fe, and I will submit letters, copies of a letter to -- to that effect.

El Paso also has one individual who is available to testify as a witness in either of these cases but at this point we do not know whether his testimony will be necessary.

MR. STOGNER: Are there any other appearances in 8469?

MR. HALL: Mr. Examiner, Scott

1 Hall, law firm of Campbell and Black, P. A.

2
3 For both Cases 8468 and 8469
4 there are apparent ostensible record interest owners that
5 have not been joined in this proceeding, particularly Amoco
6 Production Company.

7 We'd move that they be joined
8 in this proceeding.

9 MR. TAYLOR: Who are these re-
10 cord interest owners?

11 MR. HALL: Amoco Production
12 Company.

13 MR. TAYLOR: Amoco. Is that
14 all?

15 MR. HALL: That's all that we
16 are aware of, let the record reflect.

17 THE REPORTER: Are you entering
18 an appearance, Mr. Hall in 8469, too?

19 MR. HALL: No, we're not. I'm
20 entering an appearance solely in 68 on behalf of Consoli-
21 dated and Crown Central, pointing out to the Examiner that
22 the unjoined interest owner Amoco has not been provided
23 notice of this proceeding.

24 They have an interest that may
25 be affected.

MR. TAYLOR: Mr. Hall, you
can't make that motion without being -- without being a par-
ty to the case.

1
2 MR. HALL: I am a party to the
3 case.

4 MR. TAYLOR: Oh, you are?
5 You're going -- you're going to appear in 8469, too?

6 MR. HALL: 8468. The ownership
7 is virtually identical.

8 MR. TAYLOR: Is it in both
9 wells?

10 MR. HALL: Insofar as Amoco is
11 concerned, insofar as we understand it.

12 MR. TAYLOR: Are they selling
13 their gas intrastate or interstate?

14 MR. HALL: Amoco Production
15 Company? I'm unaware.

16 MR. TAYLOR: You're unaware.
17 Mr. Carr, do you want to represent Amoco?

18 MR. CARR: May it please the
19 Examiner, we have an application before you where we have --
20 are seeking an exemption from the New Mexico Natural Gas
21 Pricing Act for certain of their wells.

22 One well is operated, has been
23 operated by Getty; the other by Mesa.

24 Damson is a non-operating
25 working interest owner in each of those wells.

I'm here representing the
operator. I don't know exactly the nature of Mr. Hall's
motion but I have no objection if I understand what he's

1
2 offering you. I have no objection certainly to letting any
3 order that results from this hearing apply to all non-
4 operating interest owners in those wells, not just Damson.

5 That's what I understand, the
6 nature of Mr. Hall's motion. I have no objection and I sug-
7 gest that you ask Mr. Nance and Ms. Aubrey.

8 MR. TAYLOR: Does anyone have
9 any objection?

10 MS. AUBREY: I don't -- I don't
11 have any objection to the other non-operating working inter-
12 est owners appearing in this matter, although if I under-
13 stand Mr. Hall correctly, he is appearing in opposition to
14 the application in Case 8468.

15 MR. HALL: Mr. Examiner, if I
16 may clarify, we're appearing in opposition to a limited ex-
17 tent. There is a separate proceeding in the District Court
18 for San Juan County over the issue of operating rights for
19 the Mexico Fed "K" 1-E Well, which is the subject of Case
20 8468.

21 We appear solely for the pur-
22 pose of opposing Damson's application to the extent that
23 they assert operating rights in that property.

24 MR. TAYLOR: Ms. Aubrey, you
25 are not asserting operating rights, are you?

MS. AUBREY: Mr. Taylor, we
have filed our application for exemption from New Mexico
Natural Gas Pricing Act as a non-operating working interest

1 owner.

2
3 MR. TAYLOR: Okay.

4 MR. STOGNER: Mr. Hall, would
5 you please repeat your motion again, please?

6 MR. HALL: We would move that
7 any heretofore unjoined affected interest owners in the
8 properties be joined to this proceeding and be made subject
9 to the orders at the end of this proceeding.

10 The only unjoined interest
11 owner we are aware of at this time is Amoco Production
12 Company.

13 MR. TAYLOR: But you don't know
14 what -- now their gas is sold?

15 MR. HALL: I do not.

16 MR. STOGNER: Mr. Hall, your
17 motion will be taken under advisement at this time.

18 MR. TAYLOR: Mr. Hall, do you
19 agree that if we do grant your motion we have to readvertise
20 this?

21 MR. HALL: I think that would
22 be appropriate.

23 MR. STOGNER: Okay, will all
24 the witnesses called -- first of all, is there any more
25 appearances?

Okay, will all the witnesses
please stand and be sworn?

(Witnesses sworn.)

MR. STOGNER: Ms. Aubrey.

MS. AUBREY: Thank you, Mr. Examiner.

May I make a brief opening statement?

MR. STOGNER: Please.

MS. AUBREY: I was hoping to simplify the matters before the Division this morning.

As you've heard, Damsen is a non-operating working interest owner who is seeking an exemption from the provisions of New Mexico Natural Gas Pricing Act for two wells.

One is the Mexico Federal "K" 1-E and the other is the McLeod 2-E.

Getty is the operator. Getty/-Texaco is the operator of the Mexico Federal "K" 1-E Well.

Mesa is the operator of the McLeod 2-E Well.

We understand that with regard to the Mesa well, that the Mesa witness who was to be here today to testify as to production, reasons for drilling the well, and the ultimate questions of certification of non-interference of the ability of the old well to produce into the pipeline will not be here because of illness, but will be here within the next two weeks to put on that portion of

1 the testimony with regard to the Mesa well.

2 We anticipate the testimony to-
3 day will be directed to the Mexico Federal "K" 1-E Well.

4 Our witness from Damson, Mr.
5 James Pouncy, is a petroleum engineer who will testify for
6 the record on the issue of Damson ownership and percentage
7 of ownership interest in the -- in the two wells.

8 We understand that there is a
9 witness here from Getty/Texaco who will testify for the Com-
10 mission on the certification issues and the reasons for
11 drilling the Mexico Federal "K" 1-E Well.

12 Mr. Carr from the firm of Camp-
13 bell and Black will question that witness and put on that
14 testimony.

15 It's the position of Damson Oil
16 Corporation that notwithstanding that we have filed an ap-
17 plication for exemption from the provisions of the New Mexi-
18 co Natural Gas Pricing Act, that that filing was purely a
19 protective measure and that the infill wells are exempt by
20 virtue of the blanket infill Order 1670-V.

21 However, because of the ruling
22 of Judge Garcia in the GasCo versus Amoco case here in the
23 District Court in Santa Fe, we are seeking a finding from
24 the Commission that the wells in question were drilled in
25 order to develop additional reserves and not for reasons of
avoiding the provisions of the New Mexico Pricing Act.

On behalf of Damson Oil Corpor-

1
2 ation we request that the order granting the exception --
3 exemption from the Act, if it is issued by the Commission,
4 be effective as of the date of first production from each of
5 the wells.

6 MR. STOGNER: Thank you, Ms.
7 Aubrey.

8 MS. AUBREY: That's all I have,
9 Mr. Examiner.

10 MR. STOGNER: Does anybody else
11 have any opening statements at this time?

12 Mr. Nance?

13 MR. NANCE: Mr. Examiner, El
14 Paso does in fact support the applications of Damson for
15 exemption of these wells from the provisions of the Natural
16 Gas Pricing Act.

17 El Paso further believes that
18 with respect to production from the McLeod Well, that this
19 well may, regardless of -- of the nature of its intrastate
20 sale and the circumstances under which it was drilled as an
21 infill well, that that well may be excluded from the cover-
22 age of the Act because the entire production is going into
23 the interstate market in El Paso's system.

24 I have mentioned briefly before
25 that a portion of the gas is subject to an exchange arrange-
ment with Southern Union and it very well may be that Damson
does have an intrastate sales interest in this gas, in its
share of production from this well, but that the actual gas

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volumes are going into interstate commerce and that equivalent volumes, then, are being delivered by El Paso to Southern Union at another connection and that in fact these equivalent volumes are the subject of an exchange arrangement.

Given this situation, we feel that the provisions of Section 62-7-4, Paragraph B-2 would provide the basis for excluding the well from the provisions of the Pricing Act irrespective of the infill status of the well.

MR. STOGNER: Thank you, Mr. Nance.

Mr. Carr?

MR. CARR: Mr. Examiner, Getty/Texaco and Mesa concur in the opening statement made by Ms. Aubrey.

We do want it understood that our appearance here is only as a protective measure and that we do not believe and maintain that the wells that are the subject of today's hearing have been exempted from the State Pricing Act by provisions of the infill orders which have been entered for the Basin Dakota Pool.

MR. STOGNER: Mr. Scott Hall?

MR. HALL: I have no statement at this time, Mr. Examiner.

MR. STOGNER: Thank you.

Ms. Aubrey, please continue.

MS. AUBREY: Thank you, Mr.

1 Stogner.
2

3 JAMES R. POUNCEY,
4

5 being called as a witness and being duly sworn upon his
6 oath, testified as follows, to-wit:
7

8 DIRECT EXAMINATION

9 BY MS. AUBREY:

10 Q Will you state your name, please?

11 A James R. Pouncey.

12 Q And where are you employed, Mr. Pouncey?

13 A I am employed in Houston, Texas, with
14 Damson Oil Corporation.

15 Q And what's your position with Damson?

16 A Manager of Outside Operated Properties.

17 Q Mr. Pouncey, have you testified previous-
18 ly before the Oil Conservation Commission of New Mexico?

19 A No, I have not.

20 Q For the Examiner would you relate your
21 educational background and your work experience in the oil
22 and gas industry?

23 A I graduated in '64 with a BS in petroleum
24 engineering from Louisiana Tech and have worked in the oil
25 and gas industry since that time with Phillips Petroleum,
Murphy Oil Corporation, Texas International Petroleum Cor-
poration and am currently with Damson Oil Corporation, who I
have been with for the last two and a half years.

1
2 Q In connection with your employment with
3 Damson, do you function as a petroleum engineer for Damson?

4 A My job basically is a management job;
5 however, due to my small department, I do petroleum engin-
6 eering work, yes.

7 Q Mr. Pouncey, are you familiar with the
8 applications of Damson Oil Corporation in Cases 8468 and
9 8469 that are being heard today?

10 A Yes, I am.

11 MS. AUBREY: Mr. Examiner, are
12 the witness' qualifications acceptable?

13 MR. STOGNER: Are there any ob-
14 jections or any questions of Mr. Pouncey?

15 If not, then I find Mr. Pouncey
16 qualified.

17 Q Mr. Pouncey, with regard to the New Mexi-
18 co Federal "K" 1-E Well, the Getty operated well, can you
19 explain to the Examiner when Damson acquired its interest in
20 that well?

21 A This property came to Damson in February
22 of '83 when we acquired many properties in what we call the
23 petco acquisition.

24 The acquisition itself was effective back
25 to December 1 of '82.

Q With regard to the Mesa operated well,
the McLeod 2-E Well, when did you -- when did Damson acquire
its interest in that well?

1
2 A We acquired it in the same acquisition,
3 effective December 1, '82.

4 Q Prior to that date did Damson Oil Corpor-
5 ation have any interest in or connection with either one of
6 these two wells?

7 A To my knowledge, no.

8 Q With regard to the Mexico Federal 1-E
9 Well, what is Damson's working interest in that well?

10 A Our interest is 6.618 percent working in-
11 terest.

12 Q And with regard to the McLeod 2-E Well,
13 what is Damson's working interest in that well?

14 A We have an 8.281 working interest.

15 Q Do you ^{know} where or do you know to whom the
16 production from the New Mexico Federal 1-E Well is sold? SUB

17 A According to my information the gas in
18 the well is sold under a contract with Southern Union.

19 Q With regard to the McLeod Well, and who
20 the purchase of the gas from that well is?

21 A Also Southern Union.

22 Q With regard to Damson's interest in those
23 -- in the two wells, is Damson's interest an interstate in-
24 terest or intrastate interest?

25 A It is intrastate.

Q Do you know whether or not Damson has re-
ceived the intrastate prices for production from these two
wells?

1
2 A I did not check that and I can't say
3 whether or not we have received intrastate pricing.

4 Q Mr. Pouncey, did you prepare and sign
5 applications for exemption from the provisions of the New
6 Mexico Natural Gas Pricing Act for the McLeod 2-E and for
7 the Mexico Federal "K" 1-E Well?

8 A Yes, I did.

9 Q And in preparing those applications and
10 filing them with the Commission, did you, to the best of
11 your ability, review Damson Oil Corporation's records?

12 A Yes.

13 Q Did Damson have any connection with
14 either of these two wells at the time that the wells were
15 drilled?

16 A No.

17 Q Has Damson made demand upon the operator
18 of each well, Mesa in the case of the McLeod 2-E Well and
19 Getty in the case of New Mexico Federal "K" Well to assist
20 you in presenting testimony today with regard to the reasons
21 for the drilling of these wells and their production
22 history?

23 A Yes, we have.

24 Q And is that because Damson does not in
25 its own records have any information on which to base that
26 testimony?

27 A That is correct.

MS. AUBREY: Mr. Examiner, I

1 have no more questions.

2 MR. STOGNER: Mr. Nance, your
3 witness.

4 MR. NANCE: No questions.

5 MR. STOGNER: Mr. Carr, your
6 witness.

7 MR. CARR: No questions.

8 MR. STOGNER: Mr. Hall, your
9 witness.

10 MR. HALL: No questions.

11 CROSS EXAMINATION

12 BY MR. STOGNER:

13 Q Mr. Pouncey, I have some questions for
14 you.

15 A Sure.

16 Q Let me make sure I've got this straight.

17 In the Mexico Federal 1-E Damson's in-
18 terest is 6.168 percent working interest?

19 A No, it's 6.1618.

20 Q Then it's 6.1618.

21 A No, 6.618 percent.

22 Q Okay, my mistake, sorry. And in the
23 McLeod?

24 A 3.281 percent.

25 Q Okay. Now, your interest, the particular
interest is 6.618 and the 3.281 are sold to Southern Union,

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is that right?

A Yes.

Q Intrastate.

A Intrastate.

Q Okay, in the Mexico Federal 1-E, do you know who actually received the gas from the wellhead?

A No, I was not aware that it went to El Paso and there was a later agreement to make some exchange.

Q Okay, and the same with the McLeod Well, you don't know who --

A No.

Q -- actually gets the gas?

A No, I do not.

Q Okay. Now who did Damson get their interest from?

A This was acquired from Petroleum Corporation of Texas and effective December 1, '82.

Q Okay, did Damson take over Petroleum Corporation of Texas? Did they buy their interest? What was the mechanism?

A That acquisition, we did not take over all of Petco but we purchased practically all of it. Petco still functioned as a corporation after we acquired, I don't remember the actual percentage, but I think around 80 percent of their properties.

Q But it -- as far as these two wells, that's when you acquired them, through a buy-out situation.

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A Yes.

Q Okay.

MR. STOGNER: Okay, I have no further questions of Mr. Pouncey.

Are there any other questions of this witness?

If not, he may be excused.

MS. AUBREY: Mr. Stogner, I believe that Mr. Carr has a witness to put on in connection with Case 8468 and as we stated earlier, we would ask that the record remain open in Case 8469 in order that the Mesa witness, who is ill, can appear in two weeks.

MR. STOGNER: Okay, so you wish to continue Case Number 8469 to the Examiner's Hearing scheduled for April 10th, 1985, is that correct?

MS. AUBREY: That's correct, sir, unless you decide to grant Mr. Nance's motion and find that the well because of the interstate nature of the sale, the well is not subject to the New Mexico Pricing Act.

MR. STOGNER: Okay, we'll get to that later. I just want to make sure I've got everything in on that.

Okay, Mr. Carr.

MR. CARR: At this time I'd call James W. Hankinson.

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2 JAMES W. HANKINSON,

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

5 DIRECT EXAMINATION

6 BY MR. CARR:

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

9 A Yes. My name is James W. Hankinson, H-A-
10 N-K-I-N-S-O-N. I live in Englewood, Colorado.

11 Q By whom are you employed and in what ca-
12 pacity?

13 A There seems to be a little confusion
14 here, but I work for Texaco. We were acquired -- I was for-
15 merly with Getty Oil Company and, I guess approximately a
16 year ago Texaco bought us out. There is no more Getty Oil
Company.

17 Q And in what capacity are you employed by
18 Texaco, Inc.?

19 A I work -- my title is Assistant District
20 Engineer in Charge of Operations. I work in the Farmington
21 District, which is physically located in Denver, Colorado.

22 Q Have you previously testified before this
23 Division and had your credentials accepted and made a matter
of record?

24 A No, I haven't.

25 Q Would you summarize your educational

1 background for Mr. Stogner, please?

2 A Okay. I graduated from the University of
3 Oklahoma in 1976 with a Bachelor's degree in petroleum en-
4 gineering; also done graduate work there at OU in petroleum
5 engineering.

6 I'm a Registered Professional Engineer in
7 the States of Oklahoma and Wyoming.

8 Q Would you now review for the Examiner
9 your work experience?

10 A Okay. I worked in the State of Oklahoma
11 for about five years in Oklahoma City and Duncan, Oklahoma.

12 Then I worked in Casper, Wyoming, for
13 about three and a half years. My title there was Area En-
14 gineer. The responsibilities there included all the engin-
15 eering design work, et cetera, in production and drilling
16 operations throughout the Rocky Mountains. That would in-
17 clude northwest New Mexico, Colorado, eastern half of Utah,
18 Montana, and the Dakotas.

18 Q And while working in Oklahoma and in Cas-
19 per you were employed by Getty Oil Company?

20 A That's correct. I was with Getty then.

21 Q Now how long have you been in Denver?

22 A I've been in Denver about six months.

23 Q And do your current duties with Texaco
24 include responsibility for northwest New Mexico?

25 A Yes, they do. The Farmington District
covers -- area of responsibility includes northwest New Mex-

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2 ico, eastern half of Utah, the State of -- the western half
3 of Colorado, and southwest corner of Wyoming, and my respon-
4 sibilities do include northwest New Mexico, that's correct.

5 Q Since 1981 your responsibilities have in-
6 cluded the drilling of wells in the San Juan Basin?

7 A That's correct.

8 Q And in this job did you become familiar
9 with the procedures followed by Getty in deciding to drill
10 additional wells in northwest New Mexico?

11 A Yes, I have become familiar.

12 Q Are you familiar with the well which is
13 the subject of today's hearing?

14 A Yes.

15 Q Have you reviewed Getty's or Texaco's re-
16 cords on this well?

17 A Yes, I have.

18 Q Would you identify for Mr. Stogner the
19 wells you've reviewed?

20 A Okay. I've reviewed the production his-
21 tory for both the "K" No. 1 Well and the "K" No. 1-E Well.
22 I've reviewed all of our well files in both our District Of-
23 fice and the Division Office there in Denver.

24 I've also spoken with our production
25 operations personnel in Farmington, New Mexico, who have the
actual, hands-on, daily day-to-day responsibilities for our
operating the wells.

MR. CARR: Are the witness'

1 qualifications acceptable?

2
3 MR. STOGNER: Are there any ob-
4 jections?

5 Mr. Hankinson is so qualified.

6 Q Mr. Hankinson, do you happen to know who
7 is designated operator of this well in the Oil Conservation
8 Division records?

9 A I believe within the last month and a
10 half we filed a new I believe it's C-104 form and I believe
11 it's in the hands of Frank Chavez there in Cortez right now,
12 and I believe Texaco, Incorporated, is listed as operator
13 for Texaco Producing, Incorporated.

14 Q Now you stated that you were familiar
15 with the procedures followed by Getty in deciding to drill
16 infill wells in the San Juan Basin.

17 A Yes.

18 Q Would you generally review for the Exami-
19 ner the decision-making process followed in deciding to
20 drill this and other infill wells?

21 A Okay. Actually, the process would in-
22 clude geology and the Development Geology Group would select
23 the location from review of offset wells, production, avail-
24 able locations, et cetera.

25 They would select the location where we
would drill a well and they would turn that over to the En-
gineering Group in the District Office and the engineers
there would evaluate the reserves, review the cost, prepare

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2 the cost to drill the well, obtain gas prices and run the
3 economics and make a decision to make a recommendation to
4 management, you know, to drill the well.

5 Q In looking at the gas prices were you de-
6 termining whether or not you had an economic well or whether
7 or not you would get a better price than the -- an older
8 well on the unit?

9 A We were just strictly looking at whether
10 we'd have an economic well here. That's how the decision is
11 made.

12 Q Was the Mexico Federal "K" Well No. 1-E
13 drilled to protect the spacing or proration unit from drain-
14 age?

15 A No.

16 Q When was the first well on this spacing
17 unit drilled?

18 A The first well was spudded December 28th
19 of 1961.

20 Q And in what pool was it completed?

21 A That's the Basin Dakota.

22 Q Has infill drilling been approved for the
23 Basin Dakota Pool?

24 A Yes, sir.

25 Q And do you know the order number by which
the Commission approved this drilling?

A Yes. It's Order No. R-1670-V.

Q Does Order R-1670-V provide that infill

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2 drilling will increase the recoverable reserves in this
3 pool?

4 A Yes, it does.

5 Q Would you identify for Mr. Stogner the
6 findings in that order which reached these conclusions?

7 A Okay. Those are Findings 13, 14, 15, and
8 16 in that order.

9 MR. CARR: Mr. Stogner, at this
10 time we would request that Order R-1670-V be incorporated by
11 reference into the record of this case.

12 MR. STOGNER: Order No. R-1670-
13 V will be taken administrative notice of.

14 MR. CARR: Well, and will that
15 be part of the record, Mr. Stogner?

16 MR. STOGNER: Sure.

17 Q Would you now refer to what's been marked
18 for identification as Texaco Exhibit A and identify this,
19 please.

20 A I guess this is -- I don't know whether
21 you call it an affidavit or certificate, or just what. Any-
22 way, it's a notice stating that Getty is the operator of
23 this well, let's see --

24 Q Is this the certification that is re-
25 quired be included with an application for exemption by Oil
26 Conservation Division Order 5436?

27 A Yes, it is.

28 Q And this is the affidavit which was pre-

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2 pared and signed by you on behalf of the operator?

3 A That's correct.

4 Q And this affidavit states for Texaco that
5 based on a review of the records that the ability of the
6 subject well did not have its ability to produce restricted
7 by Getty in any way?

8 A That's correct.

9 Q And this restriction wouldn't have been
10 for avoiding the application of the State Pricing Act.

11 A That is true.

12 Q And you are the authorized and respon-
13 sible person for executing this certification on behalf of
14 Texaco.

15 A Yes.

16 Q When was the infill well spudded on this
17 spacing unit?

18 A Let's see, September 30th, 1979.

19 Q And when were first sales made from the
20 well?

21 A June 25th of 1980.

22 Q Now, Mr. Hankinson, have you reviewed or
23 caused to be reviewed the production history on the original
24 well on this spacing and proration unit from the date the
25 infill well was drilled?

 A Yes, I have.

 Q Based on that review, can you testify as
 to whether or not the original well on the proration unit

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2 has had its ability to produce into the pipeline restricted
3 in any manner to avoid the pricing provisions of the New
4 Mexico Natural Gas Pricing Act?

5 A No, it was not restricted.

6 Q What are the reasons that the original
7 well on this spacing unit would have had its production cur-
tailed by Getty?

8 A Oh, there's two or three reasons, I
9 guess. Each year you're required to do tests for the State
10 that might have had the well shut in.

11 Any mechanical problems that we might
12 have had; could have been also Code 11, you know, lack of
demand by the purchaser, and --

13 Q Are you aware of any other reason that
14 the production from this well would have been curtailed by
15 Getty?

16 A No, I'm not.

17 Q Is it Getty's policy to produce all wells
18 that they operate to their capacity unless prohibited from
19 doing so by one of the reasons you've just stated?

20 A That's correct.

21 Q Was the infill well drilled for reasons
22 other than avoiding the pricing act?

23 A Yes, it was.

24 Q And why was it drilled?

25 A Well, it was drilled to increase re-
serves, maximize recovery from the spacing unit, and to max-

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imize the use of energy there in that spacing unit.

MR. CARR: Mr. Stogner, at this time we would offer into evidence and ask that it be included with the Damson application Getty -- what has been marked as Getty Exhibit Number A, which is the certification for the Mexico Federal "K" Well No. 1-E.

MR. STOGNER: Are there any objections?

Getty Exhibit A will be admitted into evidence.

MR. CARR: That concludes my examination of Mr. Hankinson.

MR. STOGNER: Thank you, Mr. Carr.

Ms. Aubrey, your witness.

MS. AUBREY: I have no more -- no questions.

MR. STOGNER: Mr. Nance, your witness.

MR. NANCE: No questions.

MR. STOGNER: Mr. Hall?

MR. HALL: No questions.

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Hankinson, the Well No. 1, who is it selling to physically? Who is the gas --

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A I believe the transporter is Southern Union for both wells.

Getty's, or Texaco's contract is with El Paso.

Q I know old habits are hard to beat.

A Okay.

Q Are you aware if Getty on the No. 1-E filed for an NGPA application with the U. S. BLM in Albuquerque?

A Yes, they did, and I believe they received Section 103 prices.

Q Do you know when that was, by any chance?

A I don't have that date available, I'm sorry. I don't remember. It would have been shortly after the drilling of the well, was the normal procedure.

Q Do you know if the No. 1 Well has ever been shut down for any lengthy period of time, say a three month period, four month period?

A It, from reviewing the production history, it looks like it could have been shut in for a two -- two month period during the summer months, lack of demand.

Q What years would this have been?

A Oh, '82, '83 is what it looks like; '82 and '83.

Q And you believe that shut in was due to market demand?

A Yes.

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Q Who shut those wells in? Would Southern Union have been the one to shut them in or Getty?

A Southern Union.

Q Southern Union? Do you know what the increase in reserves are under the No. 1-E Well?

A No, I don't know exactly what we have booked for reserves for that well.

Q Before Getty drilled these wells would they have done that sort of a study?

A Oh, yes, yeah, you'd have to estimate the reserves in order to run our economics that are required by management for approval.

Q When would they have done that?

A When would they have done the reserves study?

Q Yes.

A They would probably have done that, well, right before they decided to drill the 1-E Well.

Q Well, naturally, but --

A Do you want a date when that would have been done or --

Q Approximately, like a year or two, something like that.

A I would say it would have been done during 1979.

Q What production records do you have in front of you there?

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2 A This is just a decline curve that our of-
3 fice would keep for these two wells, for the "K" No. 1 and
4 the "K" 1-E.

5 MR. STOGNER: Mr. Carr, do you
6 plan to present those as exhibits?

7 MR. CARR: I had not planned to
8 do that, Mr. Stogner.

9 MR. STOGNER: I would suggest
10 that we would.

11 MR. CARR: May be take a very
12 brief recess?

13 MR. STOGNER: Sure, how brief
14 do you want?

15 MR. CARR: I will depend on how
16 long it takes me to look at these records. We may need to
17 also copy them.

18 MR. STOGNER: Okay, we'll take
19 a brief recess so that Mr. Carr may do that.

20 (Thereupon a recess was taken.)

21 REDIRECT EXAMINATION

22 BY MR. CARR:

23 Q Mr. Hankinson, would you identify what
24 has been marked as Getty Exhibits B and C?

25 A Okay, those exhibits are decline curves
on the Mexico Fed "K" No. 1 and Mexico Fed "K" 1-E.

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2 Q What is the source of the information de-
3 picted on -- on those exhibits?

4 A Those are taken off -- those numbers are
5 taken off the producer's, I mean the transporter's volume
6 statements, which we receive monthly.

7 MR. CARR: Mr. Stogner, at this
8 time we'd offer Getty Exhibits B and C.

9 MR. STOGNER: Are there any
10 objections?

11 Getty's Exhibits B and C will
12 be admitted into evidence.

13 RE CROSS EXAMINATION

14 BY MR. STOGNER:

15 Q Mr. Hankinson, these figures are essen-
16 tially the same ones that are reported on our C-115's Month-
17 ly Operator's Report, is that right?

18 A Yes, sir.

19 Q Okay.

20 MR. STOGNER: At this time I
21 would like to make administrative notice of those records
22 that are kept here at the New Mexico Oil Conservation Divi-
23 sion known as the C-115, and also we will take administra-
24 tive notice of the well files on both the No. 1-K and the
25 No. 1 "K" E Well that are also here in our Santa Fe Office.

Mr. Carr, do you have any fur-
ther questions?

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2 MR. CARR: I have no further
3 questions of Mr. Hankinson.

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

6 If not, he may be excused at
7 this time.

8 Mr. Carr, do you have anything
9 further?

10 MR. CARR: No, Mr. Stogner, I
11 don't have anything further in terms of direct presentation.
12 There is one matter concerning motions that were raised at
13 the beginning of the proceeding that I would like either to
14 clarify or make an independent motion.

15 There are other nonoperating
16 working interest owners in the Mexico Federal "K" 1-E Well
17 and also the McLeod, as well, which is the Mesa-operated
18 well.

19 In the Mexico Federal "K" 1-E
20 they are Consolidated, Crown Central, and Amoco.

21 In the McLeod Well they're the
22 Crown Central -- it's Crown Central, and I would request
23 that they be permitted to join in the application of Damson,
24 so if, in fact, you decide to exempt nonoperating sales, or
25 sales from a well of nonoperators, that all nonoperators, or
the other nonoperators, will also benefit from the exemption
and will not have to come back and do this again on these
wells.

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MR. TAYLOR: Are you moving --
what's your motion again?

MR. CARR: That the Commission
or the Examiner permit consolidated Crown Central and Amoco
to adopt by reference and concur in the -- join in the ap-
plication of Damson.

They are also nonworking inter-
est owners in the well and that -- they would also benefit
from the exemption.

MR. HALL: Mr. Examiner, I be-
lieve that Mr. Carr's motion is compatible with the previous
motion I made on behalf of Crown Central and Consolidated.

We would concur with that.

MR. STOGNER: Thank you.

MR. NANCE: El Paso has no ob-
jection.

MR. STOGNER: Ms. Aubrey.

MS. AUBREY: Mr. Stogner, I
have no objection, although I think I should have, so I
don't have one, as long as Mr. Hall is not continuing to op-
pose the application when Mr. Carr has asked to join it, you
know, they're from the same office.

MR. TAYLOR: Do any of you pur-
port to represent Amoco at this --

MR. CARR: We represent Amoco
in the infill proceedings.

MR. HALL: They would have no

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2 objection.

3 MR. CARR: They would have no
4 objection.

5 MR. STOGNER: Mr. Carr, Mr.
6 Hall, also, we're going to still take these motions under
7 advisement at this time; however, thanks for clarifying
8 these points.

9 MR. CARR: Will your ruling be
10 contained in an order which will result from this hearing?

11 MR. STOGNER: Either that or I
12 will rule on it before today is over.

13 MR. CARR: Thank you.

14 MR. STOGNER: Or before the Ap-
15 ril 10th hearing is over.

16 MR. CARR: Okay.

17 MR. STOGNER: One way or the
18 other I will rule on it sometime.

19 Mr. Hall?

20 MR. HALL: If I might, Mr. Exa-
21 miner, I'd like to make an additional statement on behalf of
22 Crown Central and Consolidated.

23 MR. STOGNER: Okay.

24 MR. HALL: If it's appropriate
25 at this time.

MR. STOGNER: Sure, let's get
this out in the air at this time.

MR. HALL: Well, we certainly

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2 do apologize to the Examiner for complicating this case. It
3 was made necessary by the collateral proceeding that's on-
4 going in the District Court for San Juan County.

5 In that regard I would like to
6 make, I guess it would be styled a prospective objection to
7 any proposed order that would purport to enumerate titular
8 ownership in the affected properties of the first applica-
9 tion.

10 Correspondingly, we would re-
11 quest that the Examiner take administrative notice of the
12 proceedings numbered Civil No. 84-641 and styled Crown Cen-
13 tral Petroleum Company, et al, versus Damson Oil Corpora-
14 tion.

15 MR. TAYLOR: Mr. Hall, could
16 you tell us the essence of those proceedings?

17 MR. HALL: Among other things
18 it involves a quiet title to the properties that are subject
19 to the application in the instant proceeding.

20 There's also a dispute as to
21 the ownership of operating rights and farmout agreements un-
22 der an operating agreement dated March 10th, 1959, which is
23 the heart of that lawsuit. It affects the instant proper-
24 ties, as I said.

25 The percentage of working in-
26 terest ownership asserted by Damson here today will be de-
27 termined by that proceeding.

MR. TAYLOR: Is there some con-

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2 tention in that proceeding that other than Getty or Texaco
3 are the operators of that well? This well?

4 MR. HALL: We assert on behalf
5 of Crown Central that Crown Central is the operator under
6 that operating agreement and through a farmout gave
7 Getty/Texaco the farmout for the Mexico Fed "K" 1-E in the
8 southwest-13 communitization for the acreage dedicated to
9 that well.

10 MR. STOGNER: Mr. Hall, could
11 you clarify something for me?

12 In this -- in this litigation
13 are we talking about the operator of the well, the 1-E, or
14 the proration unit including the Well No. 1 and the Well No.
15 1-E?

16 MR. HALL: We don't contest
17 that Getty or Texaco is the appropriate operator by virtue
18 of the operating agreement I previously mentioned and a
19 farmout coming therefrom.

20 To clarify our position in this
21 proceeding, Crown Central and Consolidated do not oppose
22 Damson's application here. We are appearing solely to the
23 extent of protecting our titular ownership interest in the
24 affected properties and would object to the entry of any or-
25 der by the Division which would go so far as to purport to
affect titular ownership at all, or at least even enumerates
ownership.

MR. TAYLOR: Mr. Hall, you

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don't want us to state that Getty is the operator?

MR. HALL: We in fact do.

MR. TAYLOR: You do want us to say that.

MR. HALL: We're not contesting

--

MR. TAYLOR: You don't care?

You just don't want us to say who owns the right.

MR. HALL: Getty is the operator.

MR. TAYLOR: Getty is actually operating the well at this time.

MR. HALL: I don't believe the Division should get into ownership matters.

MR. TAYLOR: Oh, we might just slide into it.

MS. AUBREY: May I respond, Mr. Examiner?

MR. STOGNER: Please, Ms. Aubrey.

MS. AUBREY: Thank you.

I object to the Commission being asked to take administrative notice of court proceedings without any production of a witness or any court documents.

For the Commission to consider in addition the titular ownership of a working interest in

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2 the well is not relevant to the question of whether or not
3 the production from the well is exempt from the provisions
4 of the New Mexico Natural Gas Pricing Act, because the well
5 was drilled for reasons other than avoiding the Act. I
6 think that is completely irrelevant to the proceeding here
7 and is not a question which you need to consider even if you
8 were provided with an appropriate witness or appropriate
9 documents from which you could decide whether or not to take
administrative notice of this lawsuit.

10 MR. TAYLOR: So the only objec-
11 tion of everyone is to the order stating anything about own-
12 ership but there is no objection to anything stated about
13 the operating -- who the operator is.

14 MS. AUBREY: As I understand it
15 --

16 MR. TAYLOR: By either side.

17 MS. AUBREY: -- Crown Central
18 does not dispute that Getty is in fact operating this well.

19 The question before you today
20 is whether or not Getty, as operator, has given you suffi-
21 cient testimony and evidence to draw a conclusion that the
22 well was drilled for reasons other than avoiding the Act and
23 the results of any litigation in San Juan County, or any
proceeding up there to determine ownership of this well is
completely irrelevant.

24 MR. HALL: From what I hear
25 Mrs. Aubrey saying, her statemenst are in complete accord

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with our motion. I agree with her that it is beyond the provence of this Division to determine ownership of any property interest at all.

That's why we've risen with our so-called prospective objection if the Division seeks to enter an order that may attempt to affect ownership interest, and that's all.

We'll be glad to make --

MR. TAYLOR: What does El Paso think about all this? Do they have any objection to anything?

MR. NANCE: As far as I can see, the only order that Crown Central would object to is one that somehow stated Damson had an operating interest in the well.

I can't see the Commission making an order like that. I think the possibility of that is fairly remote. I think everyone acknowledges that -- that Getty is the operator of the well; that Damson has working interest as a non-operator.

El Paso has a similar working interest as a non-operator. I think those are points that are self evident and that such a prospective objection is really unnecessary.

MR. TAYLOR: Thank you, Mr. Nance. Just a point of clarification as to El Paso's situation on one or both of these wells.

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2 You have an interest in the gas
3 but you're not taking it, but you're trading with Southern
4 Union for the production of this well as against some other
5 wells? Or these wells?

6 MR. NANCE: Okay, I'm not sure
7 exactly what gas El Paso might or might not be taking from
8 the Mexico Federal Well. We know we do have a working in-
9 terest in some of the production from the Mexico Federal
10 Well and that working interest is being sold to Southern
11 Union under an intrastate sales contract.

12 So our working interest in Mex-
13 ico Federal Well is essentially identical, although the per-
14 centages may differ, the nature of that interest is the same
15 as Damson's interest in that well.

16 It seems to me that the problem
17 that comes up here that this is an application being filed
18 by someone other than the operator of the well for this
19 Pricing Act exemption and in that regard it is an unusual
20 proceeding.

21 Perhaps Crown Central's worry
22 is that since Damson is bringing in application that that
23 somehow confers some type of operating right to Damson. I
24 don't think that's the case but I don't think that should be
25 a problem from their point of view.

 It would be the same situation
if El Paso had brought this application. We wouldn't there-
by assume that we had somehow acquired some operating right,

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simply because we are bringing application to protect an interest that we have in the well.

MR. TAYLOR: One other question, Mr. Nance. When you trade production from wells, is it done on the value of the gas or the quantity of the gas?

MR. NANCE: It's done either on the basis of volumes or BTU content but the price of the gas that's traded has nothing to do with it.

MR. TAYLOR: Thank you.

MR. STOGNER: Mr. Hall.

MR. HALL: One final point of clarification. I really did hope to avoid litigating my 11th District case here in front of the Division, but Damson has presented evidence as to its purported working interest ownership to the Division. They assert a 6.618 percent working interest in the "K" 1-E property.

We rise simply to point out that the proper working interest ownership will be determined in the District Court proceedings and we request that the Division's findings and conclusions to be promulgated with your order do not address ownership. It is beyond the provence of the Division in the first place.

MS. AUBREY: Mr. Stogner, I agree that it's beyond the provence of the Division and I don't know why we're taking up so much time because as everyone has agreed, it's beyond the jurisdiction of the Commission.

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2 We're not asking you to deter-
3 mine what Damson's percentage interest in this is, but sim-
4 ply whether or not Damson's production from this well, what-
5 ever their working interest is, is exempt from the provi-
6 sions of the New Mexico Natural Gas Pricing Act.

7 MR. STOGNER: Mr. Hall, your
8 motion is taken under advisement.

9 Is there anything else? Or
10 whose turn is it?

11 Ms. Aubrey, do you have any-
12 thing further?

13 MS. AUBREY: No, sir, I have
14 nothing further.

15 MR. STOGNER: Okay, Mr. Nance?

16 MR. NANCE: Mr. Examiner, El
17 Paso would like to offer a motion that with respect to the
18 McLeod Federal No. 2-E Well that well be considered exempt
19 from the Natural Gas Pricing Act on any one of three bases.

20 The first, that all of the
21 production from that well is going into El Paso Natural Gas
22 Company's interstate pipeline delivery system.

23 The second basis that is
24 necessary would be New Mexico's statutes, Section 62-7-4,
25 Paragraph B-2, which would exempt gas to the extent that it
is commingled with gas destined for interstate commerce
where there is a volumetric exchange of such volume -- of
such gas. We feel that would apply in this -- in this

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circumstance and would take this well out of the applicability of the Pricing Act.

Finally, if neither of those two is considered an adequate basis for exempting the wells, we would support the existing application of Damson and would support they attempts when a Mesa witness is tendered to have the well exempted under the traditional infill well exemption procedure.

MR. STOGNER: Mr. Nance, these motions, this motion that you're making only refers to Case 8469, the McLeod Well, is that right?

MR. NANCE: That is correct.

MR. STOGNER: Thank you, Mr. Nance. Your motion will be taken under advisement.

Mr. Nance, would you clarify one thing for me?

Your first example that you mentioned, that this gas is going interstate and is not subject under the NGPA, do you have a particular FERC section or NGPA section number to refer back to?

Other than the physical taking of the gas the connection of the well to El Paso's system and the fact that the gas is physically taken into El Paso's system and that system is an interstate system, no, I'm not relying on a -- on a Federal statute. I am relying essentially on the -- the exemption of interstate gas from the New Mexico Natural Gas Pricing Act itself.

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2 I don't have a section to refer
3 to immediately. The Act is designed to apply to intrastate
4 sales of gas and to the extent that all of the gas from this
5 well is going into the interstate market, physically, we
6 feel this is sufficient basis for exempting the well.

7 MR. STOGNER: Thank you, Mr.
8 Nance.

9 Thank you, Mr. Nance, for that
10 clarification or nonclarification.

11 MR. NANCE: Mr. Stogner.

12 MR. STOGNER: Yes, sir.

13 MR. NANCE: It might help to
14 refer to Section 62-7-4, Paragraph A.

15 MR. STOGNER: That's a New Mex-
16 ico statute?

17 MR. NANCE: Yes, the New Mexico
18 statute. Each of these references, I should note, is not
19 the current statutory reference. This is the statute that
20 was in effect until July 1st of 1984 and is the New Mexico
21 -- its short title is The New Mexico Natural Gas Pricing
22 Act.

23 As of the 1st of July, 1984,
24 that Act was superseded by the New Mexico Natural Gas Price
25 Protection Act. The provisions of the Price Protection Act
are somewhat different and this proceeding is not concerned
with that subsequent act.

So each of these sections that

1
2 I have referred to is the section that was in effect up un-
3 til the 1st of July, 1984.

4 MR. STOGNER: All right.

5 MR. TAYLOR: Mr. Nance, I hate
6 to belabor this, but isn't it -- on this well in 8469, that
7 production is not under contract, it's sold to El Paso, all
8 of in interstate, is it not?

9 MR. NANCE: That -- I think
10 your observation is exactly right. El Paso, and I do not
11 know the percentages and it would probably be helpful for us
12 to be able to get that information for you, but the majority
13 of the gas taken from the well is purchased by El Paso and
14 put in El Paso's general system supply.

15 The remaining portion of the
16 gas appears to be gas that El Paso takes for Southern
17 Union's account and then redelivers to Southern Union at
18 some other location equivalent volumes that probably do then
19 go into strictly the intrastate market.

20 MR. STOGNER: Thank you, Mr.
21 Nance.

22 Is there anything else in Case
23 Number 8468?

24 Case Number 8468 will be taken
25 under advisement.

Is there anything further in
Case Number 8469 at this time?

If not, this case will be con-

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tinued to the Examiner's Hearing scheduled for April 10th, 1984 -- 85, at which time if I'm not here, I will attend that and be the examiner at that one, also.

Are there any closing statements? I'm sorry, is there anything further in -- in anything?

There being none, I've already said what I did.

(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 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 and correct transcript in the Oil Conservation Division file No. 8-8468, heard by me on 27 March 1985.

Richard E. Stogard, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT

2 OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
3 SANTA FE, NEW MEXICO

4 10 April 1985

5 COMMISSION HEARING

6
7 IN THE MATTER OF:

8 Application of Dawson Oil Corporation for CASE
9 certain findings for an infill well in 8469
San Juan County, New Mexico.

10
11
12 BEFORE: Michael E. Stogner, Examiner

13
14 TRANSCRIPT OF HEARING

15
16 A P P E A R A N C E S

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18
19 For the Oil Conservation
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20
21
22 For the Applicant:

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A P P E A R A N C E S

For Mesa Petroleum:	Scott Hall Attorney at Law CAMPBELL & BLACK P.A. P. O. Box 2208 Santa Fe, New Mexico 87501
For El Paso Natural Gas Co.:	John Nance Attorney at Law El Paso Natural Gas Co. P. O. Box 1492 El Paso, Texas 79978

I N D E X

WILLIAM R. MIERTSCHIN	
Direct Examination by Mr. Hall	5
Cross Examination by Mr. Stogner	14
STATEMENT BY MR. HALL	16

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E X H I B I T S

Exhibit A, Certification

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MR. STOGNER: I'm Michael E. Stogner.

We will now call Case Number 8469.

MR. TAYLOR: The application of Damson Oil Corporation for certain findings for an infill well in San Juan County, New Mexico.

MR. STOGNER: We will now call for appearances in this case.

MS. AUBREY: Karen Aubrey, Kellahin and Kellahin, representing the application, Damson Oil Corporation.

MR. HALL: Scott Hall from the law firm of Campbell and Black, Santa Fe, on behalf of Mesa Petroleum Company.

I have one witness who needs to be sworn.

MS. AUBREY: Mr. Examiner, two weeks ago Jim Pouncey from Damson appeared and testified about the Getty Well, which was heard two weeks ago, and also established the foundational testimony for the testimony of the Mesa witness, who will be heard today.

We do not propose to call an additional Damson witness today.

MR. STOGNER: Okay, are there any other appearances?

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2 There being none, will the wit-
3 ness please stand and be sworn.

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5 (Witness sworn.)

6 WILLIAM R. MIERTSCHIN,
7 being called as a witness and being duly sworn upon his
8 oath, testified as follows, to-wit:

9
10 DIRECT EXAMINATION

11 BY MR. HALL:

12 Q Please state your name.

13 A William Robert Miertschin.

14 Q And why don't you hand the reporter your
15 card?

16 THE REPORTER: He did. Thank
17 you, Mr. Hall.

18 Q Where do you reside?

19 A Amarillo, Texas.

20 Q By whom are you employed and in what ca-
21 pacity?

22 A By Mesa Petroleum Company as the Supervi-
23 sor of Regulatory and Safety.

24 Q Mr. Miertschin, have you ever testified
25 before the Division before?

A Yes, I have.

Q And how were you qualified at that time.

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A As an expert on drilling and completion.

Q All right. Now, do your present duties with Mesa differ from your previous duties as Drilling Supervisor?

A Yes, they do.

Q And how so?

A Well, I report directly to the Vice President of Operations for all regulatory and safety matters for the company.

Q Right. How long have you been doing this?

A For three months.

Q All right.

MR. HALL: Mr. Examiner, we would offer Mr. Miertschin as qualified in regulatory affairs.

MR. STOGNER: He is so qualified.

Q Mr. Miertschin, are you familiar with the well that is the subject of this hearing?

A Yes, I am.

Q And who is the operator of that well?

A Mesa is the operator of the McLeod No. 2.

Q All right, have you reviewed Mesa's records on this well?

A Yes, I have.

Q Which records would those be?

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2 A First of all, I've reviewed the original
3 AFE for drilling of this well, including the economic and
4 reserve analyses.

5 Then I reviewed the actual well history
6 for the drilling of the well and the subsequent recompletion
7 of the well and the economics and AFEs involved in that, as
8 well as all the regulatory filings, internal notification of
9 first sales, and the application to the Federal -- to the --
10 to FERC for the NGPA pricing designation and approval of
11 same, and the production history on the McLeod No. 2-E, as
12 well as the production history on the McLeod No. 2 since the
drilling of the McLeod No. 2-E.

13 Q All right. Are you familiar with the de-
14 cision making process utilized by Mesa in making decisions
15 to drill wells in the San Juan Basin?

16 A Yes, I am.

17 Q Why don't you review for the examiner
18 generally the decision making process?

19 A Well basically the Geological Department
20 in the Division, in conjunction with our resident Reservoir
21 Engineering Department, pick the locations and evaluate the
reserves that are potential at that location.

22 Then a cost estimate for the drilling and
23 completion of the well is prepared at that location and
24 then, using these reserves and costs, and the price of the
25 gas, they determine the economics for the eventual drilling
of the well.

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Q All right.

A And make recommendations.

Q Did Mesa in this particular instance consider the different prices for gas producible from the infill well as opposed to the price received for gas produced from another well in the same spacing unit as the determining factor on whether or not to drill this well?

A No, that was not the determining factor.

Q Okay. Was the McLeod 2-E drilled to protect the spacing or proration unit against drainage?

A No, it was not.

Q When was the first well drilled on this spacing unit?

A It was drilled in 1960.

Q Okay. In what pool is it completed?

A The Basin Dakota.

Q Has infill drilling been approved for this pool?

A Yes, it has.

Q And by what order?

A It was approved by Order R-1670-V.

Q All right, does that order provide that infill drilling will increase recoverable reserves in the pool?

A Yes, it does.

Q If you would, please identify for the examiner the specific findings in that order which reach those

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conclusions.

A They are Findings No. 13, 14, 15, 16, and 17.

Q And briefly what do those findings provide?

A Finding No. 13, to paraphrase, it says that the Basin Dakota is a tight gas sand with low permeability or porosity, and it cannot be effectively drained by the existing wells on the proration unit., and the additional drilling of wells is what was proposed.

Then No. 14 says that the infill drilling of a second well is necessary to effectively drain that portion of the reservoir covered by the proration unit that could not be done with the existing well.

Then No. 15 says that the infill drilling will substantially increase the reserves from each proration unit.

And No. 16 says that that indeed will increase the ultimate recovery of reserves from the proration unit..

And No. 17 says that because of more efficient use of reservoir energy, that there will be greater ultimate recovery and thereby preventing waste.

MR. HALL: At this point, Mr. Examiner, we would request that the Division take administrative notice of the proceedings with Order R-1670-V and request that that order be incorporated by reference into

1
2 this proceeding.

3 MR. STOGNER: Thank you, Mr.
4 Hall. It will be.

5 Q Mr. Miertschin, I'm going to show you
6 what's been marked as Exhibit A, and ask you to identify
7 that and explain what it is intended to reflect.

8 A Well, this is a certification tendered by
9 Mesa Petroleum that Mesa, the operator of the McLeod No. 2-
10 E, and gives the location of it, and it certifies that we
11 are the operator and it was drilled in the Basin Dakota, and
12 that it was drilled under the Order R-1670-V as an infill
13 well that will increase reserves on the proration unit and
14 thereby make more efficient use of the energy and ultimate
recovery and prevent waste.

15 Also, that Mesa would not restrict the
16 production in any way of the -- of the other well on the
17 proration unit, and that we were not trying to avoid the New
18 Mexico Natural Gas Pricing Act with the sales from this
well.

19 Q All right, Mr. Miertschin, are you
20 authorized to make such certifications?

21 A Yes, I am.

22 MR. HALL: Mr. Examiner, we'd
23 offer Exhibit A into evidence.

24 MR. STOGNER: Exhibit A will be
25 admitted into evidence.

Q Mr. Miertschin, when was the infill well

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spudded on this spacing unit?

A It was spudded October the 19th of 1981.

Q All right, where was that well completed?

A It was completed in the Morrison, just below the Basin Dakota in December of 1981.

Q Was that your objective interval when the well was originally spudded?

A Not really. That was a secondary objective. It was drilled as an infill well to the Basin Dakota and while they were out of the hole with the drill string for logging operations, the well came in and blew out in the Morrison, and we had a lengthy problem there of trying to get it back under control and getting it where we could complete it, and it was subsequently completed in the Morrison originally.

Q All right. How long was the Morrison gas produced?

A It was produced until December of 1982 and at that point a recompletion attempt was made from the -- to plug off the Morrison and to come up to the Basin Dakota, the original objective, and that recompletion was finished in January of '83.

Q All right, and if I understand you correctly, then, the Morrison gas was produced from sometime in 1981 through 1983?

A That's correct. First sales were December the 23rd, 1981, and then it was deemed uneconomic be-

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2 cause of water production in 1982, and recompleted in 19 --
3 in December of '82 and January of '83.

4 Q When did first sales of Dakota gas occur?

5 A They occurred on March the 2nd, 1983.

6 Q All right. Have you reviewed or caused
7 to be reviewed the production history on the original well
8 on this spacing unit from the date the infill well was drilled?

9 A Yes, I have.

10 Q Did the original well on the proration
11 unit have its ability to produce into the pipeline
12 restricted in any manner so as to avoid the pricing provisions
13 of the New Mexico Gas Pricing Act?

14 A No, it did not.

15 Q Was production on the original well curtailed?

16 A No. The only time that that well would
17 have been down would be for State tests or mechanical problems
18 or lack of demand.

19 Q All right. Mr. Miertschin, was the infill well drilled to avoid the State Pricing Act?

20 A No, it was not.

21 Q Why was the well drilled?

22 A It was drilled to increase reserves in
23 the ultimate recovery of the spacing unit by maximizing of
24 the reservoir energy.

25 Q All right. One final questions with re-

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gard to the production history for both the No. 2 and 2-E Wells.

Can you tell the examiner which of these wells has in fact produced the larger volume?

A Well, of course, the -- prior to the drilling of this well, the No. 2 produced all of the gas.

Since it was drilled, or since it was re-completed in 1983 to the -- in the competitive reservoir, the Basin Dakota, the -- in the years of 1983 and 1984, actually the No. 2 Well has produced more gas, slightly more, than the No. 2-E, the new well.

Q All right.

MR. HALL: Mr. Examiner, that concludes our direct. If there are no additional questions I'd like to make a brief statement.

MR. STOGNER: Well, at this time I'll allow anybody to make additional appearances at this time.

MR. NANCE: Mr. Examiner, my name is John Nance on behalf of El Paso Natural Gas Company.

I'd entered an appearance at the earlier session of this hearing. I would like to again enter an appearance for El Paso.

MR. STOGNER: Do you have any questions of this witness?

MR. NANCE: No questions.

MR. STOGNER: Ms. Aubrey?

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2 MS. AUBREY: I have no ques-
3 tions.

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5 CROSS EXAMINATION

6 BY MR. STOGNER:

7 Q Mr. Miertschin.

8 A Yes, sir.

9 Q Let me see if I've got this straight in
10 the dates that this well first produced from the Basin Dako-
ta.

11 This well was spudded in October of '81.

12 A That's correct.

13 Q Okay, when was the first sale from the
14 Basin Dakota made?

15 A March the 2nd, 1983.

16 Q Okay. I have in front of me, it was made
17 part of the application, a copy of the Federal Form for a
well completion. Are you familiar with that report?

18 A I don't have it in front of me.

19 Q Okay. Would you look down past halfway?
20 There's a date down there of first production and I believe
21 that's in 1982 sometime? Would you please explain that to
22 me?

23 A Yeah, I see it. The date of first pro-
24 duction in 1982 is not for the Basin Dakota. That is for
the Morrison, which is below the Basin Dakota.

25 Q Okay, so that document is somewhat incor-

1
2 rect that the production, I believe, is up on the upper
3 right hand portion it says Basin Dakota. That should in fact
4 be Morrison?

5 A Well, that's correct. It's -- the Morri-
6 son, I believe, is below the Basin Dakota and may be a part
7 of the Dakota itself. It is not -- but it is not the main
8 pay in the field.

9 The Basin Dakota is the -- the field pay,
10 so that probably, I would say that the field and pool are
11 incorrect.

12 Q Do you know the perforated interval in
13 which the No. 2-E is presently producing from?

14 A Yes, I do. Just a moment. The Dakota
15 perforations would be from 6440 to 6510 and as well the
16 Graneros is perforated there in -- that it's presently pro-
17 ducing from, and those perfs would be from 6324 to 6377.

18 Q Production between January of 1982 to
19 March of 1983, do you know how that was carried on the
20 monthly reports?

21 A I believe it's just carried as the Dakota
22 rather than Basin Dakota.

23 Or it could be carried as Morrison. It
24 was more than likely carried just as Dakota.

25 Q Well, that Dakota, would that be part of
the Basin Dakota in this area?

A Well, I believe --

Q Basin Dakota Pool?

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A That portion of -- the lower portion of
the Dakota?

Q Yes, sir.

A I do not -- I do not know.

MR. STOGNER: I have no further
questions of this witness.

Are there any further questions
of Mr. Miertschin?

There being none, he may be ex-
cused.

Mr. Hall, I believe you had a
statement?

MR. HALL: Well, briefly, Mr.
Examiner, we'd like the record to reflect that Mesa is ap-
pearing as the operator and only at Damson's request.

In the previous hearing held in
this application El Paso Natural Gas Company entered their
appearance and stated that it was their belief that the gas
was being purchased and sold into the interstate stream, and
consequently, we do not feel that the Act covers particular
gas sales from this well and this application is unneces-
sary; that we appear as a precautionary matter only.

That's all I have.

MR. STOGNER: Thank you, Mr.
Hall.

Any further -- anything further
in Case Number 8469?

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There being none, this case
will be taken under advisement.

(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 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. 8469 heard by me on APRIL 10 1985.

Gilbert P. Quintana Examiner
Oil Conservation Division

MS