



CASE No.  
2938

Application,  
TRANSCRIPTS,  
SMALL Exhibits  
ETC.

**CLASS OF SERVICE**

This is a **day message** unless its deferred character is indicated by the proper symbol.

# WESTERN UNION

## TELEGRAM

(15)

1261 (4-00)

W. P. MARSHALL, President

**SYMBOLS**

DL - Day Letter

DL - Day Letter

DL - Day Letter

The filing time shown in the date line on domestic telegrams is LOCAL TIME at point of origin. Time of receipt is LA CA at point of destination.

LA010 DA063

MDA006 PD-FAX MIDLAND TEX 31 803A CST

A L PORTER JR

OIL CONSERVATION COMMISSION OF NEW MEXICO SANTA FE NM

THIS IS TO ADVISE THAT TEXACO INC. HAS COMPLIED WITH ORDER NUMBER R - 2605 EFFECTIVE FEBRUARY 1, 1964, PROHIBITING FLARING VACUUM FIELD GAS. DELIVERY TO PURCHASER COMMENCED AT 4:12 P.M. JANUARY 29, 1964.

J H MARBLEY.

R 2605 1 1964 4:12 P.M. 29 1964

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

RECEIVED

RECEIVED

**DOCKET: REGULAR HEARING - WEDNESDAY - NOVEMBER 13, 1963**  
**OIL CONSERVATION COMMISSION - 9 A.M., MORGAN HALL, STATE LAND OFFICE BUILDING,**  
**SANTA FE, NEW MEXICO**

- ALLOWABLE:** (1) Consideration of the oil allowable for December, 1963.
- (2) Consideration of the allowable production of gas for December, 1963, for ten prorated pools in Lea and Eddy Counties, New Mexico, and also presentation of purchaser's nominations for the six-month period beginning January 1, 1964 for that area. Consideration of the allowable production of gas for nine prorated pools in San Juan, Rio Arriba and Sandoval Counties, New Mexico for December, 1963.

**CASE 2935:** Application of Humble Oil & Refining Company for the creation of a new pool, for special pool rules, and for interference tests, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new oil pool for Gallup production comprising all of Sections 7 and 18, Township 28 North, Range 14 West; all of Sections 10 through 13, and N/2 and SE/4 of Section 14, Township 28 North, Range 15 West; all of Sections 7 and 8, SW/4 of Section 15, all of Sections 16 through 22, SW/4 of Section 23, SW/4 of Section 25, all of Sections 26 through 30, N/2 and SE/4 of Section 32, and all of Sections 33 through 36, Township 29 North, Range 15 West; all of Sections 11 through 14 and all of Section 24, Township 29 North, Range 16 West. Applicant also seeks the promulgation of special rules for said pool to include provisions for temporary 160-acre proration units and for well locations no nearer than 660 feet to the outer boundary of said units. Applicant further seeks authority to conduct interference tests during said temporary one-year period and to transfer allowables among wells on the same basic lease.

**CASE 2936:** In the matter of the application of the Oil Conservation Commission of New Mexico upon its own motion for an order for the creation of a new pool in Lea County, New Mexico, the abolishment of a certain existing pool in Lea County, New Mexico, and the extension of the vertical and horizontal limits of certain existing pools in Eddy and Lea Counties, New Mexico, and giving notice to all persons and parties interested in the subject matter thereof to appear and show cause why such creations and extensions of vertical and horizontal limits should not be made.

- (a) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Bone Springs production, designated as the North Bell Lake-Bone Springs Pool, and described as:

TOWNSHIP 23 SOUTH, RANGE 34 EAST, NMPM  
 SECTION 18: SW/4

- (b) ABOLISH the West Crossroads-San Andres Pool in Lea County, New Mexico, described as:

TOWNSHIP 9 SOUTH, RANGE 35 EAST, NMPM  
 SECTION 20: E/2  
 SECTION 21: SW/4



CASE 2936 continued from page 1

- (c) EXTEND the Jenkins-San Andres Pool in Lea County, New Mexico to include the above described acreage formerly included in the West Crossroads-San Andres Pool.
- (d) EXTEND the Blinebry Oil Pool in Lea County, New Mexico, to include therein:
- TOWNSHIP 21 SOUTH, RANGE 37 EAST, NMPM  
SECTION 32: SE/4
- (e) EXTEND the Double A-Abo Pool in Lea County, New Mexico, to include therein:
- TOWNSHIP 17 SOUTH, RANGE 36 EAST, NMPM  
SECTION 20: S/2 NW/4
- (f) EXTEND the Flying "M" Abo Pool in Lea County, New Mexico, to include therein:
- TOWNSHIP 9 SOUTH, RANGE 33 EAST, NMPM  
SECTION 21: E/2 E/2  
SECTION 22: W/2 NW/4 and S/2
- (g) EXTEND the North Justis-Tubb Drinkard Pool in Lea County, New Mexico, to include therein:
- TOWNSHIP 24 SOUTH, RANGE 37 EAST, NMPM  
SECTION 34: E/2 SE/4
- (h) EXTEND the Monument-Tubb Pool in Lea County, New Mexico, to include therein:
- TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM  
SECTION 15: NE/4
- (i) EXTEND the Wilson Yates-Seven Rivers Pool in Lea County, New Mexico, to include therein:
- TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM  
SECTION 25: W/2 NW/4
- (j) EXTEND the vertical limits of the Red Lake(Grayburg-San Andres) Pool in Eddy County to include the Queen formation underlying Unit G of Section 9 only, in Township 17 South, Range 28 East. Further to extend the horizontal limits of said pool to include therein:
- TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM  
SECTION 9: SW/4 NE/4

-3-

CASE 2936 continued from page 2

- (k) EXTEND the Lusk-Strawn Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 31 EAST, NMPM  
SECTION 25: NE/4

CASE 2937:

Northwestern New Mexico Nomenclature case calling for an order extending existing pools in Rio Arriba, Sandoval, and San Juan Counties, New Mexico.

- (a) EXTEND the South Blanco-Pictured Cliffs Pool to include:

TOWNSHIP 23 NORTH, RANGE 2 WEST, NMPM  
SECTION 3: W/2  
SECTION 4: ALL  
SECTION 10: ALL  
SECTION 14: NW/4 & SE/4  
SECTION 23: NE/4  
SECTION 24: NW/4

TOWNSHIP 24 NORTH, RANGE 2 WEST, NMPM  
SECTION 26: ALL  
SECTION 27: E/2 & SW/4  
SECTION 28: S/2  
SECTION 29: ALL  
SECTION 30: ALL  
SECTION 31: E/2  
SECTION 32: ALL  
SECTION 33: ALL  
SECTION 34: ALL  
SECTION 35: ALL

- (b) EXTEND the Cha Cha-Gallup Oil Pool to include:

TOWNSHIP 28 NORTH, RANGE 12 WEST, NMPM  
SECTION 29: W/2

- (c) EXTEND the Many Rocks-Gallup Oil Pool to include:

TOWNSHIP 31 NORTH, RANGE 17 WEST, NMPM  
SECTION 2: N/2 NW/4

CASE 2938:

In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit all interested parties to appear and show cause why an order should not be entered prohibiting the flaring or venting of casinghead gas, Vacuum Field, Lea County, New Mexico.

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASE No. 2305  
Order No. R-2008

APPLICATION OF TEXACO INC.  
FOR PERMISSION TO MARKET IN  
EXCESS OF ALLOWABLE, LITTLE  
LUCKY LAKE-DEVONIAN POOL,  
CHAVES COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on June 14, 1961, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 22nd day of June, 1961, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the production from the Little Lucky Lake-Devonian Pool in Township 15 South, Range 30 East, NMPM, Chaves County, New Mexico, is approximately 60.6° gravity and, due to its highly volatile nature, it is impossible to prevent a substantial amount of the production from escaping into the atmosphere under present operating conditions.

(3) That in order to prevent the waste of these escaping vapors, the applicant, Texaco Inc., proposes to install an extraction and stabilization plant on its Little Lucky Lake Unit in said pool.

(4) That in order to justify the cost of constructing such a plant, the applicant seeks permission to market stock tank liquids approximately 11.0 percent in excess of top unit allowable plus such other liquids, including propane, which may be recovered.

(5) That no increase in the present rate of production would be required to market such excess, the increase being the amount of liquid production presently escaping into the atmosphere.

**BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO**

**IN THE MATTER OF THE HEARING CALLED  
BY THE OIL CONSERVATION COMMISSION  
ON ITS OWN MOTION TO PERMIT ALL  
INTERESTED PARTIES TO APPEAR AND  
SHOW CAUSE WHY AN ORDER SHOULD NOT  
BE ENTERED PROHIBITING THE FLARING  
OR VENTING OF CASINGHEAD GAS, VACUUM  
FIELD, LEA COUNTY, NEW MEXICO.**

**CASE No. 2938  
Order No. R-2605**

**ORDER OF THE COMMISSION**

**BY THE COMMISSION:**

This cause came on for hearing at 9 o'clock a.m. on November 13, 1963, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 18th day of November, 1963, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

**FINDS:**

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That a substantial quantity of casinghead gas produced from oil wells in the Vacuum Field, Lea County, New Mexico, is being vented or flared.

(3) That casinghead gas transportation facilities are presently available in the subject area; that additional casinghead gas transportation facilities are being constructed in the subject area; and that the operators in the Vacuum Field should be able to complete connections to said casinghead gas transportation facilities by February 1, 1964.

(4) That the flaring or venting of casinghead gas when casinghead gas transportation facilities are available constitutes unnecessary or excessive surface loss or destruction of natural gas without beneficial use and results in surface waste.

(5) That the venting or flaring of casinghead gas in the Vacuum Field should be prohibited in order to prevent waste.

-2-  
CASE No. 2938  
Order No. R-2605

(6) That the order prohibiting the venting or flaring of said gas should be effective February 1, 1964, in order to allow the operators in the Vacuum Field sufficient time to complete connections to casinghead gas transportation facilities.

(7) That a 90-day exception to the no-flare order should be allowed for each new well following its date of completion in order to allow the operator sufficient time to connect the well to a casinghead gas transportation facility.

(8) That the Secretary-Director of the Commission should be authorized to grant exceptions to the no-flare order when such exceptions are necessary in order to prevent waste or undue hardship.

**IT IS THEREFORE ORDERED:**

(1) That no casinghead gas shall be flared or vented from wells in the Vacuum Field, Lea County, New Mexico.

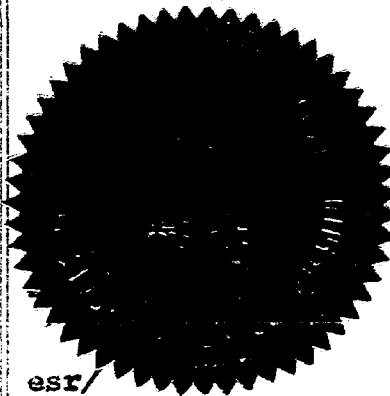
PROVIDED HOWEVER, That each new well completed in said field subsequent to the effective date of this order is hereby granted an exception to this order for a period of 90 days following completion of the well.

(2) That the Secretary-Director of the Commission is hereby authorized to grant an exception to this order upon application filed therefor if, in his judgment, such exception is necessary in order to prevent waste or undue hardship.

(3) That the provisions of this order prohibiting the flaring or venting of casinghead gas produced from wells in the Vacuum Field shall be effective February 1, 1964.

(4) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

*Jack M. Campbell*  
JACK M. CAMPBELL, Chairman

*E. S. Walker*  
E. S. WALKER, Member

*A. L. Porter, Jr.*  
A. L. PORTER, JR., Member & Secretary

GOVERNOR  
JACK M. CAMPBELL  
CHAIRMAN

State of New Mexico  
**Oil Conservation Commission**



LAND COMMISSIONER  
E. S. JENSEN WALKER  
MEMBER

P. O. BOX 871  
SANTA FE

STATE GEOLOGIST  
A. L. PORTER, JR.  
SECRETARY - DIRECTOR

November 18, 1963

Mr. Charles White  
Gilbert, White & Gilbert  
Attorneys at Law  
Box 787  
Santa Fe, New Mexico

Re: Case No. 2938  
Order No. R-2605  
Applicant:  
OCC

Dear Sir:

Enclosed herewith are two copies of the above-referenced  
Commission order recently entered in the subject case.

Very truly yours,

*A. L. Porter, Jr.*

A. L. PORTER, Jr.  
Secretary-Director

ix/

Carbon copy of order also sent to:

Hobbs OCC X

Artesia OCC       

Astec OCC       

OTHER Mr. Jason Kellahin

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
November 13, 1963

REGULAR HEARING

IN THE MATTER OF:

In the matter of the hearing called by  
the Oil Conservation Commission on its own  
motion to permit all interested parties to  
appear and show cause why an order should  
not be entered prohibiting the flaring or  
venting of casinghead gas, Vacuum Field,  
Lea County, New Mexico.

Case No. 2938

BEFORE: HONORABLE JACK M. CAMPBELL, GOVERNOR  
E. S. (JOHNNIE) WALKER, LAND COMMISSIONER  
A. L. (PETE) PORTER, SECRETARY-DIRECTOR

TRANSCRIPT OF HEARING

DEARNLEY-MEIER REPORTING SERVICE, Inc.

SANTA FE, N. M.  
PHONE 325-1182

SANTA FE, N. M.  
PHONE 923-3971

ALBUQUERQUE, N. M.  
PHONE 243-6591

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
November 13, 1963

REGULAR HEARING

IN THE MATTER OF:

In the matter of the hearing called by the  
Oil Conservation Commission on its own  
motion to permit all interested parties  
to appear and show cause why an order  
should not be entered prohibiting the flar-  
ing of casinghead gas, Vacuum Field,  
Lea County, New Mexico.

CASE NO.

2938

BEFORE: HON. JACK M. CAMPBELL, GOVERNOR  
E. S. (JOHNNIE) WALKER, LAND COMMISSIONER  
A. L. (PETE) PORTER, SECRETARY-DIRECTOR

TRANSCRIPT OF HEARING

MR. PORTER: The Commission will consider next, Case  
2938.

MR. DURRETT: In the matter of the hearing called by  
the Oil Conservation Commission on its own motion to permit all  
interested parties to appear and show cause why an order should  
not be entered prohibiting the flaring or venting of casinghead  
gas, Vacuum Field, Lea County, New Mexico.

If the Commission please, J. M. Durrett, Jr., appearing  
on behalf of the Commission and staff. I will have one witness,

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691





Mr. John Ramey.

MR. PORTER: Before you put on your testimony, Mr. Durrett, I would like to ask for other appearances.

MR. WHITE: Charles White appearing on behalf of Texaco, Inc.. We will have three witnesses.

MR. KELLAHIN: Jason Kellahin, Santa Fe, appearing for Phillips Petroleum Company. We will have one witness.

(witnesses sworn)

JOE D. RAMEY,

called as a witness herein, having been first sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. DURRETT:

Q Mr. Ramey, would you please state your full name and position for record?

A Joe D. Ramey, Supervisor District One, New Mexico Oil Conservation Commission.

Q Mr. Ramey, as part of your official duties as supervisor of District Number One for the Oil Conservation Commission, are you directly in charge of the Vacuum area, or what is known as the Vacuum Field in the Southeast -- in Southeast New Mexico, and is it directly under your jurisdiction?

A Yes, sir.

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



Q And are you familiar with the background of this case that has been called today, Case Number 2938?

A Yes, I am.

Q Would you please give us briefly some of the background facts as to how this case happened to be called before the Commission?

A Yes, sir. In our routine checking of the statistical report, we noted that Texaco, Inc. was flaring all casinghead gas produced from their deeper pays in the Vacuum Field. I contacted Texaco's Hobbs office and advised them that we were aware of the situation, suggested to them that they should look into the possibility of getting a connection. They advised me that this was handled by their gasoline department, and that they thought they were working on obtaining a connection. I heard nothing further from Texaco, so I discussed this matter with the Commission staff and we concluded that we should advise Texaco that if they did not have a connection by November 10th, that we would shut in their leases. They in turn have requested this hearing.

Q They requested this hearing. So, it was actually at the request of Texaco, rather than being shut in, as the alternative was at that time?

A Yes, sir.

Q Now, Mr. Ramey, would you please refer to what has been marked as Exhibit Number One, and please identify it?

MR. PORTER: Mr. Durrett, before we proceed, we might

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691

clarify this point, who requested the hearing. After I had discussed this thing with Mr. Ramey, and he in turn had discussed it with Texaco, then, Texaco's representative called me and at that time, I told him after some discussion, that we had decided to call the show cause hearing and I think there was some misunderstanding there. Possibly Mr. Ramey may have misunderstood me in the conversation with him. But, as I recall, Texaco did not ask for show cause hearing. Is that correct?

MR. DURRETT: Thank you, Mr. Porter. The record will be straight on that then.

Q (By Mr. Durrett) Would you please refer to your Exhibit Number One and Identify that?

A Perhaps we should distribute some of these.

Q Yes, sir. Please distribute some of your exhibits, extra copies.

A Exhibit One is a plat of a portion of Vacuum Field, showing in red the leases which are flaring or venting casinghead gas. The green lines transposed thereon are the present gas gathering lines of Phillips Petroleum Company.

Q And was this prepared by you or under your supervision, Mr. Ramey?

A Yes, it was.

Q Would you please tell us where you obtained the information to compile this plat with?

A Well, from our ownership maps and then we visited the



Phillips office in Hobbs to transpose the lines on the plat.

Q So far as pipeline which appear in green, you took that off the - - a Phillips map in their office as part of their official, not official, but as a part of their business records?

A Right.

Q Now, this plat is not to scale, is it, Mr. Ramey?

A Well, it is reasonably to scale. The lines probably are not accurate, but they are reasonably an accurate transposition of the present lines.

Q At any rate, that does indicate the present existing Phillips- - pipeline connections in that area?

A Yes. It indicates that there are lines either to the Texaco leases, or reasonably close thereto.

Q Now, would you please refer to your Exhibit Number Two, Mr. Ramey, and identify it and explain in summary what appears thereon?

A Exhibit Two is a tabulation of the volumes of gas that have been flared since April of 1962 through September of 1963 by Texaco only. I might add that there are two other operators in the field who are flaring gas at the present. But, these volumes are very small and probably do not warrant a connection.

Q Now, as far as your Exhibit Number Two is concerned, it shows the MCF by year, by month, actually, from April 1962 to September of 1963, the volumes of gas being flared or vented in this area; is that correct?

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building

Albuquerque, New Mexico Phone 243-6691



A Yes, sir.

Q You have also indicated thereon the various pools involved?

A Yes, sir.

Q Would you explain a little more in detail your calculations here on total gas flared?

A Well, the total gas for the year, 1962, was approximately 157,000 MCF, and for the first nine months of 1963, it was in excess of 466,000 MCF. The total to October 1, 1963, 623,449. The gas volume starting in April was not too critical. April, '62 it was only about 16,000 MCF a month, but as their completions increased, why, so did the gas volumes increase, and reached a high in August of 91,943 MCF.

MR. PORTER: Is that August of '63?

A August of '63, yes, sir.

MR. PORTER: Would you give me that figure again, please sir?

A 91,943. I have checked into Texaco's completions for October, and the first week in November, and estimated volume to be flared daily based on these recent completions would be around another 930 MCF. So, calculating the gas being flared daily based on August figures, why, I come out to a total of 3,893 MCF daily.

Q (By Mr. Durrett) Now, Mr. Ramey, would you please explain to the Commission why you didn't use your September figure for your calculations; why did you use August?

DEARNLEY MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691

A September, Texaco reported that they are selling gas to drilling rigs from some of their leases, so the volume was down, but this is kind of an unstable market, so the actual volume of gas would, I felt that the August volume would be more reasonable.

Q Mr. Ramey, from what source did you gather your information to compile your Exhibit Number Two?

A From the statistical report and also from the C-1-15 that the operators submit.

Q Is that the New Mexico Oil And Gas Engineering Committee monthly statistical report?

A Yes, sir.

Q All right.

MR. DURRETT: If the Commission please, I would move that the Commission take administrative notice of the New Mexico Oil and Gas Engineering monthly statistical report, from for the month of April, 1962 through September, 1963. And also, that the Commission take administrative notice of the C-1-15s on file as part of its official record.

MR. PORTER: Are those the same months, Mr. Durrett?

MR. DURRETT: I believe on the C-1-15s, just the last month.

MR. PORTER: All right.

A Just the last month, September, 1963.

MR. PORTER: Commission will take administrative notice of these records.



Q Now, Mr. Ramey, in your opinion, does the flaring of, or venting of, gas, when gas transportation facilities are available, constitute unnecessary or excessive surface loss or destruction of natural gas without beneficial use?

A Yes, sir.

Q In your opinion, Mr. Ramey, does this constitute what is commonly known in the oil and gas industry as waste?

A Yes, sir.

Q If the Commission please, Mr. Ramey, I believe you have testified prior to this, but I will ask you again, Exhibit Number One and Two were prepared by you, or under your direction and supervision; is that correct?

A Yes, sir, they were.

MR. DURRETT: If the Commission please, I move the introduction of Exhibits One and Two, that concludes my examination of Mr. Ramey.

MR. PORTER: Without objection, the exhibits will be admitted.

# EXAMINATION

BY MR. PORTER:

Q I believe you mentioned there were two other operators flaring some gas in the pool.

A Yes, sir.

Q Could you give us an idea of how much gas is being flared, other than Texaco leases?

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building

Albuquerque, New Mexico

Phone 243-6691

A Great Western, I believe, is flaring around - - they report 169 MCF per month from one well. That is two wells. One in the Vacuum Grayburg San Andres and another one, I believe, in the Vacuum Abo Reef. And one other operator, I can't remember right now who it is. They report around 40 MCF monthly that they are flaring.

GOVERNOR CAMPBELL: What is the total volume of gas that has been flared; can you compute that?

A Well, with the exception, of course, when the wells are initially completed, why, there might be a period of a few days before he gets a connection, but Texaco's volumes are 623,449 MCF.

GOVERNOR CAMPBELL: Through what month?

A Through September, 1963.

GOVERNOR CAMPBELL: You show on Section Six, Township 13 South, Range 35 East, what appears to be a State "R" lease, a connection, and yet, you show it in red. What is the situation there?

A That they are selling gas from the old Vacuum Grayburg San Andres, the shallow production. The deeper production, which I believe is the Vacuum Abo Reef, flaring the gas.

MR. PORTER: The gas is being flared from deeper pays than from San Andres?

A Yes, sir. They are selling all the San Andres gas.

MR. PORTER: Does anyone have a question of Mr. Ramey?

He may be excused.





MR. DURRETT: If the Commission please, I apologize. I forgot to request that we take a recess so that Texaco could put up some exhibits. I would move that now, with my apologies to Texaco.

(Recess)

MR. PORTER: The hearing will come to order, please. Mr. White:

C. R. BLACK,  
called as a witness herein, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. WHITE:

Q Mr. Black, will you state your full name for the record please?

A I am C. R. Black.

Q By whom are you employed and in what capacity?

A I am employed by Texaco, Inc. and Division Proration Engineer out of Midland office.

Q Have you previously testified before the Commission and have your qualifications been accepted?

A Yes, sir, they have.

Q Are you familiar with the Texaco operations in the Vacuum Pool?

A Yes, sir, I am.

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



Q What is the extent of Texaco's operations?

A Texaco is certainly a vitally interested party in the Vacuum multi-pay pools for we hold oil and gas leases on approximately 7200 acres of state land in this area.

Q Are you the largest operator in the area?

A Yes, sir, we are one of the largest, if not the largest, operator in the area.

Q Is Texaco one of the moving operators in the developing of the pool?

A Yes, sir, I believe we are at the present time. We have four wells drilling. We have four wells completing. Three of which will be multiple completions. During 1963, we have completed 40 zones already, as of this date, and we anticipate additional 18 zones for a total of 58 completions during the year, 1963.

Q Will you state that Texaco holds around 7200 acres; is that all state land?

A Yes, it is.

Q To what extent is this developed?

A We have approximately six- - 4500 acres developed with 121 holes in the ground, or wells. These wells have 137 zones of completion. 90 of these zones are San Andres completions, and 47 are in zones other than San Andres.

Q Did you prepare a production history?

A Yes, sir, I have.

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



Q Are you, or will you refer to Exhibit One and explain that, please?

A Yes, sir. Exhibit Number One is a production history of the Texaco wells which are not connected with the existing gas facilities in the Vacuum multi-pay pools. These wells are completed in eight separate reservoirs. The Abo, Abo Reef, the Blinebry, Devonion, Drinkard, Glorieta, Pennsylvanian and the Wolfcamp.

Now, the green line represents monthly oil production. The red line on this curve represents monthly gas production and the blue line represents monthly gas venting. The black staircase line at the base of the exhibit represents the number of producing zones or completions in these reservoirs, other than San Andres.

Until October 26, 1961, Texaco had production only from the Vacuum Grayburg pool. However, October 26th, we completed the State "F" New Mexico AB well Number Two as a top allowable well in the Vacuum Abo Reef field. This well on a 20 potential test flowed 462 barrels of oil with no water, and a gas-oil ratio of 1177 cubic feet per barrel. We continued development rather slowly during the latter part of '61, and the first part of '62. In April, we completed our seven zones, or seven completions, five of these completions were in the Vacuum Abo Reef and two of them were in the Vacuum Drinkard. At that time we had to wait on other operators, or we did wait on other operators, to prove up or further develop and establish the trend of the Abo Reef. Then, in the latter part of 1962, is when things begin to happen. In

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6601

November of this year, Mobil Oil Company discovered four additional pays in their State Bridges well Number 95. Also, at about that same time, the Vacuum Abo Reef development approached the Texaco lease line on the State F New Mexico AE lease, so in the early part of '63, we again began a very active development program. This is certainly obvious by the rapid increase in monthly oil production, the rapid increase in monthly gas production and the relatively rapid increase in number of producing wells. The production in January of 1963, was 590 barrels of oil per day, for a total of 18,229 barrels of oil for the month. The gas production in January was 640 MCF per day, or 19,803 MCF for the month. As Mr. Ramey stated, up to this point, the volume of gas that was being vented was relatively insignificant. As I said, in early '63, we began our rapid development program and production has rapidly and continually increased so that on November 15th, we will be producing at a rate of 5,240 barrels of oil per day, nearly ten times what we did in January. During November, we estimate we will produce a total of 157,000 barrels of oil. Our gas production will be five point three million cubic feet per day. Our gas vented will be 4.3 million cubic feet per day. And we will have 47 zones completed. And it can be seen that in January of 1964, our production will be far in excess of ten times what it was in January of '63. So, this development has taken place in what I would term a relatively short period of time. The dashed line, I would like to explain, are estimated figures. All of these



production figures are from the Commission report form C-115.

However, the report only is through September. These estimated figures, however, up to the 15th of November, they are very close to what the actual production will be.

Q Mr. Black, explain why the variation as to the monthly production, gas production, as against the gas venting.

A You will notice the red and blue line, monthly gas production, and monthly gas venting, are the same line, actually. However, in April of '63, we began using some of this gas for rig fuel. We had given- - We four and five rigs running all of the time. The difference here between the red and blue line is the gas that has been utilized on these leases for rig fuel.

Q Why has Texaco been venting this gas?

A We have not and did not commit this gas to existing facilities for the reason that we were very strongly considering the possibility of building a Texaco gasoline plant in this field. As I stated previously, we have considerable holdings. We felt there was a possibility- - felt this was possibly feasible. We do plan to build a plant and this plant will be completed in the relatively near future. Our next witness will go more into detail with regard to the gasoline plant.

Q Now, will you continue with the production figures?

A The accumulative production figures as of November 15th we will have produced 900,500 barrels of oil. We will have produced one billion, 11 thousand, six hundred million cubic feet of

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building

Albuquerque, New Mexico

Phone 243-6691



gas. We will have utilized 166,791 MCF. Therefore, we will vent a total of 844,700,000 cubic feet of gas.

Q Why did you terminate your estimated volume as of February for 1964?

A We do have a market available now, at this time. However, this market is going to require a considerable amount of investment and construction work on behalf of Texaco. It will make use, we estimate at that time the flare will be eliminated by February 15th.

Q By reason of your new construction or constructive facilities?

A Yes, sir.

Q Will you give the accumulative figures for February?

A From November 15th to February 15th, 1964, during this interim period, we will produce an additional six hundred thousand five hundred barrels of oil. We will produce an additional five hundred sixty-nine thousand two hundred MCF of gas. We will utilize ninety-one million cubic feet of gas. Therefore, we will vent approximately four hundred seventy-eight thousand MCF. Accumulative figures of February 15th of 1,501,000 barrels of oil, 1,580,800 MCF, 1,322,900 MCF of gas utilized.

Q Does that conclude your testimony of Exhibit One?

A Yes, sir.

Q Will you now refer to Exhibit Two and explain that, please?

A Exhibit Number Two is a tabulation of the production

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building

Albuquerque, New Mexico

Phone 243-6691



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691

economics for the Vacuum multi-pay field for Texaco properties.

As stated previously, on November 15th, we will have vented 844,700 MCF. If this gas had been sold to the existing facilities, the value of this gas would have been \$97,100.00. During this period of time, we were venting this gas, however, we did produce 900,500 barrels of oil valued at \$2,710,500.00. Continuing to February 15th, we will produce additional 478,000 MCF gas, which would be valued, if it was being sold to the existing facilities, of \$54,900.00. We will produce an additional 600,500 barrels of oil during this period of time, though, and its value will be \$1,807,500.00. This would give us accumulative volumes and values on February 15th, as I have shown here on the exhibit. It should be noted that the additional gas produced and vented during this 90 day period of time is only approximately one-third of the total volume that will be vented and its value is approximately \$55,000.00.

Q What are the royalty values of oil and gas that is produced from now until February 15th, 1964?

A The royalty value of the gas, if it was produced, or if it was sold to the existing facility, during that 90 day period, would be \$7,000.00. The royalty value of the oil produced along with this gas would be \$228,000.00. Now, I will- -

Q Now, will you refer to Exhibit Three and explain that exhibit, please?

A Exhibit Number Three is a tabulation of the zones of





DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691

completion in the Vacuum multi-pay field at the present time, which is as of this date, November 13th, 1963, we have six wells completed in the Glorieta zone. We have five wells on the Blinebry zone. We have two wells in the Drinkard zone. We have 21 Abo Reef wells, we have three wells in the Abo formation. We have five in the Wolfcamp and three in the Pennsylvanian, two in the Devonian, for a total of 47 completions in zones, other than San Andres. Based on our present interpretation which we feel is reasonable, we estimate that we will ultimately have 25 wells in Glorieta and 22 wells in the Blinebry, four wells in the Drinkard, 60 wells in the Abo Reef, nine wells in the Abo, 13 in the Wolfcamp, 11 in the Pennsylvanian, two in the Devonian, for a total of 146 zones completed. The casinghead gas reserves for these completions is estimated to be hundred and twenty billion cubic feet of gas.

Q What are your plans for development?

A As I stated, we have proceeded with an active development program, and we plan to continue to have an active development program until we do develop our properties in that area.

We now have four rigs drilling wells, we have four wells being completed, three of which will be multiple completions. We expect by February 15th of '64 to have 79 zones completed. We estimate that all of that development will take place within the next two years, and that there -- it will be completed by at least the middle or the latter part of 1965.

Q Does that conclude your testimony on that?





A Yes, sir, it does.

MR. PORTER: Does anyone have any questions of Mr. Black on the direct?

CROSS EXAMINATION

BY MR. DURRETT:

Q Mr. Black, when did you state that you finalized your gas market?

A This gas market has just recently been finalized. However, I would like to delay any questions with regard to the gas market to our next witness, who is a representative of the gasoline department.

Q He will testify concerning your gas market and your proposed- -

A Yes, sir. And the negotiations for this market.

Q Let me just ask you one other question in reference to your Exhibit Number Two, which has various figures on it concerning the amount of gas vented and that will be produced until February of '64. I think you stated that you would recover a considerable amount of oil between now and then; that you vent what you consider to be a small amount of gas; is that correct?

A I don't believe I said a small amount of gas. I said the relative value of that gas would be small.

Q Relative value would be small?

A Yes.

Q All right. Let me ask you this question, Mr. Black: If

DEARNLEY, MILLER, WILKINS and CROWNOVER

General Court Reporting Service

Phone 243-6691

Albuquerque, New Mexico

Suite 1120 Simms Building



DEARNLEY, MEIER  
WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691

Texaco is shut in between now and February 15th, won't be any gas wasted, will there, won't be vented?

A If our oil operations are shut in, there is no gas production.

Q The oil that is in the ground will not be lost, will it?

A The oil that is in the ground will eventually be lost to Texaco; if this oil is recovered by Texaco, it will be at the very late stages of our production, if this condition- - if Texaco is the only operator to be shut in. Then, pressure distribution within the reservoir will be changed during that interim period of time, and under proration and competitive operations, these pressures distribution will not be altered from what they were already altered, therefore, this would be to the detriment of Texaco in that we would compete for these same reserves down on the end of the line with each other operator. We are looking at a life of 20 years. These figures are current income. When you present worth these figures for 20 year period of time, the relative value of this oil is lost to Texaco.

Q Are you stating that between now and February 15th, that Texaco's acreage is going to be drained, if you are shut in, by offset wells?

A I think that the pressure distribution within the reservoir will be altered from what it is now, which would be to the detriment of Texaco.

Q The oil will stay in the ground, will not be drained, but



temporarily delayed as far as Texaco's recovery is concerned.

A Delayed until the end of our 20 years life. At that time, each other operator will be producing also, and we will compete for that same volume of oil.

Q You are talking economics and not a matter of physical recovery then?

A I think it is a matter of physical recovery, Mr. Durrett.

Q All right.

MR. DURRETT: Thank you. I think that is all I have.

MR. PORTER: Does anyone else have a question of Mr. Black? He may be excused.

MR. WHITE: Were these exhibits prepared by you or under your direction?

A Yes, sir, they were.

MR. WHITE: At this time, we offer Exhibits One through Three.

MR. PORTER: Without objection, they will be admitted.

ROBERT F. NAUL,

called as a witness herein, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. WHITE:

Q Will you state your full name?

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691

A Robert F. Naul.

Q By whom are you employed and in what capacity, Mr. Naul?

A Employed by Texaco, Inc., Division Gas Superintendant, Midland Division.

Q Have you previously testified before the New Mexico Oil Conservation Commission, or one of its examiners?

A No, sir, I have not.

Q Will you briefly state your education and professional background?

A Obtained a Bachelor of Science degree in Chemical Engineering and Master of - - Master's degree in Business Administration from Louisiana State University. Been employed by Texaco, Inc. since 1947 in its gas and gasoline operations.

Q Will you briefly describe your present position and responsibilities?

A As I previously stated, my present position is Division Gas Superintendant. My present responsibilities are of the utilization and/or disposition of all gas produced by Texaco in the Midland Division.

Q Is the area under discussion today within your jurisdiction?

A Yes, sir.

Q Are the witness' qualifications acceptable?

MR. PORTER: Yes.

Q (By Mr. White) Have you conducted any negotiations in an



attempt to utilize this casinghead and if so, give a resume of your activities?

A Yes, sir. As a matter of fact, we have conducted extensive negotiations and studies concerning utilization and disposition of this gas. In 1949, Texaco entered into a casinghead gas contract with Phillips Petroleum Company, covering sale of the then existing casinghead gas produced from the Vacuum Grayburg San Andres zone. In December, 1960, we made a preliminary study of a Texaco plant. In view of present Grayburg San Andres development by others on Texaco's Vacuum Pool acreage, we then proceeded in April, 1961, to cancell our existing contract with Phillips.

Q Why did the company see fit to cancell this contract with Phillips?

A To keep the gas from any free Grayburg San Andres zones from being prematurely committed in Interstate Commerce. I would like to emphasize that word, it is "Interstate".

Q Therefore, come under the FPC regulations?

A Yes, sir. There was no interruption in delivery of that gas to the existing facility, however.

Q In other words, the contract was cancelled, but the San Andres Gas has been and still is being sold?

A Yes, sir.

Q Will you continue to recite your negotiations, please?

A As Mr. Black has testified previously, Texaco first--  
Texaco's first Abo well was completed in October, 1961, after we

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



had cancelled the casinghead gas contract. In March, 1962, negotiations were begun with Phillips on a new casinghead gas contract. In April, 1962, Phillips submitted its standard form casinghead gas contract offer for this gas. Then, on June 26, 1962, I met with El Paso Natural Gas Company's representatives in their Houston office, and in an effort to negotiate a possible residue gas sale to El Paso, from a proposed Texaco plant. On July 26, 1962, El Paso advised Texaco it could not take Texaco's proposed Vacuum plant residue gas.

Q Did you then continue to negotiate with Phillips?

A Yes, sir. We continued negotiations with Phillips, and in October, 1962, we made a counter proposal to Phillips' June, 1962 offer. Later in October, 1962, Phillips rejected Texaco's counter offer. Then, in November, 1962, Mobil's State Bridges well Number 95 was completed in several deeper pays in the Vacuum Pool area. This was a signification that Texaco might have considerably larger gas reserves than previously known.

In January, of 1963, we started negotiations with Southern Union Gas Company to purchase Texaco's residue gas. These negotiations continued and in February, 1963, held an office conference in Southern Union's Dallas office. We also traveled to El Paso's Houston office the following day in February, and again, requested El Paso to reconsider purchase of Texaco's Vacuum residue gas, in view of the improved outlook for larger gas reserves; El Paso again advised Texaco it couldn't purchase and take

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



this gas. Negotiations were continued with Phillips during May and through June, 1963.

Q During your negotiations with Phillips and El Paso and Southern Union, was production rate increased?

A Yes, sir. As can be seen from Exhibit One. Mr. Black has already pointed out that production was at a relatively steady level until February, 1963, at which time it began to increase at a rather rapid rate. And I believe he stated earlier that the gas production rate at this time was approximately 5.3 million feet per day of which 4.3 million feet per day was being vented.

Q In May, did you cause a re-evaluation of your potential reserves to be made?

A Yes, sir, we did. We updated reserve estimates and in May, 1963, asked for a complete review and re-evaluation of all zones.

Q What was the result of the studies, these studies?

A These studies showed that our gas reserves had an increase to approximately 120 billion cubic feet. This was approximately three times our earlier estimates.

Q With these studies, were you also concerned with the economic feasibility of constructing a gas plant?

A Yes. As a matter of fact, in June, 1963, we started negotiations with Transwestern Pipeline Company for purchase of residue gas from a possible Texaco plant. We conferred with Transwestern in person, June 25th and 26th, 1963. These negotiations

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service  
Albuquerque, New Mexico  
Suite 1120 Simms Building  
Phone 243-6691





DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691

were pursued through July, and August with Transwestern. In early September, 1963, Transwestern advised that they cannot take Texaco's plant residue gas at an early date. Also, during this period, negotiations were continued with Phillips in an effort to obtain a casinghead gas agreement with Phillips on more favorable terms. Also, in July, we visited Transwestern's Houston office and again were advised - - and again visited with El Paso in Houston, regarding a possible residue gas sale. Furthermore, in line with the previously stated negotiations with Phillips, we solicited an improved offer based on the considerably enlarged reserve estimate that had been completed in May, early June. Southern Union was also advised of the larger gas reserves available, in July, with a request that it reconsider a residue gas purchase.

Q Now, will you give a resume of negotiations of August of '63?

A During August, Transwestern and El Paso were evaluating these larger reserves. Phillips was furnished additional information during that time, and Northern Natural Gas Company was informed of the potential gas supply. And was asked to consider a purchase of Texaco residue gas. Southern Union was also re-evaluating. And in August, Southern Union again advised us that they couldn't guarantee they could take this large a package of gas.

Q What negotiations, if any, were undertaken in September of '63?

A As stated, Transwestern advised us early in September





that it could not take this gas supply at that time, or at an early date. We held one subsequent meeting with Transwestern in September. There was no change in the outlook. El Paso also advised us again in September that its facilities were loaded and that it could not take this gas. We conducted further negotiations with Phillips during September and we also opened negotiations with Continental Oil Company during September.

Q What transpired during the month of October?

A On October 1st, Continental expressed very strong interest in the project. We discussed it and on October 10th, we went to their Roswell, New Mexico office, and thereafter held several additional conferences. Our negotiations were so encouraging that on October 25th, we sought approval within Texaco to build facilities to deliver gas to Continental Oil Company's Malgamar plant on a short term basis.

Q Was approval obtained?

A Yes. I might add, at that point, on October 3, we also had another meeting with El Paso, and there was no substantial change, there was no change in their earlier position.

Q Now, what happened on Halloween?

A I believe that was October 31st, of course, the Hobgoblins were out, lot of trick or treaters in my particular neighborhood, but that was also the day that the New Mexico Oil Conservation Commission notified us that this hearing would be held to show cause why a no flare order should not be issued.

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



Q What is the present status with negotiations with Continental?

A We have worked out the major details and have received a firm written offer from Continental confirming our negotiations. We are now proceeding to construct facilities to start gas to Continental.

Q Will you refer to what has been marked Exhibit Four and explain that, please?

A Exhibit Four is a tabulation of the investment and the equipment to be installed as initial facilities to eliminate venting of gas in the Vacuum multi-pay pool and effectuate delivery to Continental Oil Company. Field gas compression in the amount of approximately a thousand brake horsepower will be installed in the Vacuum field and approximately 1300 brake horsepower will be installed at Continental's Mangamar gasoline plant at an estimated cost of \$260,000.00. 15 mile delivery line at an estimated cost of \$257,000.00 will be installed to deliver gas from this compressor in the Vacuum Field to facilities at Continental's plant. Also, a gathering system in the Vacuum Field at an estimated cost of \$87,000.00 will gather the present Grayburg gas from Texaco leases.

Q Have these compressors been requisitioned?

A Yes, sir, they have.

Q You know whether, or not they are available?

A Yes, sir. I have been advised that they are available on

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building

Albuquerque, New Mexico

Phone 243-6691



6 to seven week delivery, ready for installation in the field.

Q Have you started any surveys or - -

A Yes, sir. An aerial reconnaissance of the 15 mile delivery line was made yesterday, and field parties have started survey work on that particular portion of the pipeline. Survey work is already started also on the gathering system. And on compressor location in the Vacuum Field.

Q Will your pipeline be available when needed?

A Yes, sir. Some of the line is already on hand. The balance has been requisitioned and being placed on order.

Q You state that this project is but for a short term. Will you explain that more fully, please?

A Texaco plans to proceed immediately with construction of its plant at an estimated cost of \$3,650,000.00, with the aforementioned facilities shown on Exhibit Four being installed immediately to effectuate delivery of gas to Continental Oil Company.

Q These initial facilities will take care of the gas until the plant is able to handle it; is that right?

A That is correct, sir.

Q Now, will you refer to what has been marked Exhibit Five.

A All right, sir. Exhibit Five is a presentation of the economics of a Texaco plant versus a sale to the existing casing-head gas offer in the Vacuum Field. On the gas reserves previously heretofore stated, it shows a net income from a Texaco plant of 22,424,000.00.

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



**DEARNLEY, MEIER, WILKINS and CROWNOVER**

General Court Reporting Service

Suite 1120 Simms Building

Albuquerque, New Mexico

Phone 243-6691

Q Little louder, please.

A This shows a net income from that Texaco plant of \$22,424,000.00, versus a net income from an existing casinghead gas offer, of 12,130,000.00. It is seen that the increase in net income from a Texaco plant compared to the existing offer is \$10,294,000.00. To achieve this, Texaco will invest in addition to the \$300,000.00, less, approximately \$150,000.00 non-salvageable cost, additional eight hundred thousand dollars for a total of one million six hundred fifty thousand dollars. So, for this investment, combined total of three million six hundred fifty thousand dollars, which includes an estimated \$150,000.00 non salvageable cost, Texaco could achieve this situation up here, an additional \$10,294,000.00 net income.

Q In your opinion, what affect will this new plant have upon new uncommitted gas within the area?

A Well, in my opinion, it will introduce a competitive market for casinghead gas in this area.

Q Do you expect an increase in the value of casinghead gas by reason of the competitive condition?

A Yes, I would. From our experience and observations and other similar situations, it is my opinion that it will.

Q When does Texaco expect this plant to be in operation?  
Latter part of 1964.

Q Were Exhibits Four and Five prepared by you or under your direction?

A Yes, sir, they were.

Q Does that conclude your testimony on direct?

A Yes, sir.

MR. WHITE: At this time, we offer Exhibits Four and Five.

MR. PORTER: You offer Exhibits Four and Five? Without objection, the exhibits will be admitted.

EXAMINATION

BY MR. NUTTER:

Q As far as I could tell, sir, you still haven't made any contract with anybody to sell the gas to them except a temporary contract with Continental; is that correct?

A That is correct.

Q How are you able to determine what your income from a Texaco gasoline plant would be if you don't know how much you can sell the gas for?

A These are based on estimates of what new gas supplies have been committed for of equivalent quality and delivery pressure in that area.

Q Now, you have negotiated with Phillips and El Paso and Southern Union and Transwestern and I don't know who else. Have they made offers to buy the gas?

A Southern Union made an offer to buy gas on limited volumes. They cannot guarantee to take volumes which we anticipate

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



we would have available.

Q Now, has Phillips made- - Phillips has made an offer to buy the gas, but perhaps not at a satisfactory price to Texaco.

A Phillips has made an offer to purchase the gas, as I previously stated, under its standard casinghead gas contract offer, at one earlier date, which I mentioned previously.

Q Well, now, in determining your net income from the gasoline plant here of twenty-two million dollars, you must be using a price for the casinghead gas. Is the price that you figure that you will eventually be able to negotiate with someone?

A The price we use for the casinghead gas evaluating the economics of Texaco's plant is based on value we are receiving under the existing casinghead gas contract offer and under the contract which we cancelled.

Q Do you mean- -

A Under the existing price of similar type gas sales out of the Vacuum Field on the Grayburg gas. It is still being processed.

Q Now, you mean this twenty-two million dollars here, is that your net income from a Texaco plant; is that including the deep gas as well as the San Andres gas?

A No, sir. That is including the new deep gas reserve only. This excludes the Grayburg gas entirely. It is not that economic a picture.

Q This twenty-two million dollars is based on the same

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Phone 243-6691

Albuquerque, New Mexico

Suite 1120 Simms Building



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691

price contract that you have got for your shallow gas?

A The twenty-two million dollars net income includes the \$12,130,000.00 which we estimated would be received from the gas under the presently going sales agreement.

Q It includes that twelve million, but it has got ten million additional?

A Yes, sir.

Q Is the ten million made up entirely of the liquid?

A No, sir. Made up of the liquid and residue gas, a portion of each.

Q You are presuming that you have- - you will have a higher value of residue than you do under the existing contract?

A We are optimistic. We are assuming. That is an estimate.

Q But, at the present time, there is no long term contract?

A There is no long term contract. An offer is still under consideration by one transmission company, who has not made an initial firm response one way or the other.

Q Have you given any consideration- - I notice that Mr. Black and you, as well, have mentioned a temporary period during which you will be selling to Continental and it would take some period of time during which this connection, all that, could be made. Have you given any consideration to the cost or feasibility of repressuring any of these reservoirs rather than flare it?

A Investigations have been made with respect to repressure, using this gas for injection or repressuring.





Q What did those investigations reveal?

A Really don't think that I am qualified to state what they reveal from a standpoint of their affect on the reservoirs. This work was carried out by people in our reservoir engineering section.

Q Regardless of the affect on the reservoirs, they would have to have the effect of saving the gas, wouldn't they?

A If gas injections were commenced during this interim period, that is true.

Q How long do you think it will actually take, since you made your aerial survey yesterday, until the time that you have got gas flowing into Continental's plant in Maljamar?

A We think they will have gas flowing into Continental's plant by February 15th.

Q What will the majority of that time be consumed with, by the construction of the 15 mile line, or the construction of the gathering system or facilities, or what will be the big element as far as time is concerned?

A Compressor delivery time is six to seven weeks. Right away procurement and construction with some time allowance for adverse weather included.

Q Would be possible to install a localized system to inject into one of these reservoirs in that area in less than that length of time, would it not?

A I would say it would be possible to do so.

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691





Q All right, sir.

MR. NUTTER: Thank you.

\* \* \* \*

MR. PORTER: Does anyone else have a question of Mr. Naul?

EXAMINATION

BY MR. DURRETT:

Q Sir, would you give your name again? I missed it. I am sorry.

A Robert F. Naul, N-a-u-l.

Q N-a-u-l. Mr. Naul, now, first thing I would be interested in is, I believe I have it straight, that your plant should be completed the last part of 1964?

A Correct.

Q And that you do have this temporary agreement with Continental, but you don't feel that they will be able to take until about the 15th of February; is that correct?

A They could take earlier than that date. This is our estimated time of when we reasonably expect we could have facilities installed to begin deliveries.

Q I see. Now, I believe you have stated this, but I missed it. When did Phillips make the offer to you that they said they would purchase the gas?

A Beg your pardon?

Q What approximate time or date was it that Phillips made

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Phone 243-6691

Albuquerque, New Mexico

Suite 1120 Simms Building

the offer to you to purchase?

A To purchase?

Q Yes.

A This new gas supply?

Q If there is more than one date, I would be interested in them both. I understand at one time, and maybe more, Phillips had said that they would purchase. I am interested in knowing approximately what dates were they?

A All right, sir. I will review those. In April, 1962, we received casinghead gas contract offer from Phillips.

Q There was no agreement at that time, because of the price dispute. Was that the main reason?

A That was one reason, yes, sir. Another reason was preliminary valuation of a Texaco plant had been built and efforts were being made immediately following this offer of Phillips for Texaco to negotiate a residue gas sale from a Texaco plant. We met in June initially with El Paso in an attempt to consummate a residue sales agreement, with El Paso.

Q Now, on your temporary agreement with Continental, does that have a time provision; is it for a specified time, length of time?

A Yes, sir. It is for a specified length of time, extendable from now throughout the life of the field, but with an option for cancellation by Texaco.

Q What is the primary term on this contract?



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building

Albuquerque, New Mexico

Phone 243-6691

A The primary term is 18 months.

Q 18 months. I do understand correctly that you plan in the meantime to build your own plant?

A Correct.

Q Now, Mr. Naul, in 1961, June of 1961, were you the Division Gas Superintendant for Texaco?

A Yes, sir, I was.

Q Are you familiar with Texaco's operations in the Little Lake- - No, Little Lucky Lake Devonian Pool in Chavez County, New Mexico?

A Yes, sir, I am afraid I am.

Q Are you familiar with order Number R-2008, which was issued as a result of Case Number 2305?

A I have heard of that.

Q I believe I am correct, am I not, in that that order authorized Texaco to build a gasoline plant in the Little Lucky Lake Pool?

A Correct.

Q And increased the allowable to their wells to go through their plant?

A Correct, sir.

Q Wonder if you can explain that at the time, to the Commission, if that plant was ever built, what happened to it as a result of that order?

A Yes, sir. I will certainly do so. The reason the



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691

Little Lucky Lake plant was never built was because after we had entered into an agreement with Transwestern Pipeline Company for it to build a pipeline to the Little Lucky Lake plant, it subsequently found itself in such position that it could not obtain authority. It is our understanding that it could not obtain authority from the FPC to appropriate funds to build its pipeline. So, by terms of the agreement with Transwestern, the agreement expired of its own accord, because of non-performance on Transwestern's part. It was uneconomical to install these facilities without a residue gas market.

Q But, Texaco- - Excuse me. Go ahead.

A I might add that the gas reserve package at Little Lucky Lake was substantially smaller than the situation we are dealing with here today on Vacuum.

Q Well, Texaco flared in the Little Lucky Lake Devonian, or vented from 1959, started approximately 1959, did they not?

A I believe that is correct.

Q Would you have any idea of the approximate volume of gas that has been flared or vented in that pool by Texaco up until April, 1963, when they finally connected to Skelly?

A I don't have that figure immediately available with me.

Q Would you agree that it was probably over one million MCF?

A I wouldn't have any basis.

Q Correction. One million MCF. I am sorry. I misstated



that. Would it be, would you agree that it was over approximately one million MCF from 1959 through 1963? If you don't have any idea- -

A I don't remember what it was. I don't think I would be in a position to either agree or disagree.

MR. WHITE: For the record, if you say that is what it is, that is what it is, Mr. Durrett.

Q (By Mr. Durrett) One other thing, Texaco has been flaring, to your knowledge, from 1959, even though the order was granted, because of the breakdown in the contract and all?

A Yes. That is true. The contract was actually consummated, this was the contract- - the contract was signed, sealed, and delivered. Transwestern had agreed to take it, but they, as we understand it, could not obtain authorization from the Federal Power Commission, because of the particular situation they found themselves in with respect to their total gas available versus their total market. This is our understanding of their situation, and what lead to their being unable to perform on their contract at Little Lucky Lake.

Q And about what day was that, about what month, approximate time period that they were unable to, or that you finally decided that they were unable to take your gas in the Little Lucky Lake?

A I don't remember offhand. I could furnish that figure, that date to you. I believe in just a few moments I can furnish that to you, after consultation with some of our other people here.

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



Q Did you immediately start negotiations for another casinghead purchaser in that pool?

A Yes, sir, we did.

Q And how long did it take to make the negotiations to come to an agreement with a purchaser which I understand was Skelly finally?

A I believe a connection was made at Little Lucky Lake the early part of 1963. And as I recall it, sometime in 1962, we were notified by Transwestern that- - But, I would like to check that date that they were unable to perform that contract.

Q Well, I just was interested in an approximate date. One other question, Mr. Naul. Are you familiar with Texaco's operations in the North Justice Field in Lea County?

A Generally familiar, sir.

Q Would I be correct in assuming that the first well in that field was drilled by Texaco sometime on or about August of 1961?

A I don't have any information with regard to when our initial well was drilled. I can't recall from memory when our initial well was drilled there.

Q You wouldn't even remember the year?

A Since I would - - I would say I wouldn't remember the year without referring to our records.

Q Let me ask you this question, Mr. Naul: Do you know whether, or not Texaco has been venting or flaring gas in that

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



pool since the first well was drilled?

A I have seen reports where we have been flaring some gas from the North Justiceburg field.

Q You wouldn't have any idea of the volume?

A I do not recall the volume.

Q Would I be correct in stating that Texaco has just now got, or is just now getting connections in that field or pool?

A I believe that is correct. To trigger my memory on that, I would have to identify it with some of the leases in that field.

Q How about the Irwin "A" Number Two lease, Irwin "B" Number Two lease, or the State "F" New Mexico BS Number Ten lease, does that help your memory?

A Yes, sir. That gas is connected, was connected earlier this year. I believe there is another case where there was rapid multi-pay development in that field.

Q Now, the other offset operators in that field outside of Texaco, connected on completion, did they not?

A I couldn't testify as to what the other operators did, sir. I don't know.

MR. DURRETT: Thank you. I believe that is all I have.

\* \* \* \*

MR. PORTER: Does anyone have a question of the witness?

MR. WHITE: Yes.

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Phone 243-6691

Albuquerque, New Mexico

Suite 1120 Simms Building



REDIRECT EXAMINATION

BY MR. WHITE:

Q Mr. Naul, if your contract with Phillips had not been cancelled, your gas would have been automatically committed to Phillips, would it not?

A All gas produced from all zones would have been committed to Phillips.

Q In that case. You could not possibly be in a position to build a proposed plant?

A Correct, sir.

Q And by building the proposed plant, you will realize an additional profit of some ten million dollars?

A That is our best estimate, sir, yes, sir.

Q Now, has it been your experience in the past that you always have a firm offer to sell the gas before the plant is constructed?

A No, sir. Has not been my experience that we always have a firm offer for the sale of residue gas from a plant before it has been constructed.

Q Do you have every reason to believe that you will realize the income of \$22,424,000.00 as shown on Exhibit Five?

A Yes, sir.

Q Is there any further testimony you would like to state at this time?

A I don't believe I have anything further to offer at the

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691





moment.

MR. WHITE: That is all.

\* \* \* \*

MR. PORTER: Does anyone else have a question:

EXAMINATION BY MR. PORTER

Q Mr. Naul, I believe you indicated that you would expect to have your plant completed in the latter part of 1964?

A Latter part of 1964, yes, sir.

Q But, you still don't have any- - you don't know what you are going to do with your residue gas from that plant?

A That is correct. We have no firm commitment as of today. I might add that we are still negotiating with one transmission company, who has indicated an interest. I cannot say how the negotiations will come out, whether they will be in a position to offer to purchase this gas, or not. We feel we have a reasonably good chance of working something out with them. We have been told by Transwestern that if its plans work out favorably, they would certainly be interested in this gas reserve, possibly 18 months from now. This hinges on a proposal to build a new pipeline to California by a group of people to bring gas out of Texas Gulf Coast area, I understand.

Q That hinges on the approval by FPC?

A Undoubtedly, yes, sir.

Q What capacity plant are you contemplating here today,

DEARNLEY, MHLER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



daily intake?

A We are contemplating a plant of a capacity of approximately 25 to 30 million feet. Now, this would be initially gas handling in liquid load capacity, not necessarily all the compressors being installed initially, but as required.

Q Initially, all - - the only gas going into the plant would be Texaco production?

A Yes, sir.

Q You indicated it might create a competitive market in the area.

A Yes, sir.

Q So, you might eventually be taking gas from other producers in the field?

A Yes, sir.

MR. PORTER: Any further questions?

MR. WHITE: I might have one further question, Mr. Naul. Are your negotiations with the various purchasers of this gas, are they firm enough to the point to where Texaco is willing to spend \$3,650,000.00 on the 1st?

A Yes, sir.

MR. WHITE: That is all.

MR. PORTER: Witness may be excused.

D. B. MEISENHEIMER,

called as a witness herein, having been first duly sworn, was

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



examined and testified as follows:

DIRECT EXAMINATION

BY MR. WHITE:

Q Will you state your name, please?

A D. B. Meisenheimer.

Q By whom are you employed and what capacity?

A Employed by Texaco, Inc. as Midland Division Petroleum Engineer.

Q Have you previously testified before the Commission or one of its examiners?

A No.

Q Would you briefly state your professional and educational background, and profession?

A I graduated from Texas A & M with a BA degree in Petroleum Engineering, and a BA degree in Geological Engineering. I went to work for Texaco as a petroleum Engineer in 1948, and I have been employed by Texaco since that date.

Q Are the witness' qualifications acceptable?

MR. PORTER: They are.

Q (By Mr. White) Will you refer to Exhibit Six and explain that, please?

A Exhibit Six is a graphical representation of several situations that could have, or could affect our gas in the Vacuum area, based on economics and other factors that have already been testified to by our witnesses. The part colored in yellow indicates

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



the net income to Texaco had Texaco accepted the existing gas market in the area. The part colored in blue represents the net income to Texaco less the value of the lost oil that Texaco would incur during a 90 day shut down period as a result of a no flare order, which is twenty-one million, seventy-nine thousand dollars.

Q That would be current income?

A That would be net income. The current income lost would be the \$1,345,000.00 shown here in blue. The green shows our plant investment, in that small area in red represents the value to Texaco under existing markets of the gas previously flared. The graph shown in pink represents the net income to Texaco as a result of a Texaco plant with no shut down. The green down below the line again represents the plant investment. The red portion indicates the total value to Texaco under existing markets of flared gas. That is an increase of \$48,000.00 over the \$85,000.00 shown here under the blue graph.

Q What would be the economic loss to the royalty owner by flaring this gas from now until February 15th?

A Seven thousand dollars.

Q What would be the economic benefit to be gained to the royalty owner by continuing operations?

A \$193,000.00.

Q That would be the current income?

A Current income, royalty oil.

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building

Albuquerque, New Mexico

Phone 243-6691



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phons 243-6691

Q Just what is this Exhibit Six intended to show?

A Well, it indicates that even though substantial volumes of gas worth substantial amounts of money have been flared, that compared to the overall economics, they assume far less significance. It also points out that by exercising good business judgment in not committing its gas to the existing casinghead market in the field, that Texaco will increase its net income from gas in the Vacuum Field by approximately ten million dollars.

Q In view of the testimony presented here today, what recommendations do you make to the Commission?

A Texaco has been cognizant of the fact of the seriousness of the flare gas situation in the Vacuum pools, and has been working diligently to bring about an economic sound situation, which would result in a cutting out of the flare. This has all been brought about or brough out in our past testimony. As a result of recently successful negotiations, we are proceeding with all haste to install facilities to utilize the gas. As a result of Texaco's efforts, a new casinghead gas market will be available in the area. Considering this situation, Texaco sees no need for a no flare order for the Vacuum pools at this time, and therefore, recommends that none be issued.

Q Exhibit Number Six prepared by you or under your direction?

A Yes, sir.

MR. WHITE: At this time, we offer Exhibit Six.



MR. PORTER: Without objection, the exhibit will be admitted.

MR. WHITE: That concludes our testimony.

MR. PORTER: Does anyone have a question of the witness?

MR. DURRETT: Yes, sir.

CROSS EXAMINATION

BY MR. DURRETT:

Q Mr. Meisenheimer, you feel that Texaco was diligent in the North Justice Field?

A Well- -

MR. WHITE: If it please the Commission, I haven't objected to a good many of Mr. Durrett's questions. They are certainly not relevant to the instant hearing. I believe our testimony shows that we have been diligent in this instance, and what has been done in other pools, other occasions, might be entirely different set of facts and justified under the circumstances, but certainly have no place in this hearing.

MR. DURRETT: If it please the Commission, I would like to state that I absolutely feel the questioning is relevant in its entirety. The witness has stated he has an opinion as to whether, or not Texaco is diligent. We are entitled to look into the background of his opinion to see what his basis is and to compare Texaco's actions in other pools under similar situations, which have been testified hereto. But, in deference to Mr. White, I

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



withdraw the question. Let me ask you this question, Mr.

Meisenheimer: As Petroleum Engineer, do you feel no flare or no venting order is issued, that it will result in waste of petroleum oil in this pool?

A If a no flare gas order is issued, it will result in waste of - -

Q Oil?

A - -oil.

Q Yes, sir. I am talking about physical waste now. I realize that Texaco will lose some money.

A There will be no waste of energy as far as reservoir energy is concerned, regardless of whether a no flare order is issued, or not. I feel that there will be oil lost by Texaco if Texaco's leases are shut in, and the remainder of the reservoir, if leases around Texaco are allowed to produce, yes, sir.

Q But, now, I didn't exactly ask you that question. I didn't ask whether Texaco would lose oil, or not. I asked you if there would be physical waste?

A No physical waste on a pool wide basis.

Q And it would prevent the waste of gas, casinghead gas, is that correct?

A Yes, sir.

MR. DURRETT: Thank you. That is all I have.

\* \* \* \*

MR. PORTER: Does anyone else have a question?

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Phone 243-6691

Albuquerque, New Mexico

Suite 1120 Simms Building





DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Phone 243-6691

Albuquerque, New Mexico

Suite 1120 Simms Building

MR. WALKER: Mr. Meisenheimer, I think you stated that there, in your opinion, would be a loss to the royalty owner of \$7,000.00 versus \$197,000.00, again, if you were not shut in; is that correct?

A If we are not shut in, the value of the gas flared to the royalty owner during that period would be \$7,000.00. If we are not shut in, the royalty owner will realize a current added income of \$193,000.00.

MR. WALKER: What would be your estimate as far as the time element is concerned, that it would take to get that \$193,000.00?

A 90 days.

MR. WALKER: You are talking about 90 days?

A We are talking about 90 days. That is when that \$7,000.00 worth of gas would be flared, too.

MR. WALKER: There has been testimony, previous testimony, here regarding the FPC. Would it be possible, or you think that there is a possibility of a recurrence of the same thing happening here that happened in that Little Lucky Lake situation?

A I am not qualified to testify on that, Mr. Walker. Mr. Naul might have an opinion on that. But- -

MR. WALKER: Well, I think you will agree that anything could happen, as far as the FPC is concerned?

A I think we all have to agree that we have confidence enough in obtaining a satisfactory market to gamble the building





of a very expensive gasoline plant.

MR. PORTER: Mr. Meisenheimer, does your sale of gas during this interim period require FPC approval?

A Not to my knowledge.

MR. PORTER: Does anyone else have a question?  
The witness may be excused. Does this conclude your testimony?

MR. WHITE: Yes, sir, it does, Mr. Porter.

O. P. NICOLA,

called as a witness herein, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A O. P. Nicola.

Q By whom are you employed?

A Employed by Phillips Petroleum Company.

Q In what position?

A As Director of the Proration in the Production Division.

Q Have you ever testified before the Oil Commission?

A Yes, sir, I have.

MR. KELLAHIN: Are the witness' qualifications acceptable?

MR. PORTER: Yes, sir.

Q (By Mr. Kellahin) Mr. Nicola, are you familiar with the situation that is before the Commission at the present time

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



insofar as Phillips Petroleum Company is concerned?

A Yes, sir.

Q Is Phillips flaring any gas in this pool?

A We are, very small quantity. We are flaring one half MCF per day from our Lemax well Number Five in Section 25, 17 South, 33 East. That well produces two barrels of oil a day and would cost use \$2,900.00 to connect it to the gas gathering system.

Q Would that be an economic operation, Mr. Nicola?

A No, sir.

Q Has the well, in your opinion, just about reached the economic limits?

A Yes, it has.

Q Now, referring to the Lee well Number Three, would you discuss that well?

A That well produces ten barrels of oil and one MCF of gas per day. Will cost approximately five thousand dollars to connect to the gathering system. And I do not consider it to be in any way a justifiable connection.

Q In your opinion, would it pay for the connection?

A No, it would not.

Q Now, would these two wells, in your opinion, be abandoned long before the cost of connection would be paid out?

A Yes.

Q Are all of Phillips' other wells in the Vacuum area connected to a market?

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Phone 243-0691

Albuquerque, New Mexico

Suite 1120 Simms Building



A They are.

Q Are you venting any other gas, other than this you have discussed?

A Phillips Petroleum Company operates a gasoline plant, which has been discussed. I guess the plant hasn't been, but we do operate a plant known as our Lee Plant in the Vacuum pool. Because of a breakdown and variations in gas intake from day to day, we are forced to flare a small quantity of gas from this plant, and it is the only economical way which a gasoline plant can be operated. We cannot put in sufficient capacity in a plant to take care of all the extreme peaks or to take care of standby in case of breakdowns. So, we do flare from this plant and in fact, during the month of October, did flare 33,352 MCF of gas, of which approximately one-third, or 11,000 MCF, came from the Vacuum Pool. That is for the entire month of October, 1963.

Q All right. I assume from that, Mr. Nicola, approximately one-third of the gas residue of the casinghead gas is going into the Lee plant comes from the Vacuum Pool?

A That is correct.

Q And the other remaining two-thirds comes from other pools in the area?

A That is right.

Q What is your market for this gas?

A We sell the residue gas to El Paso Natural Gas Company.

Q Is that committed to Interstate Commerce?

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building

Albuquerque, New Mexico

Phone 243-6691



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691

A Yes, sir.

Q Now, you heard some discussion of negotiations with Phillips on the part of Texaco, regarding sale of residue - of casinghead gas to the Lee plant. Do you know whether Texaco ever offered to sell the gas on a permanent basis?

A It is my understanding that they did not offer to sell it to us on a permanent basis, after the original contract was cancelled in 1961.

Q Could that gas then be committed to Interstate Commerce through your plant on a temporary basis?

A I don't know about that.

Q Was there any restrictions proposed by Texaco on the use to which this gas would be put?

A It is my understanding that Texaco requested that the gas which they were willing to deliver to us on a temporary basis be used for plant fuel, or local use only.

Q Now, is Phillips buying from other operators?

A It is.

Q And is it buying on the same basis it offered to purchase from Texaco?

A Yes, sir.

MR. KELLAHIN: That is all I have on direct examination.

\* \* \* \*

MR. PORTER: Does anyone have any questions of the witness?



EXAMINATION

BY MR. NUTTER:

Q Mr. Nicola, when the gasoline plant doesn't have a breakdown, is it capable of gas that is tendered to it from its present connection?

A Yes, except where we have extreme peaks of intake volume.

Q Then, these peaks are circular peaks right at the beginning of the month?

A They occur right at the beginning of the month. They also occur daily as the pumper and switchers open wells up in the morning, why, we always get a higher volume than we do later on in the day.

Q What is the rate of capacity of that plant at the present time?

A The plant, I believe it is about 75 million cubic feet per day.

Q What is the average volume of gas that comes into the plant, do you know?

A I have got to change that answer on the previous question. The capacity of our entire system, including two other plants in the Southeast New Mexico, is approximately 75 million cubic feet per day. The gas intake into the Lee plant is approximately 22 million cubic feet per day. That is intake into the plant.

Q Intake into the plant?

A That is right.

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Phone 243-6691

Albuquerque, New Mexico

Suite 1120 Simms Building



Q Now, what is the amount that is actually tendered to the plant on an average day?

A Well, I have the September, in September, 1963, we received approximately 22 million cubic feet per day.

Q Into the plant?

A That is right.

Q Reason I was asking this, Mr. Nicola, at a hearing a couple of years ago, or three years ago, there was some testimony that at times it was necessary to flare gas on the upstream side of the gasoline plant, because didn't have the capacity that -- to handle the gas that was offered to it. Further testimony was that purchaser from the plant, I think it was El Paso, didn't have the facilities to handle all of the residue gas that the plant could put out. Would have to be a flare on it, on the downstream side. I just wonder what the situation is in regard to that plant is now.

A Mr. Nutter, I don't think we have any special problems at the present time. I believe we have installed some additional compressor facilities. Very likely that we are receiving less gas on the whole than we were at that time, also. So, the only thing I am prepared to advise about is the flare which I mentioned previously, and I do not believe that that is excessive for a plant of this size.

MR. NUTTER: All right. Thank you.

\* \* \* \*

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



MR. PORTER: Mr. Nicola, are you in a position to testify as to whether this plant could at the present time handle this additional 4.3 million feet of gas that is being flared?

A Yes, sir. We might have to make some additional capital investments, but that could be handled very quickly and that I think we could accept that additional gas within about two weeks.

MR. PORTER: Does anyone else have a question? The witness may be excused. Does anyone else desire to present any testimony in the case?

MR. WHITE: I would like to put Mr. Naul back on the stand, please. Do you care to swear the witness again?

MR. DURRETT: Let the record show he is under oath.

MR. PORTER: The record will show that the witness has been previously sworn.

ROBERT F. NAUL,  
recalled as a witness herein, having been previously sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. WHITE:

Q Mr. Naul, you have heard the statements made by the last witness on behalf of Phillips. Is there any rebuttal you would like to make to those statements for the record?

A Yes, sir. Yesterday morning, I had a telephone conversation with a representative of Phillips Petroleum Company, in

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building

Albuquerque, New Mexico

Phone 243-6691

Phillips' Bartlesville office. At that time, he made the statement to me that it would take Phillips from 30 to 45 days to connect additional gas to their plant, after clearance of right of way. I believe I have previously testified here that El Paso has stated to us that its facilities were loaded. By that statement, I mean that El Paso's existing facilities. This is my understanding of El Paso's statement to me. El Paso's existing facilities to take additional volumes of residue gas from the Phillips Lee plant are presently loaded. Whether they are presently overloaded, or not, I cannot say. But, the statement was made that they were loaded. It is my further understanding that before El Paso can expand those facilities, that certain approval will have to be obtained from the FPC. With reference to previous questions by Mr. Durrett, in relation to Little Lucky Lake, and North Justiceburg, I might make this statement: It is Texaco's policy in general any time new gas is developed to try to improve the lease gas sales price structure. One significant factor involved in this policy is recent indications from the FPC of possible adoption of a dual pricing structure on gas. One price for old gas supplies, another price for new gas supplies. Indications so far are that the price allowed for new gas supplies will be higher than for the old existing gas supplies.

Q In your offer to Phillips, was that on a short term, or could you cancell without obtaining permission from the FPC?

A Any time gas is committed into Interstate Commerce,





before that gas can be withdrawn from interstate commerce, the Federal Power Commission requires that an abandonment of service proceeding be filed with it. I will not speculate on whether any producer would be successful in any given situation in obtaining an abandonment of service after the gas once is committed into Interstate Commerce.

Q But, your gas which you proposed to sell, would it enter in Interstate Commerce after process- -

A Under the counter proposal we made to Phillips, would have been a long term proposal and our gas would have been committed into Interstate Commerce. There was consideration of temporary short term sale to Phillips. There was the fear of premature commitment of gas into Interstate Commerce by interpretation of the various bodies, including the Federal Power Commission, having your discussions over interstate gas. There have been numerous cases carried to the Courts as to whether certain gas committed by producers was interstate, or intrastate. There have been numerous interpretations and rules, some of which appear to be diametrically opposed to each other, and on the face, they at least appear inconsistent, in my opinion, I will say.

Q Does that conclude your testimony?

A Yes, sir.

MR. WHITE: That is all.

\* \* \* \*

MR. PORTER: Does anyone have any questions?

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691

MR. DURRETT: Mr. Naul, I am quite sure I didn't understand everything you just said concerning the FPC, and their jurisdiction and interpretations as to what is Interstate and Intrastate gas, and particularly on price on old gas or new gas, but, in summary, is that your explanation of why Texaco flared or vented over 566,000 MCF in the North Justice Pool since 1961 and over one million five hundred thousand MCF since 1959 in the Little Lucky Lake Devonian; is that the reason that Texaco vented this gas?

A I would say that these factors-- these existing situations was a factor in Texaco's action. I would not say that, in summary, was the reason to the exclusion of any other reason.

MR. DURRETT: But, that was at least a reason?

A That was a factor.

MR. DURRETT: Well, now, didn't you and I discuss earlier on my cross examination that the offsets in the North Justice Field were connected on completion, on other operators in the pool?

A You asked me if they weren't, and I told you I didn't feel that I could say whether they were, or not, because I couldn't say so right now. Yes, sir.

Q Well, I see.

A Yes, sir.

Q If they did do that, then, apparently, they don't have the same problem operating with the FPC, or same interpretation of the FPC rules?



A I couldn't speculate on that.

MR. DURRETT: That is all I have.

MR. PORTER: Any further questions? Witness may be excused. This concludes the testimony. We will hear at this time statements that any one would like to make. Mr. White, did you have anything?

MR. WHITE: No, sir.

MR. PORTER: Mr. Kellahin?

MR. KELLAHIN: No, sir.

MR. PORTER: The Commission is going to take the case under advisement. We certainly realize the importance of the case, and because we do realize the importance of it, why, we will reach a decision and enter an order as soon as possible, so that everyone may be advised. At the present time, we will take the case under advisement.

\* \* \* \*

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691

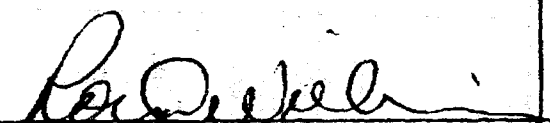


STATE OF NEW MEXICO X

COUNTY OF BERNALILLO X

I, ROY D. WILKINS, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and that the same is a true and correct record of the said proceedings, to the best of my knowledge, skill, and ability.

WITNESS my Hand and Seal of Office, this 31st day of December, 1963.

  
NOTARY PUBLIC

My Commission Expires:  
September 6, 1967.

DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691



NEW MEXICO OIL CONSERVATION COMMISSION

REGULAR HEARING

SANTA FE, NEW MEXICO

REGISTER

HEARING DATE

NOVEMBER 13, 1963

TIME: 9 A.M.

NAME:	REPRESENTING:	LOCATION:
L. L. Shoemaker	Indiana Oil Prod. Co.	Midland
Jim Lott	El Paso Nat. Gas, Prod. Co.	
J. G. Hall	SINCLAIR CRUDE OIL CO	TULSA
Tom McLain	Sinclair Crude oil Co	Denver
R. L. Thompson	McWane Corp	Midland
J. H. Thompson	Tesoro Inc.	Midland, Tex
J. R. Hurley	Shell	Los Angeles
M. T. Smith	Regional Oil Inc.	Midland
Joe Koch	Signal Oil & Gas	Houston
B. L. Danton	mobil	Midland
C. M. Miller	Kelly Pitts Corp	Midland, Tex
J. J. Allen	Phillips Pet Co	Midland, Tex
J. P. Nicola	El Paso Natural Gas Co	Bartlesville, Okla
F. Norman Stoughton	Statehouse Reporting	El Paso, Texas
Marshall Smith	Sinclair Crude oil	Santa Fe
Frank Gardner	Phillips Pet Co	Tulsa, Okla
Orlando		Midland, Tex

## NEW MEXICO OIL CONSERVATION COMMISSION

## REGULAR HEARING

SANTA FE, NEW MEXICO

REGISTERHEARING DATE NOVEMBER 13, 1963 TIME: 9 A.M.

NAME:	REPRESENTING:	LOCATION:
W. H. Jett	Atlantic Ref Co	Midland
Uick Bookan	Cities Service Oil	—
L. C. White	L. W. L.	Santa Fe
C. R. Black	Texas Inc	Midland
A. B. Meindheimer	Texas, Inc.	Midland
E. V. Shoemaker	Texas Inc	Midland
P. F. Naul	Texas Inc	Midland
Joe O. Roney	W. M. O. C.	Hobbs
EWELL W. WALSH	EPNG Products Co	Farmington
DAYLE RUSHING	EPNG	"
Geo H Drewry	Amerada Petrol Corp	Durango Colo
Walter Wolf	Kuwo Tute	Window Rock
K. A. Clark	BIA	" "
W. B. SULLIVAN	EPNG PRODUCTS Co	El Paso
Jason Kellah	Kellahin & Fox	Santa Fe

NEW MEXICO OIL CONSERVATION COMMISSION

REGULAR HEARING

SANTA FE, NEW MEXICO

REGISTER

HEARING DATE NOVEMBER 13, 1963 TIME: 9 A.M.

NAME:	REPRESENTING:	LOCATION:
Richard F. Morris	Jeth. Montgomery, Edna Huber	Santa Fe
P. J. Mc Gath	U.S.G.S.	Farmington
E. R. Wyatt	U.S.G.S.	Roswell
DV Emery	Humble Oil & Ref Co	Drongo, Col.
TW Fountain	" " " "	" "
W.A. McMAHON	THE PURE OIL CO.	CASPER, WYO.
F.R. CLARK	" " " "	" "
El Osborne	Northern Nat. Gas Co	Omaha Nebr
F.C. Amey	OCC	ajec
H. R. Kendrick	OCC	Artee
Eric Engbrecht	OCC	Hobb, N.M.
Hank Pohlmann	The Navajo Tribe	Farmington, N.M.
John Thorsell	Humble	Denver

NEW MEXICO OIL CONSERVATION COMMISSION

REGULAR HEARING

SANTA FE, NEW MEXICO

REGISTER

HEARING DATE NOVEMBER 13, 1963 TIME: 9 A.M.

NAME:	REPRESENTING:	LOCATION:



TEXACO INC.  
VACUUM FIELD  
GAS FLARED OR VENTED

YEAR	MONTH	MCY	POOLS INVOLVED
1962	April	16,127	Vacuum-Abe Reef
1962	May	16,073	Vacuum-Alinohy
1962	June	16,050	Vacuum-Brinkard
1962	July	16,007	Vacuum-Devonian
1962	August	17,638	Vacuum-Devonian, North
1962	September	17,573	Vacuum-Glorieta
1962	October	18,002	Vacuum-Pennsylvanian
1962	November	18,112	Vacuum-Wolfcamp
1962	December	19,640	
1963	January	20,000	
1963	February	22,436	
1963	March	39,106	
1963	April	49,061	
1963	May	44,921	
1963	June	32,004	
1963	July	64,164	
1963	August	91,043	
1963	September	79,837	

Total Gas Flared or Vented in 1962  
Total Gas Flared or Vented in first  
9 months of 1963

156,948  
495,501  
623,449

TOTAL

August, 1963, Daily Amount of  
Gas Flared or Vented

2,966

Additional Daily Amount of Gas  
to be Flared or Vented Based  
Upon Completions

930

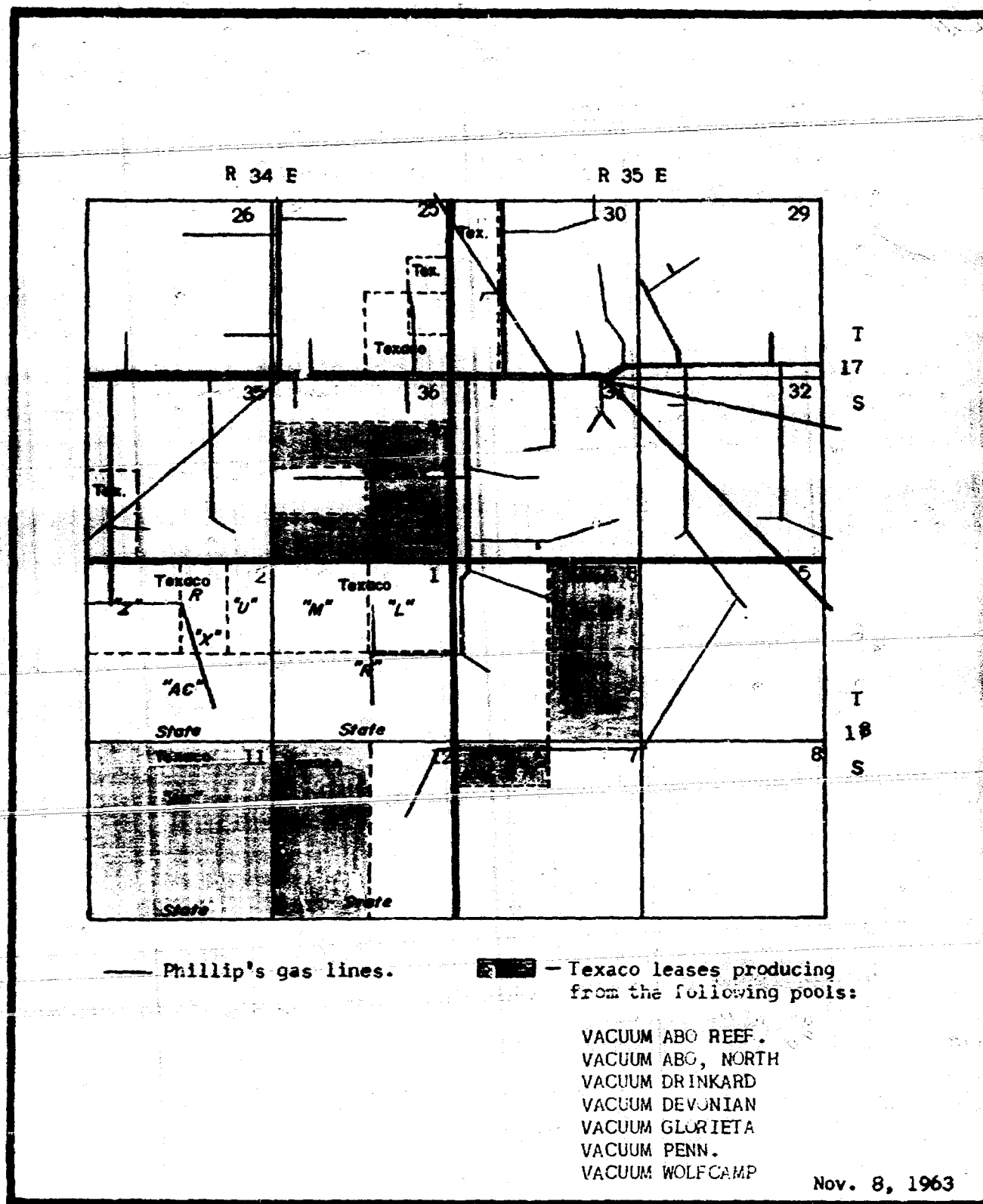
3,893

TOTAL

BEFORE THE  
CONSERVATION COMMISSION  
Santa Fe, New Mexico

Case No.

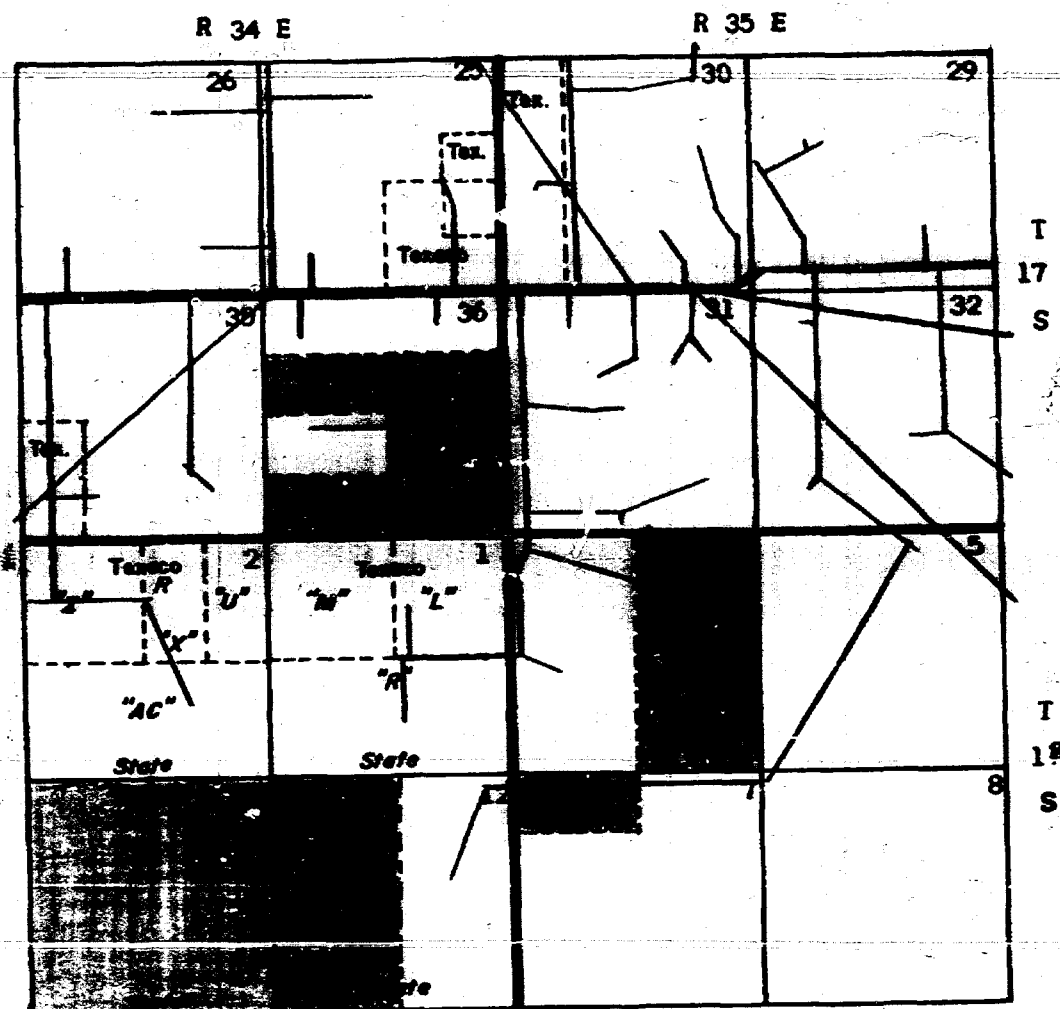
EX 2  
3935



LEASE PLAT  
VACUUM AREA

Case No 2435  
OCC of No 1

N.M.O.C.C.  
J.W.R.



— Phillip's gas lines.

■ — Texaco leases producing from the following pools:

VACUUM ABO REEF.  
VACUUM ABO, NORTH  
VACUUM DRINKARD  
VACUUM DEVONIAN  
VACUUM GLORIETA  
VACUUM PENN.  
VACUUM WOLF CAMP

Nov. 8, 1963

BEFORE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico

Exhibit No. 2  
Case No. 2732

LEASE PLAT  
VACUUM AREA

N.M.O.C.C.  
J.W.R.

TEXACO INC.  
 PRODUCTION ECONOMICS  
 VACUUM MULTIPLAY POOL  
 LEA COUNTY, NEW MEXICO

TOTAL GAS VENTED	11-15-63 844,700 MCF	2-15-64 1,322,900 MCF
TOTAL GAS VALVE	\$ 97,100	\$ 152,000
TOTAL OIL PRODUCTION	900 500 BBLs	1,501,000 BBLs
TOTAL OIL VALUE	\$ 2,710,500	\$ 4,528,000

BEFORE THE  
 OIL CONSERVATION COMMISSION  
 Santa Fe, New Mexico

TEXACO Exhibit No. 2

Case No. 2538

**TEXACO INC.  
ZONES OF COMPLETION  
VACUUM MULTIPAY POOL  
LEA COUNTY, NEW MEXICO**

ZONES	CURRENT COMPLETIONS 11-13-63	ULTIMATE COMPLETIONS
GLORIETA	6	25
BLINEBRY	5	22
DRINKARD	2	4
ABO REEF	21	60
ABO	3	9
WOLFCAMP	5	13
PENNSYLVANIAN	3	11
DEVONIAN	2	2
TOTAL	47	146

BEFORE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
*Texaco* IN REPLY TO NO. 3  
FILE NO. 2938

**TEXACO INC.  
INITIAL FACILITIES REQUIRED  
TO ELIMINATE FLARE  
VACUUM MULTIPAY POOL  
LEA COUNTY, NEW MEXICO**

**FIELD COMPRESSION (1000 BRAKE HORSEPOWER)**

**\$ 196,000**

**PLANT COMPRESSION (1300 BRAKE HORSEPOWER)**

**\$ 250,000**

**15 MILES OF DELIVERY LINE**

**\$ 257,000**

**GATHERING SYSTEM**

**\$ 87,000**

**TOTAL INVESTMENT**

**\$ 800,000**

**BEFORE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico**

*J. J. Jones* Exhibit No. 4  
Case No. 2938

**TEXACO INC.  
GASOLINE PLANT ECONOMICS  
VACUUM MULTIPAY POOL  
LEA COUNTY, NEW MEXICO**

**INCOME**

**NET INCOME FROM TEXACO PLANT \$22,424,000**

**NET INCOME FROM EXISTING CASINGHEAD OFFER \$12,130,000**

**NET INCOME INCREASE FROM TEXACO PLANT \$10,294,000**

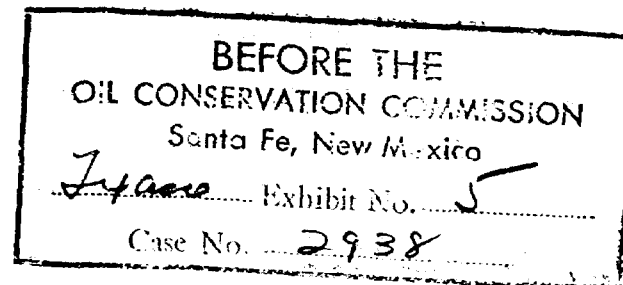
**COST**

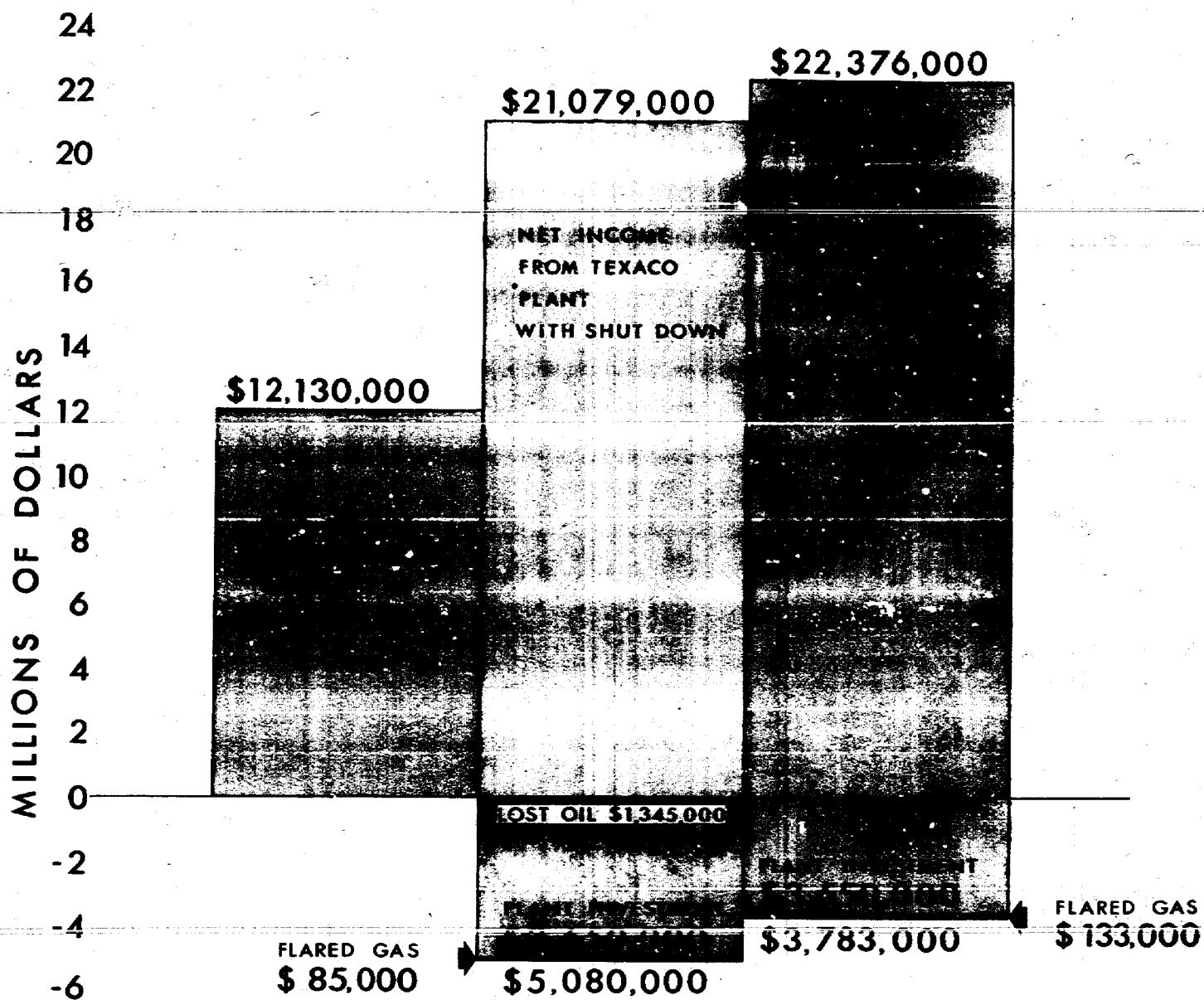
**TEXACO PLANT INVESTMENT \$3,500,000**

**INITIAL TEXACO INVESTMENT FOR TEMPORARY FACILITIES  
TO ELIMINATE FLARE DURING PLANT CONSTRUCTION \$800,000**

**SALVAGE VALUE OF TEMPORARY FACILITIES \$650,000**

**NET COST TO TEXACO FOR INITIAL FACILITIES PLUS PLANT \$3,650,000**





BEFORE THE  
OIL CONSERVATION COMMISSION

Santa Fe, New Mexico

Exhibit No. 6

Case No. 2938

### ECONOMIC COMPARISON

- ☐ TEXACO SALE TO EXISTING CASINGHEAD GAS MARKET
- ☐ TEXACO PLANT - SHUT DOWN ORDER
- ☐ TEXACO PLANT - NO SHUT DOWN ORDER



DRAFT

JMD/esr

Nov. 14, 1963

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

~~IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING~~

CASE No. 2938

Order No. R- 2605

IN THE MATTER OF THE HEARING CALLED  
BY THE OIL CONSERVATION COMMISSION  
ON ITS OWN MOTION TO PERMIT ALL  
INTERESTED PARTIES TO APPEAR AND  
SHOW CAUSE WHY AN ORDER SHOULD NOT  
BE ENTERED PROHIBITING THE FLARING  
OR VENTING OF CASINGHEAD GAS, VACUUM  
FIELD, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on  
November 13, 1963, at Santa Fe, New Mexico, before the Oil Conser-  
vation Commission of New Mexico, hereinafter referred to as the  
"Commission."

NOW, on this \_\_\_\_\_ day of November, 1963, the Commission,  
a quorum being present, having considered the testimony presented  
and the exhibits received at said hearing, and being fully advised  
in the premises,

FINDS:

(1) That due public notice having been given as required by  
law, the Commission has jurisdiction of this cause and the subject  
matter thereof.

(2) That a substantial quantity of casinghead gas produced  
from oil wells in ~~pools within~~ the Vacuum Field, Lea County, New  
Mexico, is being vented or flared.

(3) That <sup>casinghead</sup>gas transportation facilities are present, avail-  
able in the subject area; that additional <sup>casinghead</sup>gas transportation  
facilities are being constructed in the subject area; and that  
the operators in the Vacuum Field should be able to complete  
connections to said <sup>casinghead</sup>gas transportation facilities by February 1,  
1964.

(4) That the flaring or venting of casinghead gas when <sup>casinghead</sup>gas  
transportation facilities are available constitutes unnecessary  
or excessive surface loss or destruction of natural gas without  
beneficial use and results in surface waste.

(5) That the venting or flaring of casinghead gas in the Vacuum Field should be prohibited in order to prevent waste.

(6) That the order prohibiting the venting or flaring of said gas should be effective February 1, 1964, in order to allow the operators in the Vacuum Field sufficient time to complete connections to <sup>casinghead</sup> gas transportation facilities.

(7) That a 90-day exception to ~~said~~ <sup>the</sup> no-flare order should be allowed for each new well following its date of completion in order to allow the operator sufficient time to connect the well to <sup>casinghead</sup> gas transportation facility.

(8) That the Secretary-Director of the Commission should be authorized to grant exceptions to ~~said~~ <sup>the</sup> no-flare order when such exceptions are necessary in order to prevent waste or undue hardship.

IT IS THEREFORE ORDERED:

(1) That no casinghead gas shall be flared or vented from ~~the wells in the field within the~~ <sup>the casinghead gas in the</sup> Vacuum Field, Lea County, New Mexico.

PROVIDED HOWEVER, That each new well completed in said field subsequent to the effective date of this order is hereby granted an exception to this order for a period of 90 days following completion of the well.

(2) That the Secretary-Director of the Commission is hereby authorized to grant an exception to this order upon application filed therefor if, in his judgment, such exception is necessary in order to prevent waste or undue hardship.

<sup>the provisions of this order prohibiting the flaring or venting of casinghead</sup>  
(3) That ~~this order~~ shall be effective February 1, 1964.

(4) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.