

CASE 3247: Application of PAUL
DeCLEVA for a 160-acre non-stand-
dard gas proration unit.

CASE No.
3247

Application,
TRANSCRIPTS,
SMALL Exhibits
ETC.

Memo

From

IDA RODRIGUEZ

To

*Application
loaned to
Hick Morris*

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. 3247
Order No. R-2936

APPLICATION OF PAUL DeCLEVA
FOR A NON-STANDARD GAS PRO-
RATION UNIT, LEA COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on May 12, 1965, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 13th day of July, 1965, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, 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 applicant, Paul DeCleva, seeks approval of a non-standard 160-acre gas proration unit in the Mesa-Queen Pool comprising the W/2 NW/4, NE/4 NW/4, and NW/4 NE/4 of Section 17, Township 16 South, Range 32 East, NMPM, Lea County, New Mexico, to be dedicated to his Tidewater State Well No. 1 located in Unit D of said Section 17.

(3) That the proposed non-standard unit can be efficiently and economically drained and developed by the Tidewater State Well No. 1.

(4) That approval of the subject application will afford the applicant the opportunity to produce his just and equitable

-2-

CASE No. 3247

Order No. R-2936

share of the gas in the subject pool and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED:

(1) That a non-standard 160-acre gas proration unit in the Mesa-Queen Pool comprising the W/2 NW/4, NE/4 NW/4, and NW/4 NE/4 of Section 17, Township 16 South, Range 32 East, NMPM, Lea County, New Mexico, is hereby created and dedicated to the Paul DeCleva Tidewater State Well No. 1 located in Unit D of said Section 17.

(2) 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

Guyton B. Hays
GUYTON B. HAYS, Member

A. L. Doherty, Jr.
A. L. DOHERTY, JR., Member & Secretary

esr/

GOVERNOR
JACK M. CAMPBELL
CHAIRMAN

State of New Mexico
Oil Conservation Commission



LAND COMMISSIONER
GUYTON B. HAYS
MEMBER

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

P. O. BOX 2088
SANTA FE

July 13, 1965

Mr. Sim Christy
Hinkle, Bondurant & Christy
Attorneys at Law
Post Office Box 10
Roswell, New Mexico

Re: Case No. 3246 & 3247
Order No. R-2935 & R-2936
Applicant:

PAUL DeCLEVA

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

ir/

Carbon copy of order also sent to:

Hobbs OCC X

Artesia OCC

Aztec OCC

OTHER Mr. Richard S. Morris

Case 3247

Heard 5-12-65

Rec. 6-25-65

1. Grant De Cleva and son - Ltd.
unit for these Indewater St. #,
660 / NW of sec. 18-16S-32E.
2. Unit shall effective July 1, 1965
or when C-125-104 + C-110 are filed.
note of connection.

Charles J. R.

May 12, 1965 Examiner Hearing

CASE 3246: Application of Paul DeCleva for an amendment to Order No. R-2691, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an amendment to Order No. R-2691, which order prescribes pool rules for the Mesa Queen Pool, Lea County, New Mexico. Applicant, among other things, requests that said rules be amended to include the definition of gas wells and oil wells in said pool, the assignment of 40 acres to oil wells, and the assignment of 160 acres to gas wells.

CASE 3247: Application of Paul DeCleva for a non-standard gas proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard gas proration unit for his Tidewater State Well No. 1 located in Unit D of Section 17, Township 16 South, Range 32 East, Mesa Queen Pool, Lea County, New Mexico, said unit to comprise the W/2 NW/4, NE/4 NW/4, and NW/4 NE/4 of said Section 17.

CASE 3248: Application of Texaco Inc. for commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Drinkard production from Tract 1 of its W. L. Nix Lease comprising the W/2 SE/4 and E/2 SW/4 of Section 17, and from Tract 2 of said lease comprising the W/2 NE/4 and E/2 NW/4 of Section 20, all in Township 22 South, Range 38 East, Lea County, New Mexico, allocating the production to each tract on the basis of periodic well tests. Applicant further seeks administrative procedure to extend the above-described commingled method to other zones that may prove productive from said lease.

Docket No. 13-65

DOCKET: EXAMINER HEARING - WEDNESDAY - MAY 12, 1965

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING - SANTA FE, NEW MEXICO

The following cases will be heard before Elvie A. Utz, Examiner, or Daniel S. Nutter, Alternate Examiner:

CASE 2691 (Reopened):

In the matter of Case No. 2691 being reopened pursuant to the provisions of Order No. R-2573-A, which order continued 640-acre gas proration units for the Lusk-Morrow Gas Pool, Lea County, New Mexico, for one year. All interested parties may appear and show cause why said pool should not be developed on 160-acre proration units.

CASE 3016 (Reopened):

In the matter of Case No. 3016 being reopened pursuant to the provisions of Order No. R-2697, which order established 80-acre spacing units for the Vacuum-Upper Pennsylvanian Pool, Lea County, New Mexico, for a period of one year. All interested parties may appear and show cause why said pool should not be developed on 40-acre spacing units.

CASE 3245: Application of Worldwide Petroleum Corporation for creation of an oil pool and for an amendment to Order No. R-2095, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks the creation of the Seven Lakes Oil Pool for production of oil from the Menefee formation in Township 18 North, Range 10 West, McKinley County, New Mexico. Applicant further seeks an order amending Order No. R-2095, which authorized a waterflood project in the Seven Lakes area, McKinley County, New Mexico. Applicant seeks the designation of the SW/4 of Section 17, SE/4 of Section 18, N/2 of Section 19, and the NW/4 of Section 20, all in Township 18 North, Range 10 West, to be the waterflood project area. Applicant further seeks authority to inject water in the Seven Lakes Pool through 8 wells drilled at various orthodox and unorthodox locations within said project area, and to drill for water injection purposes and as producers numerous other wells in said project area. Development of the project area would be on a standard 10-acre 5-spot water injection pattern subject to amendment as need may arise upon administrative approval by the Secretary-Director of the Commission.

- 2 -

May 12, 1965 Examiner Hearing

CASE 3246: Application of Paul DeCleva for an amendment to Order No. R-2691. Lea County, New Mexico. Applicant, in the above-styled cause, seeks an amendment to Order No. R-2691, which order prescribes pool rules for the Mesa Queen Pool, Lea County, New Mexico. Applicant, among other things, requests that said rules be amended to include the definition of gas wells and oil wells in said pool, the assignment of 40 acres to oil wells, and the assignment of 160 acres to gas wells.

CASE 3247: Application of Paul DeCleva for a non-standard gas proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard gas proration unit for his Tidewater State Well No. 1 located in Unit D of Section 17, Township 16 South, Range 32 East, Mesa Queen Pool, Lea County, New Mexico, said unit to comprise the W/2 NW/4, NE/4 NW/4, and NW/4 NE/4 of said Section 17.

CASE 3248: Application of Texaco Inc. for commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Drinkard production from Tract 1 of its W. L. Nix Lease comprising the W/2 SE/4 and E/2 SW/4 of Section 17, and from Tract 2 of said lease comprising the W/2 NE/4 and E/2 NW/4 of Section 20, all in Township 22 South, Range 38 East, Lea County, New Mexico, allocating the production to each tract on the basis of periodic well tests. Applicant further seeks administrative procedure to extend the above-described commingled method to other zones that may prove productive from said lease.

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
May 12, 1965

EXAMINER HEARING

IN THE MATTER OF:

Application of Paul DeCleva for an
amendment to Order No. R-2691, Lea County,
New Mexico. Applicant in the above-styled
cause seeks an amendment to Order No.
R-2691, which order prescribes pool rules
for the Mesa Queen Pool, Lea County, New
Mexico.

Case No. 3246
(3247)

Application of Paul DeCleva for a
non-standard gas proration unit, Lea County,
New Mexico.

BEFORE:

ELVIS A. UTZ

TRANSCRIPT OF HEARING

dearnley-meier reporting services inc

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO



dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

MR. EXAMINER: Will the hearing come to order.
Case No. 3246.

MR. DURRETT: Application of Paul DeCleva for
an amendment to Order No. R-2691, Lea County, New Mexico.
Applicant, in the above-styled cause, seeks an amendment
to Order No. R-2691, which order prescribes pool rules for
the Mesa Queen Pool, Lea County, New Mexico.

MR. CHRISTY: Mr. Examiner, Sim Christy of
Hinkle, Bondurant and Christy for the applicant Paul DeCleva.
Mr. Examiner, the next case, 3247, involves the same areas
and wells and I believe the examiner's time can be saved by
combining the two cases for testimony purposes.

MR. EXAMINER: Cases 3246 and 3247 will be
consolidated for the purposes of testimony. Separate orders
will be written.

MR. CHRISTY: Very well. We have one witness,
Mr. Examiner. Will you stand and be sworn.

(Witnesses sworn.)

MR. UTZ: Are there other appearances?

MR. MORRIS: I am Dick Morris of Seth, Montgomery,
Federice and Andrews appearing for Shell Oil Company.

MR. UTZ: Are there others? You may continue.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

PAGE 3

DONALD FLANAGAN, a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CHRISTY:

Q Would you please state your name, address and occupation and by whom you are employed and in what capacity?

A Yes. My name is Donald Flanagan. My address is 1101 Praetorian Building, Dallas, Texas. I am employed by Mr. DeCleva and I am a Petroleum Engineer.

Q Mr. Flanagan, you have not testified before this regulatory body before?

A No, sir. I have not.

Q What schools of higher learning did you attend; and what degrees, if any, did you receive?

A I attended Texas A & M and received a Bachelor of Science degree in Petroleum Engineering and I attended Texas A & M Graduate School for two years, working on a Master of Science degree in Petroleum Engineering.

Q How long have you been practicing as a Petroleum Engineer?

A Approximately six years.

Q Are you familiar with the area involved in Cases 3246 and 3247 and the wells and the general history of the field?

A Yes, I am.

Q Are you familiar with what is sought by the cases?

A Yes, sir. I am.

MR. CHRISTY: Does the Examiner have any questions concerning the qualification of the witness?

MR. EXAMINER: None, and he is qualified.

Q (By Mr. Christy) Now, Mr. Flanagan, I refer you to Applicant's Exhibit No. 1 in both cases which is a identical exhibit, I might say, for the record, and let's start at Page One. I believe Page One is a letter to the Commission from Mr. DeCleva dated April 8, 1965, setting forth the requested amendment to the rules sought in Case 3246?

A Yes, sir. That is right.

Q All right, now let's take the rules up that are sought by the application in 3246.

A Would you like to start with what rules exist at the present time?

Q Yes, we will start with what is in existence at the present time. I will ask the Commission to take Case 2986, Order R-2691 dated April 15, 1964. Those are the present rules for the Mesa Queen Pool on which this property here in question is situated. Now, would you tell us briefly what the present rules are just in summary?

A Yes, sir. The present rules, as I understand them,

are written more or less for an oil field or an oil pool and gives the spacing as forty acres and they have a gas-oil ratio provision of 5,000 cubic feet to one barrel of oil and the allowable of the maximum, as I understand them, is based on 5,000 cubic feet per barrel times -- The formula is 5,000 cubic feet per barrel times the allowable or top allowable as assigned by the Commission as the maximum gas to be produced from the field. Then there are other provisions, but we are mainly concerned with the allowable.

Q All right, now, in what way do you seek to amend those rules?

A Well, we would like to amend the rules to take care of the case of a gas well which does not produce any liquids and we might just go over this briefly and in that way, I believe it would help me to point out what changes we would like to make. We would like to, first of all, define what a gas well is and that would be that a well have a gas liquid ratio in excess of 100,000 cubic feet per barrel. That's the first thing we would like to do and then we would like to -- that's in Paragraph 2, and then in Paragraph 3, on Paragraph 3 and 4, I guess it is what we are trying to do there is to realize that if the Commission recognizes a forty acre unit or that an oil reservoir would drain a forty acre unit, then we feel that a gas well would drain a 160-acre unit,

and, therefore, to prevent the drilling of three additional wells, we would like to, in this provision, allow for the production from a 160-acre unit the same production that we would get if we have four wells instead of one.

Q In other words, you are saying with the normal unit, 160-acre gas proration unit?

A Yes, sir. If we went ahead and drilled the three additional wells, the allowable that we are asking would be the same as we were asking for one well. In other words, we are not asking for additional gas, we are just asking to take it out of one well instead of four.

Q All right. And I believe No. 5 and partially 4, takes care of unorthodox proration units that are not a normal quarter subdivision of a governmental section?

A Right. These merely define what a normal or standard unit would be and then takes up the cases of normal standard units and then --

Q You have permitted here administrative approval after notice, have you not?

A Yes, sir. Then starting in Paragraph 7 and continuing then through the 7 through 12, we take up a balancing period which is more or less standard for gas allowables. The only thing that I think that might be controversial from this standpoint is in Paragraph 12, we ask that the amended field

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIAMAS BLDG. • P. O. BOX 1092 • PHONE 243-6391 • ALBUQUERQUE, NEW MEXICO

rules be retroactive from the date of the original field rules that were adopted for the oil shown in the Mesa Queen Pools. Now we have been shut in for some time. I have the record as to when we were shut in. We have been shut in because we were operating under rules for undesignated pools and when we came in on the rules, then we were overproduced and we have been trying to make up for that overproduction. We feel that it would be fair since the rest of the field received their field rules, if we could go back and pick up the gas that we have lost at a nominal rate, of course.

Q All right. Now that is what you seek in changes in the pool rules basically it's to define a gas well versus an oil well to permit the gas wells to be developed on standard one hundred sixty as is usually to permit unorthodox proration units with approval, either by hearing or administratively and to make up underproduction and overproduction as is standardly done in the gas area. Now, as you say, 12 is slightly different. In Case 3247 I believe you are here seeking a non-standard proration unit to the same effect as if these rules were in effect. Correct?

A Yes.

Q What's what you are seeking in the second one?

A Yes.

Q Referring to Page 4 of your exhibit, would tell

us briefly what that depicts?

A Page Four shows Section 17, Township 16, South Range 32 East in Lea County and it shows the acreage that Mr. DeCleva has under lease and shows the position of the No. 1 well.

Q This is the non standard proration unit you are seeking in Case 3247 that is outlined in green at Page Four?

A Yes, sir. It is.

Q Now, before we go any further, you marked the wells shown in the northwest northwest of Section 17. Could you tell us briefly when the well was drilled, where it was completed and any production it's had on it?

A Yes, sir. The well was completed in the latter part of 1962. The reason I say that is because we had some problem in completion of this well, but we first received runs in January of 1963, I mean we first received money for the production. This was for November and December of 1962. We produced the well then under the undesignated category up until April of 1964, all through 1963 up till April of 1964. Then we were placed in the Mesa Queen Pool and the well was subsequently shut in in September of 1964 and has been shut in since that time.

Q Now, what is the depth on the well?

A Well, I might --

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMAS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

Q What is your TD and your producing interval?

A We might make a copy of the log of the well and exhibit.

Q Your applicant's exhibit 2 in Case 3247 is a log of the well, depicted at Page Four of exhibit one?

A Yes, it is.

Q Would you answer my question about what the depth of the well is?

A Yes. The depth of the well is 3,426 feet.

Q What is the producing interval?

A The producing interval is the Queen formation and this exists at approximately 3,370 feet in this particular well.

Q What has been the accumulus production of the well and what is its rate of production?

A I do not have the accumulative production of this well.

Q What's its rate of production.

A The well originally produced at approximately a million cubic feet per day and then because of changing to the Mesa Queen designation and so forth in the month of August of '64 we produced fifteen million or approximately half a million a day.

Q Now is that drop off in production occasioned by the capability of the well or because of being placed in the

pool and thereby penalized as to the amounts that could be produced?

A No, this is an allowable.

Q Probable?

A Probable.

Q What, in your opinion, is the well capable of producing?

A It's certainly capable of producing in excess of a million a day and the initial rates were estimated to be approximately seven million a day.

Q Under your proposed rules, what would be the average daily production of the well if these rules were adopted by the Commission. Would it be more or less than the million?

A It would be less. It's three quarters of a million a day, approximately, or twenty two million a month under the present allowables assigned to the oil well.

Q You made the statement I believe initially that your problem concerns a gas well rather than an oil well producing gas. This is a dry gas well, is it not?

A Yes, sir. I was present at the time that this well was drilled and it was our feeling that this well was in a separate gas reservoir, and then when some of these other wells were drilled and they did produce oil, we felt that they

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SUIMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

were in a separate reservoir the develop subsequently and looking at that this map leads me to believe, although not conclusively, but it leads me to believe anyway that this is all one reservoir and rather than being, really rather than being an oil reservoir with a gas cap, it seems to me that it's a gas reservoir with an oil rim.

Q That brings us to Page 5 of your Exhibit One in both of these cases which, as you have mentioned, is a plat of the area. I believe you have shown the water shown in blue, the oil shown in red or orange and the gas shown in yellow?

A Yes, sir.

Q Would you locate the DeCleva well for us that we have just testified about?

A Yes, sir. It's on your Exhibit on the northwest northwest quarter section of that area. That is colored in the green boundary.

Q All right. We'll come back to this. Incidentally, how did you determine what is blue, orange and yellow on this exhibit? What was your method of doing this?

A Well, it's done by the production from the wells and the wells are included. The oil zone for instance includes those wells it was a certain subsea depth that produces oil, then the water zone is that area including the wells that produce water and the gas is that area including those wells up

structure which produce gas.

Q Based upon your study of the wells in this area, do you believe this map is accurate as to color chart, or reasonably accurate?

A Yes, sir. I think it is.

Q Now, under your proposed rules, I believe you provide in an unorthodox proration unit for notice to offset operators of the application, and I refer you to Page Six of your Exhibit One and I ask you if that is a copy of the letter sent to the offset operators in connection with this hearing in Case 3247?

A Yes, sir. It is.

Q Did you receive responses to that letter and, if so, by whom?

A Yes, sir. These responses are attached.

Q They are pages what in the Exhibit?

A Page 7 is the response from Mr. Dean, Page 8 is the response from the Tidewater Oil Company.

MR. CHRISTY: For the record, here are the originals of those responses.

Q Are the responses favorable or unfavorable?

A Well, they're favorable.

Q Incidentally, was this well cored?

A No, it was drilled with cable tools and was not

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATE MENUS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

cored.

Q Now, back on Page 5, being your map, I notice a well, an arrow pointing to a well known as the Dean Sinclair State Well, it would be in the Southwest, Southwest of Section 5, 16 South, 32 East?

A Yes, sir.

Q Now that well was cored, was it not?

A Yes, it was, and a copy of that core analysis is Page 10, 11, 12 and 13 of Exhibit 1.

Q Now what was the purpose of showing the core analysis in this hearing?

A Well, it simply shows that the Queen in this well, the Queen formation in this well is, has a fairly good permeability, being on, shown on Page 11 as fifty-one milladarcies, eight milladarcies, ten milladarcies, seventy-six milladarcies, eleven milladarcies, and so forth, and the porosities are ten to thirteen per cent. We show this or give this as an exhibit in an effort to show that the well will drain or has the reservoir characteristics to drain 160 acres from a gas well.

Q I see. Now, you don't show the Sinclair State, though, as being in the same reservoir?

A No.

Q Is it a comparable well as far as porosities or permeabilities are concerned?

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMS BLDG. # P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

A Well, in addition to this well, we have listed the Shell Oil Company MQD Number One core analysis.

Q For the record, that's located in the Southeast Southwest of Section 17, 16 South, 32 East, and is marked on Page 5 of your Exhibit One?

A Yes, that's right and now this is the Queen formation and has similar characteristics as far as permeability and porosity are concerned.

Q Again, it would indicate, since you have no direct information, it would indicate that the DeCleva well has sufficient permeability and porosity to drain the non-standard proration unit requested?

A Yes, sir. These are certainly not conclusive but they do indicate just a core analysis is not a conclusive proof that it will drain; but it does indicate that it has proper characteristics.

Q In your opinion, will the DeCleva Well effectively and efficiently drain the non-standard proration unit sought in Case 3247?

A Yes, sir, it will.

Q I assume it would be your testimony that the gas underlies the full 160, as reflected on your Page 5?

A Yes, I believe that it does.

Q Now, sir, from an economic standpoint, do you feel

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

it would commit waste, including economic waste, to develop the gas portion of the Mesa Queen Pool on forty-acre spacing? Would that create waste?

A Yes, sir. As I say, we had some trouble in completing this well and so I don't say that our costs for this well are necessarily representative of possibly another well, but our costs on this particular well were in excess of forty thousand dollars; and based on the present allowable, I don't believe that we could pay this well or three additional wells, pay them out at all on that basis. I do feel that we will be able to pay the well out and prevent economic waste if we are allowed to produce this well on the allowable that we have asked for.

Q Now this is State acreage?

A Yes, sir, it is.

Q It's all one lease?

A Yes, sir, I understand it is. Now I'd better go back and say I am not sure.

Q Now will you furnish to the Commission the cumulative producing history on this well, the cumulative production? Will you furnish that to the Commission, please?

A I don't have it with me.

Q I say, will you furnish it?

A But I will furnish it, yes.

Q Is there anything I failed to ask you that you feel the Examiner should be advised of in either Case 3246 or 3247?

A No, I don't think so.

MR. CHRISTY: That's all from this witness.

CROSS EXAMINATION

BY MR. UTZ:

Q Mr. Flanagan, do you feel that this pool has been pretty well defined?

A Yes, sir, I think it has. Every well that you drill, of course, will give you more information, but I think that within reason, it has been.

Q How many wells are there in the gas cap?

A Seven, as I count them on this map, sir, and I believe this is up-to-date. There's one over in that little area to the east in Section 16.

Q Well, let's see. There's one in Section 7, is that correct?

A Yes, sir. One in Section 7, one in Section 12, one in Section 13.

Q Just a minute, Section 12, where is that on here?

MR. CHRISTY: That's 12.

Q (By Mr. Utz) All right, sir. After 12 --

A Mr. Examiner, I believe that this well, No. 1, in

earnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
11:0 SIMAS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

Section 13 has been completed as a gas well, but I am not positive of that.

Q That doesn't show very well on this map here. Will you give me the location?

A Yes, sir. It's in the Southwest Quarter -- in the Northwest Quarter of the Southwest Quarter of Section 13.

MR. CHRISTY: That's the one shown in the map as a drilling well?

MR. UTZ: Yes.

A There's one in Section 18 just to the east, excuse me, and then one in Section 17 just southeast of that well in 18; one due north of that in 17. Well, that's our well, and then one in Section 16.

Q (By Mr. Utz) Now that's the one that I was missing. Were all the other wells in the gas cap producing?

A I don't know, sir. I don't know. I believe that Mr. Dean's wells are producing but I'm not sure. I know that Mr. Dean is interested in this hearing.

Q Now, you do, I gather, consider this a gas cap situation connection with an oil reservoir?

A Yes, from the study of this map, I believe that it's an associated gas-oil field.

Q From the conservation standpoint, particularly, as related to the oil, the objective should be here to maintain

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMAS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

PAGE 18

a stable gas-oil contact, would that be a correct statement?

A Yes, sir, I think that's right.

Q Do you have any information that would show that your formula that you are requesting in these rules here, 5,000 to one, times the normal unit allowable would accomplish this?

A No, sir. In truth, I think that 5,000 is an arbitrary number. I think that in examining this the point that I was trying to make with a gas field with an oil rim rather than an oil reservoir with a gas cap, is that the large volume of gas and the expansability of the gas, that 5,000 is not too large a number; and I think that we will reduce the reservoir pressure more by taking a barrel of oil out of the ground than we will by taking 5,000 cubic feet of gas out of the ground just because of the areal extent of the gas in relation to the areal extent of the oil.

This is my own feeling as a petroleum engineer, but gas, along with oil, is a valuable commodity and it takes reservoir energy to produce the gas; and I am as much concerned about the oil producers in this field taking reservoir energy as I am about the gas producers taking reservoir energy.

The original field rules were set up to give the oil producers a chance to remove the oil on forty acres as being a safe producing or spacing to prevent any waste. It was also

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. "P" O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

at that time arbitrarily we set up 5,000 cubic feet, and I think that the 5,000 cubic feet is probably as good a number as the forty acres for the oil and as far as dissipating the reservoir energy.

Q Now, of course, when we talked about equal withdrawal, then we have to talk about withdrawal on an acre per acre basis, isn't that correct, assuming that reserves in each are volumetrically the same, which, in this type of formula, you must consider that that's true, else you would have some deviations from it, right?

A Yes, sir.

Q Now, is it your contention that on an acre per acre basis, that one barrel of oil will displace 5,000 cubic feet of gas? In other words, what is the relationship on the surface acre basis of oil to gas?

A Well, sir, I don't really know how to answer that. I'm not trying to dodge the answer because I really don't know the answer to that question. I think what we're trying to do here together, both the gas producers and the oil producers, is to produce this reservoir in order to get the maximum amount of hydrocarbons out of the ground without waste within an economic cost. I think that what we are talking about there is how much gas we leave in the ground and how much oil we leave in the ground and how well we sweep the area

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6491 • ALBUQUERQUE, NEW MEXICO

and whether by producing the gas cap we are running the risk of trapping some of the oil in the gas cap or whether by producing the oil we're liable to leave some of the gas in the gas cap. I think that in this particular case with the areas as shown on the map, that it really is probably more involved than just the acre by acre basis, and I think that we are talking about reservoir energy here, too; and it is my feeling that the 5,000 to one is not an excessive amount from the standpoint of reservoir energy and maximum recovery.

Q Have you made a volumetric analysis of the B.S. area and the oil area to determine in your mind whether the 5,000 is too little or too much?

A No, sir. The Queen does grade into a different thickness in different wells and has some different characteristics, but, by and large, in quite a few of these wells, the sand thickness and characteristics is the same, so I have not approached it on the basis of a volumetric analysis, but rather on just an areal extent; and I think here that just -- I don't know how accurate this map is from the development but just its -- the gas area is some three or four times, three times, say, the areal extent of the oil reservoir as shown on this map.

Q In your previous statement, just before the answer to this last question, you stated that the interest of the

operators was to recover the most hydrocarbons out of the reservoir, both oil and gas. Now, actually to accomplish that, what you are saying is, well, of course, one of the things too you are trying to accomplish is to protect correlative rights also. Is that correct?

A Yes, sir.

Q So, in order to accomplish that, what you are really interested in and what you are, I believe, telling me the operators are interested in, is everyone producing their share of the oil or gas, that's under their tracts, thereby leaving the gas-oil contact as stationery as it's possible to do so?

A Yes, and also producing their fair share of the reservoir energy.

Q And in so doing, well, that would accomplish the use of the fair share of the reservoir energy, too, would it not?

A Yes, sir.

Q In a gas cap situation like this, in order to obtain the most hydrocarbons out of the reservoir, the way to do that would be to shut in all the gas wells and produce the oil first, isn't that correct?

A Yes, sir, but then that would not give a fair share of the reservoir energy, though, underlying the tracts.

dearnley-meier recording service

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

This is a problem we quite often have is the people that own the gas acreage have the oil, and quite often we let the gas people produce the oil people's reserves for them. I mean we can if we go on the basis of shutting in all the gas wells, we can allow an unfair use of a person's energy to produce somebody else's reserves.

Q In other words, the only way to produce this field in the manner I just described would be to unitize the whole area, would that be correct? Then everybody would receive their fair share of the reservoir energy.

A I would say certainly that unitization is a very pleasing thing in all fields of this type.

Q But in lieu of that, then, what you have to have here in order to accomplish what you say you want to accomplish, is a volumetric relationship between the oil area and the gas area and to deplete each area as evenly as possible and decreasing the pressures in each area as evenly as possible. Now, the sum and substance of my whole line of questioning is, in your opinion, do you think that we have enough information on this pool to say that 5,000 is the way to do that?

A Well, I'm an engineer, sir, and I don't ever think we have enough information to do a good job on anything, but I do feel like that if we have enough information to set the spacing at forty acres for oil, that we have enough infor-

dearnley-meier

SPECIALIZING IN DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS B.DC. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

PAGE 23

mation to go ahead with the original rule on the 5,000 to one basis. Again, I would like to state that we're not trying to change the original rule from the standpoint of the ratio of 5,000 to one which the field is now operating on. We are simply trying to make the allowable for 160 acres come through one well.

Q Yes, sir, I understand that, but at the same time, the whole case has been reopened, has it not, for new pool rules?

A Well, these are just really amendments to the others. I guess that's right. Yes, sir.

Q Do you think that there is enough information available in this pool that once could make a reasonably accurate volumetric study in order to obtain in a volumetric equivalent, I guess you'd call it a volumetric equivalent gas-oil ratio to substantiate your 5,000 figure; or rather, instead of your 5,000 figure, it would be somebody else's 5,000 figure which has already been set?

A Well, I think there are enough wells and there's enough information that we can certainly make a try at it. How accurate it would be is just like other reserve determinations, but I think we do, I think that, in relation to other reservoirs that I have seen, that we do have considerable amount of information. Yes, sir.

Q Now, these rules that you have submitted here look very familiar, and I was wondering what order you lifted those out of?

A Well, let me describe a little more on this. Mr. Joy was our engineer in our Midland office and he started the proceedings on this and he wrote to Mr. Nutter and has corresponded with him on several occasions concerning what we should do here and describing our position and what we might like to do. Then, as I understand it, these rules were then suggested to him as being rules that you would normally have for this kind of a situation and also taking off on the rules that had been already established for the field, with an idea that it was overlooked or we just did not discuss what would happen in this particular pool if you had a well that was just producing gas; and just trying to make an amendment to the rules already established that would provide for these wells that were producing just gas; so I don't know exactly what rules they were lifted from, but I do know that Mr. Joy worked with Mr. Nutter and took his suggestions as to what we should ask for here. I also think they're similar to the Texas 6-B type.

Q Well, I noted that these rules were almost word for word, at least the rules that are printed here in your Exhibit A are almost word for word from the Angel Peak-Dakota

dearnley-meier

SPECIALIZING IN DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMPLIS BLDG. • P. O. BOX 1092 • PHONE 243-6891 • ALBUQUERQUE, NEW MEXICO

rules in Northwest New Mexico; and to some extent almost identical to the Devil's Fork-Gallup rules in Northwest New Mexico. I also noted that some of the rules were absent from your suggestions there. One rule in particular insofar as periodic gas-oil ratios are concerned in order to determine whether a well has changed from a gas to oil or oil to gas. Nowhere in these rules do I see a rule stating that this test should be taken periodically. What is your recommendation?

A Well, I think we should have one. I am wondering if the original rules do have it?

MR. CHRISTY: No.

A They do not. I think that's a good rule to have.

Q (By Mr. Utz) Now, do you know what is happening to the casinghead gas from the oil wells?

A No, sir, I do not.

Q In order to protect your correlative rights in an associated reservoir, is it your opinion that the casinghead gas should be flared? In other words, do you think these rules should contain a no-flare order for the oil wells?

A Well, from the standpoint of our correlative rights, I would say it should not be in excess of the 5,000 rule. That would put us on the same basis. My feeling as an engineer, I don't think we should flare any gas.

MR. CHRISTY: I don't believe the applicant

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

would have any objection to continuing the rule with respect to no-flare as contained in R-2691.

Q (By Mr. Utz) Now, in effect, what you are asking for here in this rule change is a proration procedure for the gas cap of an oil pool, is that correct, where you have proration periods and balancing periods?

A Yes, sir. That's right.

Q This retroactive rule here is something that the Commission has not done heretofore to my knowledge in beginning proration in any pool. In that regard, I am wondering a little more about how your well produced prior to the time that it was included in the present pool. You say your well was shut in as of that date, after it had been completed in late '62. Now, was the production, the production history from late '62 until the time it was included in the Mesa Queen Pool computed and the well shut in on the basis of overproduction for that period, or just how was that handled?

A During 1963, we produced -- here are the approximate rates, 32 million, 28 million -- these are monthly productions -- 30, 31, 32, 30, 31, 28, 31, 31, 32; and in 1964, we produced 28, 25, 24, and then it was -- and 24 million; and then it was put in the Mesa Queen. We produced 25, 23, 20, and I think at that time it became evident to us that our allowable had been changed.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMAS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

I am saying it became evident to us, I don't know, I don't know whether we were notified or whether the purchaser notified us or just how. I was not in on that part of it and I just do not know.

Q You don't know whether the Commission ordered the well shut in or whether the Commission determined what your overage status was, or any of those details?

A I do know now that the Commission knows what our overage status is and we are trying to make up for our overproduction, yes, sir.

Q On what basis was that overage status computed?

A It was computed on the basis of these rules.

Q From the beginning date of these rules on the forty-acre basis?

A I don't know. I will have to find that out.

Q These are things which I feel that we should know in order to determine whether you are entitled to a retroactive consideration or not.

A Yes, sir. That's right.

Q Can you advise us as to what the situation is in this regard?

A Yes, sir, I will. I can't right now, but I will.

MR. UTZ: Are there any other questions of the witness?

dearnley meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1062 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

MR. MORRIS: Mr. Examiner, you covered most of the ground that I intended to cover, so I shall be brief.

BY MR. MORRIS:

Q First, let me say, Mr. Flanagan, that Shell Oil Company has no opposition to your non-standard proration unit nor do we have any objection to most of the rules that you have proposed here. Shell was the applicant in the case wherein the 5,000 to one gas-oil ratio was established, and we would certainly favor the continuation of that gas-oil ratio and we have no objection to its use in your formula.

As you anticipated, however, we do find some controversy with your Paragraph No. 12 of Exhibit One concerning your retroactive rules. Your Tidewater State Well No. 1 was the discovery well in this field, was it not?

A It's listed as a discovery well, but I don't believe it's a discovery well of the Mesa Queen Pool because it was merely placed in an undesignated status before the Mesa Queen Pool was set up as a pool.

Q Yes, I purposely used the word "field" rather than "pool", meaning it was the discovery in this general area. Was it in producing gas prior to the production of oil from the oil wells in this area, or do you know, Mr. Flanagan?

A Well, let me say that I don't know for sure. When I was there and we completed the well, I remember that

Cactus -- it seemed to me that Cactus already had an oil well and that they were drilling at the same time on additional wells in that area; and because our gas well was so dry, I was pretty well convinced that we were in a separate field, so I think, on that basis, that there were oil wells already drilled.

Q For how long a time did you produce this well as a gas well before it was placed under the restrictions applicable to Mesa Queen Pool?

A Eighteen months.

Q You were producing at approximately a million a day during that period of time?

A Yes, sir.

Q Were the other gas wells in the gas area being produced at similar rates during that period of time, or do you know?

A Well, of course, we didn't have the development of all the gas wells that we have now, and I don't know the answer to those that were produced. In answer to your question before, I would like to say that this million a day is about, is approximately a ratio of 6,500 to 1, rather than 5,000 to 1, based on approximately thirty-eight barrels per day average.

Q Who is your purchaser of gas from this well?

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 109 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

A Phillips.

Q Have you ever sustained a curtailment of production due to Phillips' inability or unwillingness to take gas from this area?

A Well, there is some problem with the BTU content on this gas, and I think that they have during this period, on occasion, restricted us.

Q The gas has a very high nitrogen content, does it not?

A Yes, it does contains nitrogen.

Q Would you consider the quality of the gas inferior to the usual gas quality for gas pools in this area?

A I'm glad you brought up in this area because there are a lot of nitrogen producing gas fields in this area, and probably we have a better quality; but in answer to your question, over-all in the State of New Mexico, we are probably inferior to better New Mexico fields.

Q Should your proposal for retroactive allowables receive consideration from this Commission, do you have any problems yet to work out with your purchaser for the takes of that gas?

A I am sure we would and on your question about this retroactive Paragraph 12, we certainly feel like since we have been shut in since the rules were established by the

HEARNLEY-MEIER REPORTING SERVICE, INC.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-1691 • ALBUQUERQUE, NEW MEXICO

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-4491 • ALBUQUERQUE, NEW MEXICO

Conservation Commission for the oil producers and they have been producing their wells, and since we have been shut in for overproduction, we're not really, it's our feeling that we are not really asking to get the better of anyone. We are just trying to get back to where we were when the rules were set up and we were not included in the rules. What I'm saying is that we think it's fair that we be given some kind of a consideration on the period of shut-in; but Rule 12 is -- certainly we don't want Rule 12 to keep us from having a good set of rules here, which you have already agreed -- which you think is a good set of rules.

Q With some additions and corrections, Mr. Flanagan. As you interpret the rules that you propose here, would they, in effect, give you six months' back allowable for this well which could be made up during the next six months in addition to the regular allowable?

A I don't believe that it was our intent to get an extra six months' allowable. If it had been, I don't believe we would have asked for Paragraph 12, because really, what we are trying to do is to help ourselves during this shut-in period. Like Shell and other people, we have been trying to operate this lease without producing gas, and it has brought on an economic problem. I don't think it was our intention that we would get an additional six months' allowable in addition to

being allowed to make up for our lack of production since the field rules were put in. No, I don't think that's our -- Do you read that that we would get that?

Q Well, Mr. Flanagan, you are just phrasing it a different way, I think, than I am. You are saying you just want to make up for production that you have lost since the field rules started, and I am saying that your rules would have the effect of accomplishing that partially by giving you an allowable for the previous six month prorationing period.

A We put those in because we feel that because you can't store the gas and to take care of over and underproduction, and we did not put those in to make up for back allowable. That was not our intent.

Q If I understand you, in your proposal you seek to have an allowable assigned to these wells for, say, the next proration period, and in addition to that, you want to be allowed to make up the gas that would have been assigned to this well since the Mesa Queen gas-oil ratio rules were first established, is that correct?

A Yes, sir.

Q Is that what you are seeking?

A Yes, sir.

Q All right.

A Now, what we feel like is that at the time the

time the rules were written for the oil producers, we really should have had our changes in there, should have been part of the rules for the entire field.

Q Now, you just got to my next point, Mr. Flanagan. I would agree with you that perhaps they should have been placed in there at that time if they were to have been considered by this Commission. Now, when the Commission first included this well in the Mesa Queen Pool, that was when, in August of 1964?

A Yes, sir.

Q At that time your company made no application to the Commission for consideration of additional allowables or special treatment for gas wells in this pool, did they?

A I'd have to get the file and see when Mr. Joy first started corresponding with Mr. Nutter to see how we can bring this about.

Q All right.

A I know as soon as it became evident to us that we no longer had an allowable for our gas well of any consequence, we started to try to do something about it.

Q Mr. Flanagan, from the plat that you introduced into evidence, does it appear to you, and from your knowledge of the pool, does it appear to you that additional gas wells will be drilled in the gas area?

dearnley-meier

SPECIALIZING IN: DEPOSIT ONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

A I would think that they would unless there is some acreage problem; and I would say this, that under our proposed change, the drilling of a gas well in this area is still not going to be an economic bonanza and I think that the operators in this area would probably take a look at that and I don't think that we would have a problem of a gas well being drilled on every 160 acres.

Q Does it appear possible for additional gas well development to occur in the area close to the oil area of this pool?

A Well, I think --

Q In other words, what I am getting at, Mr. Flanagan, there's still one hundred sixty acres undrilled in Southeast Quarter of Section 18 and the area in the -- there's still additional area in Section 17 that's not dedicated to a gas well, is that correct?

A I think that there are probably additional locations for gas wells.

Q You are not suggesting that any wells drilled there be given retroactive allowables are you, Mr. Flanagan?

A No. I don't particularly think that would be fair. I am not asking -- I am not asking this as preferential treatment.

Q Would you agree, Mr. Flanagan, that if the gas

dearnley-meier reporting service

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

11720 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

from the gas area is produced at a faster rate or in greater volumes volumetrically than the oil is produced from the oil zone, that waste could occur in this area?

A Yes, sir, I think that's a possibility. In addition, I think it's a possibility that if the oil is produced faster than the gas, the oil can still be pumped but the gas can't and we might lose some gas.

Q Without a volumetric study, it would be hard to say which, if either of these, would be most likely to occur, is that correct?

A Yes, sir. That's probably right.

Q Mr. Flanagan, are you familiar with the rules that have been adopted by Order No. R-2397 in the Double-X Delaware Pool of Lea County?

A No, sir. I am not.

MR. MORRIS: I would ask the Commission at this time to take administrative notice of the order that I have just referred to for the Double-X Pool in that the rules for that pool are substantially similar to the rules that have been proposed by the applicant in this case, with one or two what we feel to be noticeable omissions which I would like to point out to the Commission. At this time, I would offer a copy of that order.

MR. UTZ: What was the number in that order?

MR. CHRISTY: Case 2720, 2397.

Q (By Mr. Morris) The thing that occurs to me with respect to that order just referred to, Mr. Flanagan, is that your Rules 7 and 8 contained in your Exhibit No. 1 are either substantially identical to Rules 12 and 13 of Double-X rules, and then your Rules 9 and 10 are substantially similar to Rules 16 and 17 of the Double-X rules, but Rules 14 and 15 of the Double-X Pool have been omitted from your proposal; and Shell Oil Company intends to propose to the Commission that if your rules are adopted that two additional rules be appended, being Rules 14 and 15 of the Double-X order.

I think both you and the Examiner have those rules in front of you, so that I need not read them into the record, but I will ask you if you would have any objection, from your point of view, to those rules being included?

A Well, I haven't had a chance to really study this. Could you kind of fill me in on what the intent of these two rules are?

Q Well, I think these are customary rules in gas prorationing concerning balance periods and carrying of under and overproduction forward into the next succeeding balancing periods; and whereas you have provided for the situation where under-produced wells, how under-production shall be treated in an ensuing balancing period, you have not provided for over-

dearney-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMPSON BLDG. • P. O. BOX 1102 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO



dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

production shall be treated in an ensuing balancing period, which Rule 15 of the Double-X rule accomplishes; and we certainly think that this should be provided for in any order along these lines.

A Well, in 14, as I understand it, if you have overproduction, you simply apply that to the under-production that you have had is that right?

Q That's right, and I would suspect that that would be favorable, or at least not controversial to the gas operators' standpoint.

A I think that's fine, Mr. Examiner, that Rule 14. Now 15, let's see, now proration period here, is that a six month period?

Q Yes, that's provided by the rules that you have proposed. That's to be a six month period.

MR. UTZ: Mr. Flanagan, would you have objection to the inclusion in your rules of any normal gas proration balancing rules?

A No.

MR. UTZ: Which is common to all prorated pools?

A No, Mr. Examiner.

MR. UTZ: Does that take care of your situation?

MR. MORRIS: Fine.

A Specifically, 14 and 15 look to me to be good rules

and fair and equitable, and that's what we're trying to do.

Q I'm actually suggesting, Mr. Flanagan, they may have been intentionally omitted from your proposal and we want to supply a full set of rules if we're going to have any --

A We appreciate your studying these things and helping us out because that's what we are out for.

Q We still don't like your Rule 12 much.

MR. MORRIS: That's all the questions I have of this witness. I would like to make a statement at the conclusion of the case.

BY MR. UTZ:

Q Mr. Flanagan, I note that your rules don't contain a spacing rule that states how far from a quarter and quarter quarter section line the well shall be drilled. Is it your intention to use State-wide 104 Rule for that?

A Yes, sir. It is.

Q What is the nitrogen content of this gas?

A I do not know sir.

Q But you do know it's substantial?

A Yes, sir, I do; I do know that it's --

MR. It's over fifty per cent, fifty to seventy.

A Fifty to seventy. I know we have some reports in the office, and I would be glad to furnish the Commission

with the reports that we have.

Q I think it might be well to have it in the record. In regard to this retroactive thing, it might be well to clear up to a point. First let me say that what you are actually applying for is retroactive to May 1, 1964?

A Yes.

Q In accordance with the old rules?

A Yes, sir.

Q Now, the proration periods that you are requesting run from January 1 to July 1, and July 1 to December 31st, the first half and the last half of the calendar year. Now, you realize that if your well had an underproduced status at the end of June or the first of July, 1964, that that would have been cancelled had it not been overproduced in the last six months of that year? Are you asking for a non-cancellation of that type of gas or are you asking for the usual balancing rules to be in effect?

A Well, what we would really be cancelling is the -- I believe your question, sir, if we just, if we forgot all about that Rule 12 and we just took off with the balancing period, then we would have up until June to balance out the last half of '64 and so what we would be losing would be from May and June, is that right, sir?

Q Well, that would depend on what you produced in

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

dearnley-meier reporting services, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1110 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

May and June. If this particular thing goes retroactive, then you have three periods in consideration, of course. One period beginning half way in the period, or May 1st to the first half of '64; the next period, the last half of '64 and the first period of '65. Now, you would have two statuses that you would have had to overproduce to avoid cancellation, one July 1, 1964, and one January 1 of '65. Now the statuses as of the end of those periods had you not overproduced them in a subsequent period, they would have been cancelled. In asking for retroactive rules in this proration procedure, then that point would have to be clarified because you might not gain anything if the cancellation rules were in effect.

MR. CHRISTY: That is in effect what we are asking for, is an exception to the cancellation rule in addition to permitting us to retroactively produce over a reasonable period.

A Well, now, wait a minute now.

MR. CHRISTY: There wouldn't be any proration. You wouldn't have an allowable.

A If starting -- may I ask this question, sir? If starting in June or if for the last half of '64, under our proposed rules, we had been underproduced, then we would still have the first six months in '65 to make up this underproduction on the balancing period.

Q (By Mr. Utz) No, sir. You would have had the

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-669 • ALBUQUERQUE, NEW MEXICO

last half of '64 to make up that underproduction because the status would be struck at the first of July and you were underproduced five million, let's say to quote figures: if you had underproduction in July of '64 of five million and you did overproduce five million by months during the last half of '64, then your five million would have been cancelled.

A Yes, but then during the period of the last half of '64, we would still have the first six months of '65 to make up for that, is that right?

Q Yes.

A So what, in effect, we are losing if we knock out twelve altogether, is that up until, or the first half of '64 over or under, that can't be balanced.

Q It would depend on whether you want non-cancellation for '64. What you actually, if you want non-cancellation, what you are asking for here is back allowables up to May 1st, that's what it amounts to.

A Well, what I am saying, sir, is with Shell and it seems to be quite a point of contention with the Commission, this Rule 12, everything else seems to be all right, or at least not as controversial as Rule 12. So then what I'm asking now, or what I am saying is that if we do away with Rule 12 and just put in the balancing period, then we will have up until we will have during the first six months of 1965 the ability

to make up for the last half of '64. If we don't have Rule 12, then all we will be losing is May and June balancing, isn't that the way? Is that what you mean, sir?

Q Well, it depends on what you're shut in for now, which I am not aware of. I really don't know. Are you shut in on a forty acre basis, as I understand?

A Yes, sir.

Q For excessive GOR production, 5,000 to 1?

A Yes, sir.

Q Times 38 or 39, whatever the allowables were?

A Yes, sir.

Q That status, I believe, would have to be taken into consideration whenever, regardless of when these rules go into effect. In other words, your 160-acre rules would not go into effect until the 1st of June, the 1st of July.

A Oh, I see what you mean.

Q So you begin the period with whatever overproduction, I would say, on a 40-acre basis that you have. Wouldn't that be true, Counsel?

MR. DURRETT: You lost me about twenty minutes ago.

MR. CHRISTY: I think that's the point. We are going to lose the last half of '64. We just can't make it.

A Unless we can make these rules retroactive to when the other rules were established and not put in Rule 12.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

MR. MORRIS: Let me get my two cents in here, too. As I understand it, if Rule 12 be eliminated from the proposal, then there are no allowables to be made up because no allowables would have accrued, no gas allowables would have accrued to this well on 160 acres. The only allowables that have accrued would be the allowables, that is, prior to the date any order is entered in this case, would be the allowables that would accrue to this well as an oil well on a forty acre tract.

MR. UTZ: That's exactly the status that I'm speaking of now. If we don't consider that overproduction for which he's shut in for now on the basis of a gas well in an oil pool, then, in essence, what we would be doing would be forgiving him for overproduction as an oil well. I don't know whether that's a legal question or not, but I would think that something would have to be done about that status.

MR. CHRISTY: What we are asking is not for you to forgive us for that, but let us go back to August and 160, and subtract that off the overproduction, strike that off, and let us produce it as an exception to the normal six months' make-up allowable for the period of the last half of '65.

MR. UTZ: Retroactive allowable on spacing is all that it amounts to.

MR. CHRISTY: Right, make it up in six months. If we don't make it up in six months, we lose it.

MR. UTZ: I brought this up because the way we write this order, we will have to know whether you want non-cancellation or just retroactive allowables.

A Well, sir, we are really just trying to be fair about this.

Q (By Mr. Utz) So are we.

A Yes, sir. I know it and I appreciate your letting me talk to you about it.

MR. UTZ: Perhaps we can leave it this way and give you a little more time to think. If it's your contention that you should leave Rule 12 in your application, then I would request that you send us your production data and the GOR producing ratio from the first production of the well up to May 1st, 1964, and the same data from May 1st to the present time.

MR. MORRIS: Mr. Examiner, may I request that anything sent by the applicant to the Commission, that a copy be sent to me, Richard Morris, P.O. Box 2307, Santa Fe, and that I be given leave to apply to the Commission for a reopening of this hearing if that data raises any questions about which further cross examination of this witness should be accomplished.

MR. CHRISTY: We would have no objection to that and be happy to furnish Mr. Morris a letter. We ask that a time limit be placed on Mr. Morris to make the objection.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6891 • ALBUQUERQUE, NEW MEXICO

MR. UTZ: How long will it take for you to give this information?

A There is only one problem here again in being fair about this thing. There is only one problem we're going to run into, and that is that we don't, in good conservation practice, we don't want to have to produce too much gas all at one time, so it's fine to delay, and we want to get what we have to have, but we have six months' period here to balance out. We certainly would like to produce this over this six months' period if we can, and we have already used up some of that.

MR. CHRISTY: How long is it going to take to get the information, is the question.

A Well, it will take about a week to get it all assembled and in the mail.

MR. CHRISTY: Would it be fair that you make your objections two weeks after the receipt of the objection?

MR. MORRIS: That would be fine -- why

MR. CHRISTY: We have no objection to that.

MR. UTZ: Why don't we set a date of May 1st?

A Then we are out of the balancing period.

MR. MORRIS: Mr. Examiner, I need to have a certain length of time after I receive the information.

MR. UTZ: Oh, I see.

MR. CHRISTY: We can't guarantee he'll have it within that time.

MR. UTZ: Set your date as June 1 to give us the information and give Mr. Morris until June 15th to answer. No order will be written on the case until after June 15th.

A Mr. Examiner, may I ask Mr. Morris, at this time, if there is anything else that he would like to discuss that we might --

MR. CHRISTY: Let's take it up after the hearing.

A All right.

MR. UTZ: Are there any other questions of the witness?

MR. CHRISTY: If there are no other questions, we would like to offer into evidence Applicant's Exhibit One and the log being Applicant's Exhibit Two.

(Whereupon, Applicant's Exhibits One and Two were offered for identification.)

MR. UTZ: Without objection those exhibits will be entered into the record in this case.

MR. MORRIS: No objection.

(Whereupon, Applicant's Exhibits One and Two were marked for identification.)

MR. UTZ: Since there is no rule in Order 2691 for an unorthodox location, you're actually asking for this unorthodox location as an exception to the general Rule 104.

A That is correct.

MR. UTZ: The witness may be excused.

(Witness excused).

MR. UTZ: Any statements in this case?

MR. MORRIS: Yes, Mr. Examiner, just to summarize Shell's position on this case very briefly, as I stated previously, we have no objection to the non-standard unit proposed by the applicant in Case 3247. As to the special rules requested in Case 3246, we have no objections to any of them except Number 12 and as to Number 12, we have very serious objections. The Commission, as far as I know, has never established retroactive allowables in this type of situation, at least. It would be a precedent and I think a dangerous precedent for the Commission to do it in this case. I think it's been clearly shown by the questions asked by the Examiner and the general discussion here in the hearing, that it would be most difficult of the administration and that the exact effect of retroactive rules upon all the possible variations that might occur in the production of this well, of these gas wells, would be most difficult to even foresee at this time.

I think the only way that gas proration rules can be effectively administered is to take the situation as you find it and go forward from that point and that's what should be done in this case. We have no objection to that being done in

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1170 SIMMS BLDG. • P. O. BOX 1091 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

this case.

We would point up perhaps a technicality here that while Shell Oil Company certainly had notice, it was little, that retroactive allowables were going to be requested in this hearing, there is nothing in the call of the docket that would indicate that. Had there been we certainly feel that there would have been other appearances made here today to object to the granting of retroactive allowables because as this Commission has recently in the Indian Basin Case become very aware, there is a very widespread feeling on this subject -- some pro and some con. Due to the lack of notice in this case, we feel that retroactive allowables should not be, and perhaps, cannot be, considered by the Commission. The only other point I would like to make is that the Commission adopts, whatever rules the Commission adopts, we would suggest that Rules 14 and 15 of the Double-X Delaware rules be incorporated in order to have a full set of balancing provisions in the rules.

MR. UTZ: Any other statements?

MR. DURRETT: I would like to state for the record that the Commission has received a letter from Tidewater stating that they concur with the proposed amendment and waive objection to the granting of the non-standard unit; and we have received a telegram from Cactus Drilling Company stating that they concur with Shell Oil Company's stand in these cases.

MR. UTZ: Mr. Flanagan, do you know whether the oil wells in the gas cap have been producing or not?

MR. FLANAGAN: No, sir. I cannot give you that information.

MR. UTZ: If they have been producing, then they would have to be considered in this retroactive decision also, would they not?

MR. FLANAGAN: Yes, sir, they would.

MR. UTZ: Any other questions? Any other statements? The case will be taken under advisement.

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6491 • ALBUQUERQUE, NEW MEXICO

PAGE 50

I N D E X

WITNESS

PAGE

DONALD FLANAGAN

Direction examination by Mr. Christy

3

Cross Examination by Mr. Utz

16

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

STATE OF NEW MEXICO)
COUNTY OF BERNALILLO)

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

WITNESS my Hand and Seal this 4th day of June, 1965.

ADA DEARNLEY

My Commission Expires:
June 19, 1967.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 3247, heard by me on May 12, 1965.
Examiner
New Mexico Oil Conservation Commission