

CASE NO.

6204

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
7 June, 1978

EXAMINER HEARING

IN THE MATTER OF:

Application of Producing Royalties,
Inc., for an exemption from the
Natural Gas Pricing Act, San Juan
County, New Mexico.

CASE
6204

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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MR. NUTTER: Call now Case Number 6204.

MS. TESCHENDORF: Case 6204. Application of Producing Royalties, Inc., for an exemption from the Natural Gas Pricing Act, San Juan County, New Mexico.

MR. CAMPBELL: Mr. Examiner, my name is Michael Campbell and I'm with the law firm of Campbell, Bingaman, and Black, appearing on behalf of Producing Royalties, Inc., in Case Number 6204.

I have two witnesses to be sworn.

(Witnesses sworn.)

MR. CAMPBELL: Mr. Examiner, I have a brief opening statement, if you might let me make it.

MR. NUTTER: Okay, go ahead.

MR. CAMPBELL: Mr. Examiner, this is the second hearing on Case Number 6204, which was an application by Producing Royalties, Inc., to drill a second well on the same proration unit in San Juan County, New Mexico.

On May 2nd, 1957, Producing Royalties, Inc., purchased certain acreage which included the northwest quarter of Section 12, Township 29 North, Range 12 West, San Juan County, New Mexico. That acreage had a well on it, the Carroll-Cornell No. 2 Well.

That well produced for a number of years. In June of 1970 the Carroll-Cornell Well experienced its

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1 last production.

2 On April 17th, 1971, the buyer of the gas
3 from that well stopped metering the well.

4 On April 11th, 1976, Producing Royalties, Inc.,
5 filed an intent to abandon the Carroll-Cornell No. 2
6 well with the USGS. The application was approved the same
7 day.

8 On April 14th, 1976, Larry Bedford, d/b/a
9 Bedford, Inc., physically plugged the Carroll-Cornell No.
10 2 well.

11 On July 22nd, 1976, Producing Royalties, Inc.,
12 spudded the Payne No. 2 well on the same acreage. The
13 Payne No. 2 well was completed in August of 1976 in the
14 Pictured Cliffs formation.

15 On March 28th, 1977, the Legislature passed
16 the New Mexico Natural Gas Pricing Act. Well, the Natural
17 Gas Pricing Act became effective on March 28th, 1977.

18 At the time the Act became effective, the
19 Carroll-Cornell No. 2 well had been plugged for about
20 twelve months. The Payne No. 2 well had been completed
21 for about eight months.

22 On April 23rd, 1978, Producing Royalties, Inc.,
23 applied with this Commission to drill another well on the
24 same acreage to the Pictured Cliffs and to plug the No.
25 2 well, Paine No. 2 well, back to the Fruitland.

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1 We have become embroiled, it appears, in a
2 controversy concerning the interpretation of the Natural
3 Gas Pricing Act, and we have been requested to re-appear
4 before the Commission to explain our action in relation to
5 that act.

6 I would like to read a statement from a letter
7 sent to me by Lynn Teschendorf, Counsel for the Division,
8 concerning the issue to be presented in this hearing.

9 That letter is dated May 3rd, and reads as
10 follows:

11 "Of course, the basic issue is whether the
12 proration unit was producing or capable of producing
13 prior to January 1, 1975. We will have to make a deter-
14 mination as to whether the Carroll-Cornell No. 2 was
15 capable of producing on December 31, 1974."

16 Mr. Examiner, I would like -- I have corres-
17 ponded with the Commission concerning this question and
18 I would ask that letters to this Commission dated -- to
19 Ms. Teschendorf, dated May 8, 1978, and to Mr. Stamets,
20 dated April 26, 1978, be made a part of the record proper.

21 MR. NUTTER: Okay, the letter dated May 8, 1978,
22 I have a letter from you to Ms. Teschendorf.

23 MR. CAMPBELL: Yes.

24 MR. NUTTER: Dated May the 8th, '78. That's
25 one of the letters you're asking be made part of the re-

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1 cord?

2 MR. CAMPBELL: Yes, sir.

3 MR. NUTTER: Okay, that is in the case.

4 MR. CAMPBELL: And also a letter from me to
5 Mr. Stamets, dated April 26th, 1978.

6 MR. NUTTER: I've got a lot of letters here.
7 I don't know if I've got that. A letter from you to Mr.
8 Stamets, dated April 26, 1978, is part of the file.

9 MR. CAMPBELL: Yes, sir.

10 MR. NUTTER: Okay, those will be part of the
11 record in this case.

12 MR. CAMPBELL: Mr. Examiner, Counsel for the
13 Division and I have had some difficulty in resolving
14 exactly what the issue in this case is. It is our con-
15 tention that the Payne No. 2 well, which was drilled and
16 completed prior to the effective date of the Natural Gas
17 Pricing Act, is not affected by the passage of that Act
18 and that we don't have to prove anything relative to pro-
19 duction under the Carroll-Cornell No. 2 well, which it
20 replaced.

21 MR. NUTTER: I think the basic issue here,
22 Mr. Campbell, and I think it was stated in one of those
23 letters or in your opening statement, we've got to deter-
24 mine whether the proration unit was producing gas, or
25 capable of producing gas, immediately prior to January 1,

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1 1974, that is, whether it was capable -- of '75. That is,
2 whether it was capable of producing gas or was producing
3 gas on December 31st, 1974.

4 Now, the well had ceased to produce, I believe,
5 in 1970 or '71, correct?

6 MR. CAMPBELL: Yes, sir.

7 MR. NUTTER: And the gas company quit metering
8 production.

9 MR. CAMPBELL: Yes, sir.

10 MR. NUTTER: But they did not remove their
11 meter; the well was not plugged until 1976.

12 MR. CAMPBELL: That is correct, sir.

13 MR. NUTTER: So if your testimony will just
14 go to the status of the well as of December 31, 1974, the
15 status of the well and the status of the unit.

16 MR. CAMPBELL: Of -- of which well, sir?

17 MR. NUTTER: Well, the well that had not been
18 plugged but wasn't producing gas. Was it capable of
19 producing gas? That's the crux of the question in this
20 case, I think. Is that correct?

21 MR. CAMPBELL: Mr. Examiner, I will point out
22 that at the time the Act was passed, the Paine No. 2
23 well had been spudded and completed.

24 The Carroll-Cornell No. 2 well had -- an intent
25 to abandon had been filed and the abandonment had taken

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1 place.

2 As I read the regulations of this Commission
3 in Case Number 5900, the fact that the Payne No. 2 well
4 was drilled after January 1, 1975, but before the effective
5 date of the pricing act, results in the fact that the
6 Payne No. 2 well does not need to be exempted or otherwise
7 excluded from the provisions of the act.

8 MR. NUTTER: It would have to be exempt. If
9 it were drilled on an established proration unit, which
10 was producing or capable of producing natural gas prior
11 to January 1, 1975, because the act says that the act
12 shall apply to such a well unless the Oil Conservation
13 Commission exempts such well upon a finding that such
14 new well was justified for reasons other than avoiding
15 the application of the act.

16 MR. CAMPBELL: But, Mr. Examiner, in Case
17 Number 5900, the finding of the Commission, paragraph 10,
18 if I might read that.

19 "Some replacement wells or infill wells may
20 have been commenced on established proration units after
21 January 1, 1975, and before the commencement of the first
22 session of the 33rd New Mexico Legislature on January 18,
23 1977.

24 Such replacement wells having been commenced
25 prior to the introduction of the Natural Gas Pricing Act,

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1 or its predecessors, could not have been drilled to avoid
2 the pricing provisions of said act."

3 What I'm trying to argue, Mr. Examiner, is
4 that the Payne No. 2 well was drilled prior to the effective
5 date of the pricing, and that the regulations of this
6 Commission dictate that for the period of time between
7 January 1, 1975, and the effective date of the act, which
8 is March 28th, 1977, your regulation provides that a well
9 drilled in that period could not have been drilled to
10 avoid the pricing provisions of the Natural Gas Pricing
11 Act.

12 MR. NUTTER: I understand what you're driving
13 at, but I still think that we're bound by this statement
14 in the act, that it shall apply to a well if it's drilled
15 on established proration unit that was capable of producing.

16 Now if this had been a virgin proration unit
17 there'd be no question about that. If it had been drilled
18 between 1975 and the effective date of the act, March 18th,
19 1977, on a unit on which there had been no previous pro-
20 duction, there would be no question.

21 MR. CAMPBELL: Well, I think there would be --

22 MR. NUTTER: But now this question is to
23 whether since there had been production on the unit,
24 whether it was indeed a replacement well or whether it was
25 not. I think it's a simple matter. You can establish

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whether the unit or the well was capable of producing.

MR. CAMPBELL: But, Mr. Examiner, I'm trying to --

MR. NUTTER: On December 31 of '74.

MR. CAMPBELL: We are prepared to do that and we will do that, but I would simply state, and I don't want to argue with the Examiner, but that a ruling to that effect would mean that any replacement well drilled between January 1, 1975, and March 28th, 1977, is an improper well and should not have been drilled without proof before this Commission in hearing that the well which it replaced was incapable of producing gas.

MR. NUTTER: Uh-huh. Well, it's unfortunate that the Legislature gave us this decision to have to make but I think we're going to have to make it, and so if you'd proceed with your case, Mr. Campbell.

MR. CAMPBELL: May I ask the Examiner again, you want evidence to the -- to the producing history of the Carroll-Cornell No. 2 well?

MR. NUTTER: What I want to do is establish the capability of the well or the unit, the physical capability of that well or that unit to produce at midnight, December 31, 1974.

MR. CAMPBELL: I will --

MR. NUTTER: One minute before midnight.

MR. CAMPBELL: -- proceed with my witness.

PAUL L. PAYNE, JR.

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

DIRECT EXAMINATION

BY MR. CAMPBELL:

Q Would you please state your name, please?

A My name is Paul L. Payne, Junior. I'm with Producing Royalties, Incorporated.

Q Are you an engineer?

A No, sir, I am not a technical man of any nature. I'm president of Producing Royalties, Incorporated, and have just general knowledge of engineering and geology.

Q Are you familiar with the production history of the Carroll-Cornell No. 2 gas well here in issue?

A For the ten years prior to the date in question, yes.

MR. CAMPBELL: Mr. Examiner, I don't believe we would have to qualify Mr. Payne as an expert of any kind, merely as an officer of the corporation.

MR. NUTTER: No, sir. He's president of the company and knows the company's records on the well.

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1 Q (Mr. Campbell continuing.) Mr. Payne, I'm
2 handing you what has been marked as Petitioner's Exhibit
3 Number One in Case Number 6204. Would you please review
4 that document?

5 A Mr. Examiner, and counsel, I would like to
6 state that at the last meeting here we had prepared a
7 little chart which gave the gas production history of
8 Carroll-Cornell No. 2 well, located in the northwest of
9 the northwest of Section 12, 29 North, Range 12 West, in
10 Unit D of San Juan County, New Mexico.

11 This production history shows that during the
12 year 1970 that well produced in the month of January
13 48,000 cubic feet.

14 No other production was experienced until
15 June of that year, 1970, and at that time it produced
16 2000 cubic feet.

17 During the years 1971, '72, 1973, 1974, and
18 1975 we had no production at all from that well.

19 In 1976 there was no production for January,
20 February, March, or April. That well was plugged on or
21 about April the 14th, 1976.

22 Now, you may have before you at this time
23 another little chart that we have prepared since the last
24 meeting, which is maybe attached to that one, and it is
25 a little chart that says gas production and total revenue

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1 received by Producing Royalties, Incorporated, from
2 Carroll-Cornell No. 2 Gas Well, Unit D, in the northwest
3 quarter of the northwest quarter of Section 12, Township
4 29 North, Range 12 West, San Juan County, New Mexico,
5 during the following period.

6 Now this period of time is given as it is
7 because our fiscal year of this company is from July the
8 1st each year until June the 30th each year.

9 This reviews production which includes all
10 of the time just prior to the chart we just now discussed
11 and a few months during that period of time in 1970.

12 At the beginning of this chart it states that
13 the date of Producing Royalties, Incorporated, fiscal
14 year, also by the month.

15 The second column is the monthly production
16 of gas in Mcf's, and the third column states Producing
17 Royalties, Incorporated's total revenue per month received
18 from our 83.25 percent net interest. We are 100 percent
19 working interest owners.

20 During the year 1964-65, commencing July the
21 1st and ending on June 30th, 1965, we received a total
22 revenue from that well of \$649.76. This has no expenses
23 deducted. That is just exactly what we received from
24 that well.

25 The income was -- the revenue, pardon me, was

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1 produced from 6,951,000 cubic feet of gas during that
2 year.

3 The following year of '65-'66 the well pro-
4 duced 5,951,000 cubic feet of gas and we received from
5 that \$406.47 for the year.

6 You will notice that there's an asterisk in
7 the righthand column, Column Three. That is an adjustment
8 for repayment of drilling gas borrowed from Southern Union
9 Gas Company used in working on Carroll-Cornell Wells No.
10 1 and 2.

11 In 1966-1967, commencing with July 1 and
12 ending June the 30th, 1967, we received no revenue and
13 no production from that well.

14 In 1967-'68 fiscal year from 7,499,000 cubic
15 feet of gas we received \$697.54 for the entire year. You
16 will notice an asterisk in that well opposite months
17 numbered July, August, September. There are double
18 asterisk, pardon me. That double asterisk says that
19 Southern Union charged \$409.97 for gas used in May and
20 June of 1967 in efforts to clean liquids, silts, and so
21 forth out of Carroll-Cornell No. 2 by gas injection.

22 You will also notice that if you subtract that
23 \$409.97 from the total revenue received that year, '67-'68,
24 which was \$697.54, that our total revenue from that well
25 was a little over \$200, almost \$300.

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1 For the year 1968-1969 the well produced
2 74,000 cubic feet of gas for the entire year. Our revenue
3 from that was \$7.30.

4 1969 and '70 year that well produced 68,000
5 cubic feet of gas and we received \$6.91.

6 Now that is the last year, that fiscal year,
7 that we received any revenue from Carroll-Cornell No. 2
8 Gas Well.

9 Q Mr. Payne, in your opinion was the proration
10 unit in issue producing gas or capable of producing gas
11 on December 31, 1974, through means of the Carroll-Cornell
12 No. 2 Well?

13 A Our last experience of buying gas from
14 Southern Union netted us a little less than \$300 for the
15 entire year, and we had lots of other expenses of 1967-'68.
16 At that point Southern Union told us that if we used any
17 more drilling gas, that it would cost us 35 cents per
18 1000. That made it completely uneconomical for us to
19 try to inject gas to unload that well of its liquids.

20 Q So would you again state for the record,
21 please, in your opinion was the proration unit producing
22 gas or capable of producing gas on December 31, 1974,
23 through use of the Carroll-Cornell No. 2 Well?

24 A It was completely incapable of producing gas
25 from that hole.

1 MR. CAMPBELL: Mr. Examiner, I believe that
2 if that is the issue you wanted addressed, we have no
3 further -- well, what -- what were the source documents
4 for compilation of the figures in Petitioner's Exhibit
5 One?

6 A The producing history and the -- and the total
7 revenue history of Producing Royalties, Incorporated,
8 from this well were taken from the production records and
9 from the accounting records of Producing Royalties, In-
10 corporated, and verified by the Oil Conservation Commission
11 Annual Statement of Production from Wells.

12 Q And was Petitioner's Exhibit One prepared by
13 you or at your direction?

14 A Why is it?

15 Q No, was it prepared by you or at your direction?

16 A Yes, sir, it was.

17 MR. CAMPBELL: Mr. Examiner, I would move
18 for the introduction of Petitioner's Exhibit One.

19 MR. NUTTER: Exhibit One will be admitted in
20 evidence.

21 MR. CAMPBELL: I have no further questions
22 at this time of this witness, Mr. Examiner, unless you
23 wish further testimony on any other issue you may have
24 in connection with the application.

25 MR. NUTTER: Okay.

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CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Payne, looking at your Exhibit One, the most consistent year of production was your fiscal year '67-'68. Now, I realize by also observing the double asterisks and the explanation there that apparently some gas was bought from Southern Union and injected into the well to clean the well out. So is some of this production gas that came back out which had been purchased?

A Yes, sir, Mr. Nutter, we feel like that this is true. The injection was made in the month of May and June of 1967. I can't show that because there was no revenue received off or any production received back during those months.

But we were injecting gas during the month of May and June and so that you will be completely understanding of what we're talking about, I would like to call attention to two statements that we received from Southern Union Gas Company, which states that the gas was purchased for the use of Carroll-Cornell No. 2 for those two particular months.

We found in working on this and other wells that when you inject gas trying to blow the water out, or liquids, get it to unload its liquid, that the formation automatically captures some of the gas. I am sur-

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1 prised that we did not recover all of the gas that we
2 injected from that well, or maybe we did. We injected
3 about 7,000,000 cubic feet and we recovered 7,499,000 cubic
4 feet.

5 Q Well, the statement dated June of '67 indicates
6 that 2779 Mcf were delivered at a pressure of 15.025 and
7 the statement for May indicates that 623 Mcf were delivered
8 at a pressure of 15.025.

9 A Yes, sir.

10 Q Which would total up to be at about 3400 Mcf.

11 A Yes, sir, then we were able to get a little
12 bit of gas out, but that's -- that's the total production
13 we were able to recover. Where it came from I do not
14 know, of course.

15 Q Now, during that fiscal year you produced
16 7499 --

17 A Yes, sir, so we must have gotten some out.

18 Q You produced some formation gas.

19 A We must have gotten some of the formation gas
20 out.

21 Q Okay, now that was a year of consistent
22 production.

23 A Yes, sir.

24 Q Now we go back to the fiscal year on this
25 exhibit and we find that the well had two good months,

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1 being in December of 1964 and January of 1965; however,
2 the other ten months during that year were zero months
3 insofar as production is concerned. Can you explain that?

4 A Maybe I can, sir. I'll try.

5 Now your question was, the two good months
6 in 1964-'65 year?

7 Q Yes, sir, versus ten months of no production.

8 A Mr. Nutter, about that time I was calling
9 you, asking you what caused these things to happen. We
10 would work the well over and we'd try to get producing
11 and about the time we got a couple of good months pro-
12 ducing we shut the well in because of pipeline proration
13 and then we tried to get the well to produce again, it
14 wouldn't produce.

15 Now, in 1975 we -- you'll notice by the
16 asterisk --

17 Q You mean 1965?

18 A Pardon me, yes, sir, I'm sorry. 1965, the
19 adjustment for repayment of drilling gas borrowed from
20 Southern Union used in working on the Carroll-Cornell No.
21 1 and 2 Gas Wells, in July of 1975 --

22 MR. CAMPBELL: '65.

23 A Pardon me, '65, states that Southern Union
24 Gas Company statement states that drilling gas loaned on
25 the Carroll-Cornell Wells, 914,000. That was June, 1975.

1 Another statement, which was dated August,
2 1975, that says drilling gas loaned on Carroll-Cornell
3 1 and 2, 329,000 cubic feet.

4 On another statement from Southern Union --
5 I believe that's the only two that I have that show that
6 we were still trading gas back in those years.

7 Q Well, you were apparently taking gas from
8 Southern Union for drilling gas.

9 A Yes, sir, and injected it in these wells,
10 trying to get them to unload themselves, and when we
11 would do that, then we would get some consistency in pro-
12 duction, and then it would stop again.

13 We had prior to that worked mechanically
14 trying to get the water and liquids off of the formation
15 and were unsuccessful.

16 Q Now is there any connection with the fact that
17 in December and January of 1964-'65 and December and
18 January of 1969 and '70 that you had production but no
19 other production in the other ten months of either of
20 those two fiscal years?

21 A I do not know, sir. I don't know any reason.
22 All I know is what -- what we took from our production
23 records.

24 Q What we've got to establish is whether this
25 unit was capable of producing in '74. Of course, we had

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1 zero production from June of 1970 until they removed their
2 meter. Why did they leave that meter on if this well was
3 not capable of producing?

4 A I do not know, unless it's -- El Paso still
5 has their meter house on Number 12 up there, and we haven't
6 gotten any production out of it in several months, and
7 probably that would get a very small amount.

8 I imagine it's to keep from losing the gas
9 purchasing arrangement. El Paso Natural Gas Company's
10 contracts have expired about four or five years ago.
11 Southern Union's contracts will never expire.

12 MR. CAMPBELL: Mr. Examiner, may I -- may I
13 ask, did you say that the meter was not removed by the
14 gathering company until '76 or thereabouts?

15 MR. NUTTER: I think some place in one of
16 these letters, or some place in the previous testimony,
17 it was established that the well was disconnected.

18 MR. CAMPBELL: In 1971. I believe the Notice
19 of Disconnect was filed in 1976 by the gathering company
20 with the Oil Conservation Commission.

21 MR. NUTTER: Well, it was our understanding
22 that they didn't disconnect it until 1976, just imme-
23 diately prior to the plugging of the well.

24 MR. CAMPBELL: Are we speaking of disconnection
25 of the gathering line or the meter?

1 MR. NUTTER: Well, either one. When it's
2 physically disconnected from the pipeline.

3 MR. CAMPBELL: Well, Mr. Examiner, then I
4 would introduce as Petitioner's Exhibit Two a statement
5 from Southern Union Gathering Company to Producing
6 Royalties, Inc., which appears to indicate the well was
7 disconnected in some fashion on April 14th, 1971.

8 MR. NUTTER: You wanted to offer this as
9 Exhibit Two?

10 MR. CAMPBELL: Yes, sir, I think I marked
11 that Two.

12 MR. NUTTER: And this Exhibit Number Two,
13 then, shows the Carroll-Cornell was disconnected 4-17-71
14 from the Southern Union Gathering Company statement,
15 dated February, 1976.

16 MR. CAMPBELL: Yes, sir. That -- that document
17 is also attached to the April 26th, 1978, letter from
18 me to Mr. Stamets. It's attached to that letter as Ex-
19 hibit B.

20 MR. NUTTER: Then we have -- here's where our
21 confusion came about, Mr. Campbell. This statement of
22 Southern Union's, dated February, '76, says the well was
23 disconnected 4-17-71.

24 The statement that the -- the Notice of Dis-
25 connect that Southern Union sent to the Commission on

1 April 12th, 1976, says that the well was disconnected on
2 4-12-76.

3 A The pipeline was taken up at that time. The
4 pipeline was physically removed from the wellhead at that
5 time.

6 Q (Mr. Nutter continuing.) The gathering line
7 was taken away?

8 A Yes, sir, that's correct.

9 Q Now, was the meter taken off back in 1971, Mr.
10 Payne?

11 A I really don't remember. The reason is that
12 there was no production from the well and when we were
13 trying to -- when we were trying to meter this gas back
14 in 1967-'68, the meter was on at that time, because we
15 had to get permission from Southern Union people, we had
16 to get their representative out there to reverse the meter
17 flow.

18 Q Now why wouldn't the -- you said the well didn't
19 produce. Why wouldn't the well produce? Was the valve
20 closed on the well or was it open to the pipeline?

21 A No, sir, we -- we opened the well to the at-
22 mosphere trying to get it to produce and unload its liquids
23 and we would get some return but when we would get it
24 turned back into the pipeline, evidently it was not -- it
25 would not produce.

1 Q And you had made repeated efforts as evidenced
2 by the buying of gas to --

3 A In exchanging of gas.

4 Q You had made repeated efforts to restore the
5 well to production?

6 A We had, yes, sir, in that way and Mr. Miller,
7 way back when we bought the property in May of 1957, the
8 wells were producing pretty good at that time, but the
9 well ceased producing, and in 19 -- in November of 1957,
10 we hired Branch Drilling Company, and they were short of
11 employees and that company was going bankrupt, which we
12 didn't know at that time, and -- having financial dif-
13 ficulties, I don't know about the bankruptcy -- but my
14 brother, that's the reason he was sworn in, had to come
15 out to the rig and actually do part of the labor in trying
16 to get the job done on the workover of the well, No. 1 and
17 No. 2 Wells, and then at that time we spent about \$3600
18 trying to get it reworked. And for a little while we
19 got some results from that, but gas was selling for 10
20 and 11 cents and we were spending more money than we were
21 getting back by about -- more, I don't know how much more,
22 and we finally had to quit, because we ran out of money
23 to work the wells over.

24 Q Okay, so, I want to ask you this question, Mr.
25 Payne. In your honest opinion, now, and remember you're

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1 under oath, was this well capable of producing into the
2 pipeline on December 31st, 1974?

3 A It was incapable.

4 Q It was incapable of producing.

5 A If it had been capable of producing any gas,
6 believe me, God, we would have produced some gas, because
7 we needed the money, those last five or six years.

8 Q I can see that the revenues from the well were
9 rather minimal for some period of time, but the statute
10 doesn't say to find out what the revenues were. It says
11 to find out if the well was -- if the unit was capable
12 of producing gas.

13 A It was incapable of producing gas, from that
14 Carroll-Cornell No. 2 Well.

15 Q Okay. Now, a second well was drilled on the
16 unit, then, was it not?

17 A We call it Payne No. 2.

18 Q Payne No. 2?

19 A Yes, sir, Payne No. 2 Well.

20 Q And when was that well drilled, Mr. Payne?

21 A It was drilled in -- it was commenced in July
22 and completed in August, 1976.

23 Q I see.

24 A After we had plugged the well in April, 1976.
25 Now, we did not intend to be out there plugging wells at

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1 that time. We didn't know that the State of New Mexico
2 had any -- any laws being passed at all through the Legis-
3 lature, because we were not very interested in what was
4 going on in the New Mexico State Legislature at that time.

5 We had received two or three letters from Mr.
6 McGrath's office and they wanted to know why we didn't
7 produce those wells or plug them, so we went to see Mr.
8 McGrath in February of 1976. We said we got your letter
9 recently. Maybe it was March, it was the latter part of
10 February or March, and do you really mean that we've got
11 to have these wells plugged in sixty days?

12 And he said, well, you can either plug them
13 or get them producing. Well, we didn't even know about
14 one of the wells going to need to be plugged because when
15 we bought the property some twenty years prior to that
16 particular time, this fourth well had never produced any
17 gas that we knew of and we hadn't ever produced any gas,
18 or attempted to produce any gas from that hole, and it
19 was a deep well.

20 So we went back to Lubbock and arranged for
21 financing to come back up and plug four gas wells, No. 1,
22 No. 2, No. 5, and another well, as far as I know, it
23 doesn't even have a name, and we plugged those wells
24 through Mr. Bedford's -- whatever his company's name is.
25 It's a plugging company, Larry Bedford is the man who's

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1 in charge and owns it, and he finished plugging those
2 wells, all four of them, in the month of April.

3 Then we borrowed \$115,000 in Lubbock in June
4 by putting up some other property, to go back up and try
5 to drill some gas wells on the same unit that we had just
6 plugged some wells.

7 Again I didn't know that there was any law
8 being passed in the State of New Mexico for any purposes,
9 and it's coincidental that this fell at this particular
10 time in the law-passing period of time.

11 This I'm pleased to swear to.

12 Q Well, the Payne No. 2 was then drilled in the
13 summer of 1976?

14 A July and completed in August of '76. The
15 reason it didn't produce any until 1977 is we couldn't
16 get the pipeline company to connect the well up.

17 Q Now it was completed as a Pictured Cliffs
18 well.

19 A It was completed as a Pictured Cliffs well.

20 Q And now --

21 A Now let me explain to you why this ever came
22 up to start with.

23 Q Okay, you're getting into another well that's
24 going to be drilled.

25 A The proposed well. Our year, as I've stated

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1 before, ends on June 30th, which is the end of this month.
2 We're going to have to pay Uncle Sam a little bit of taxes,
3 which we haven't been very used to doing, and well, we're
4 going to spend these tax dollars that Uncle Sam would
5 pay part of the expense of if we could find a good place
6 to drill a hole for oil or gas.

7 So we said, well, since we got a little show
8 up the hole on the Payne No. 2 Pictured Cliffs Gas Well,
9 which is located in the southeast of the northwest of 12,
10 maybe if we got permission from the Oil Conservation Com-
11 mission they would permit us to drill another hole to the
12 same depth, provided we'd come back up in the Payne No. 2
13 Well and try to complete the Fruitland, since we'd gotten
14 that small a show in the Fruitland.

15 There is none in the Fruitland within a mile
16 and three-quarters to two miles of these properties that
17 we're -- these particular locations, and we do not know
18 whether there's another Fruitland zone show or not in an
19 offset or near offset well. And when we talked to Mr.
20 Ramey, he said he didn't think that there would be any
21 particular problem with you. He said, just as we left,
22 there might be some problem with your prices on another
23 hole drilled to the same formation, and it might be well
24 to have a Commission hearing on it.

25 So we started this, this situation. Now, we

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1 can spend \$72,000 -- \$72,000 to \$82,000 paying our tax
2 program and drilling another hole and trying to complete
3 that one that's now there, or we can lose the benefit of
4 \$25,000 of tax money, and that's what it will cost us not
5 to have been able to do this.

6 Q What it boils down to, if we make a determin-
7 ation here that this unit was incapable of producing prior
8 to 1-1-75, and you drill a well in 1976 to the Pictured
9 Cliffs formation, that well is exempt from the Gas Pricing
10 Act, if the unit was incapable of producing.

11 A I don't know what your rules are but I think --

12 Q It's not our rules; it's the State law.

13 A Okay.

14 Q But if the unit was incapable and you drilled
15 a well in '76, and the unit was incapable of producing,
16 then the Payne No. 2 Well would be exempt from the Gas
17 Pricing Act.

18 A As far as we know, that's true.

19 Q Okay. Then when you -- what you're proposing
20 to do is to plug the Payne No. 2 back to the Fruitland,
21 complete it as a Fruitland well, and drill another Pic-
22 tured Cliffs well on this same unit.

23 A Yes, sir, only I'm going to borrow Mr. Ramey's
24 expression, I hadn't thought about it until this. He
25 stated, you might want to drill another hole to the Pic-

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1 tured Cliffs to see if you're going to get a well before
2 you plug the Payne No. 2, and I said, "I think you've got
3 a good point," because you might not get a Pictured Cliffs
4 in another hole that's capable of producing the 1,000,000
5 plus that's now producing from the Payne No.2 Well per
6 month.

7 Q Did you get any test in the Fruitland when
8 you went through it?

9 A We didn't test it because of my inexperience
10 of the engineering in this area. All I was thinking about
11 was drilling a Pictured Cliffs well and --

12 Q You didn't see the Fruitland on the logs, then?

13 A We had a very capable engineer, Mr. Jacobs,
14 Jim Jacobs, on the well, and he said, "If this was my
15 well, I would certainly take a sincere look at this."
16 But we were already in the Pictured Cliffs and the way I
17 was thinking about it was paying \$115,000 about, so --

18 Q Is there some mechanical problem that prevents
19 a dual completion?

20 A No, sir, Mr. Tom Duggan asked me why we didn't
21 do that, and when I checked some of the other wells in the
22 area that were dual completed, I found from your office
23 in Farmington, I found that some of the dual completed
24 wells a little bit later had to be recompleted, and so I
25 thought, well, instead of buying that problem now, maybe

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1 we'd better have two different holes.

2 Q I see.

3 A We may ask you a little bit later if we can
4 do that in some of our other holes, if we can be success-
5 ful in completing a good well in the Fruitland at this
6 point.

7 Q But this would be the first Fruitland well in
8 this area?

9 A In any of our lease area. There are some to
10 the southeast of us and there are some to the northwest
11 of us.

12 MR. NUTTER: Are there any other questions of
13 Mr. Payne? He may be excused.

14 Mr. Campbell, I think we've got a sufficient
15 picture of the situation here that the other witness'
16 testimony won't be necessary. As I understood from Mr.
17 Payne he was going to testify as to actually having been
18 out there working on the well in the effort of trying to
19 complete it.

20 MR. CAMPBELL: Yes, sir.

21 MR. NUTTER: I think the first Mr. Payne has
22 substantiated that they were having problems recompleting
23 the well and keeping it on production.

24 MR. CAMPBELL: At this time we would not call
25 him, then.

1 MR. NUTTER: And in case I didn't get your
2 exhibits, your Exhibits Numbers One and Two, both, are
3 admitted in evidence.

4 Do you have anything further?

5 MR. CAMPBELL: I would only ask, Mr. Examiner,
6 that as Mr. Payne said, his fiscal year ends at the end
7 of this month and we would certainly appreciate, in
8 realizing his problems -- not problems but his tax picture,
9 that we would certainly like to get a decision on the ap-
10 plication in time enough to drill.

11 MR. NUTTER: Thank you. Does anyone else have
12 anything to offer in Case Number 6204?

13 We'll take the case under advisement.

14 (Hearing concluded.)
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REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, a Court Reporter, DO HEREBY CERTIFY that the foregoing and attached transcript of Hearing before the Oil Conservation Division was reported by me; that said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill from my notes taken at the time of the hearing.

Sally Walton Boyd, C.S.R.

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 6204
heard by me on 6/7, 1978.
[Signature] Examiner
New Mexico Oil Conservation Commission



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

JERRY APODACA
GOVERNOR

NICK FRANKLIN
SECRETARY

June 16, 1978

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

Re: CASE NO. 6204
ORDER NO. R-5214
Mr. Michael Campbell
Campbell, Bingaman & Black
Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico
Applicant:

Producing Royalties, Inc.

Dear Sir:

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

Yours very truly,


JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC x

Other _____

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6204
Order No. R-5714

APPLICATION OF PRODUCING ROYALTIES,
INC., FOR AN EXEMPTION FROM THE
NATURAL GAS PRICING ACT, SAN JUAN
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 7, 1978,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 15th day of June, 1978, the Division
Director, 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 Division has jurisdiction of this cause and the
subject matter thereof.

(2) That the applicant, Producing Royalties, Inc., is
the owner of an oil and gas lease comprising, among other lands,
the NW/4 of Section 12, Township 29 North, Range 12 West, NMPM,
San Juan County, New Mexico.

(3) That said NW/4 of Section 12 was previously dedicated
to applicant's Carroll-Cornell Well No. 2, located in Unit D
of said Section 12, which well was completed in and produced gas
from the Fulcher Kutz-Pictured Cliffs Pool prior to being dis-
connected from the pipeline April 17, 1971.

(4) That the applicant plugged and abandoned said well
April 14, 1976, and subsequently drilled its Payne Well No. 2,
located in Unit F of said Section 12, completing the same as a
producing well in the Fulcher Kutz-Pictured Cliffs Pool on
August 14, 1976, with the NW/4 of said Section 12 being dedicated
to the well.

(5) That N.M.S.A. Section 65-15-5, 1953 Comp., 1976-1977 Interim Supplement, being a portion of the New Mexico Natural Gas Pricing Act of 1977, reads in its entirety as follows:

"65-15-5. EXCLUSIONS.

"The provisions of the Natural Gas Pricing Act shall not apply to the production and sale of natural gas in intrastate commerce from a well the drilling or first intrastate sale of which commenced on or after January 1, 1975. However, the Natural Gas Pricing Act shall apply to such a well if it is drilled within an established proration unit which was producing or capable of producing natural gas prior to January 1, 1975 from the same reservoir unless the oil conservation commission exempts such well upon a finding that such new well was justified for reasons other than avoiding the application of the Natural Gas Pricing Act."

(6) That the applicant herein, Producing Royalties, Inc., seeks a determination as to whether the proration unit comprising the NW/4 of Section 12, Township 29 North, Range 12 West, NMPM, San Juan County, New Mexico, on which the aforesaid plugged and abandoned Carroll-Cornell Well No. 2 and the Payne Well No. 2 are located, was producing or capable of producing natural gas from the Fulcher Kutz-Pictured Cliffs Pool prior to January 1, 1975; if so, applicant seeks exemption from the Natural Gas Pricing Act for the aforesaid Payne Well No. 2 and also for another well applicant proposes to drill on the same proration unit.

(7) That the evidence adduced at the hearing of this case establishes that the Carroll-Cornell Well No. 2 was incapable of producing natural gas from the Fulcher Kutz-Pictured Cliffs Pool on December 31, 1974.

(8) That inasmuch as the proration unit dedicated to said Carroll-Cornell Well No. 2, namely the NW/4 of Section 12, Township 29 North, Range 12 West, NMPM, was incapable of production from the Fulcher-Kutz Pictured Cliffs Pool on December 31, 1974, the Payne Well No. 2 was not drilled within an established proration unit which was producing or capable of producing natural gas from the same reservoir immediately prior to January 1, 1975, and the Natural Gas Pricing Act would therefore not apply to said Payne Well No. 2.

(9) That inasmuch as the aforesaid Act does not apply to the said Payne Well No. 2, it follows that a replacement well for the Payne Well No. 2 would not be drilled for the purpose of avoiding the application of the Act.

-3-

Case No. 6204
Order No. R-5714

(10) That the log of the Payne Well No. 2 indicates the presence of a potential gas reservoir in the Fruitland formation in said well, and said Fruitland gas reservoir is not present in other wells in the immediate area.

(11) That the applicant proposes to drill another well to the Pictured Cliffs formation in the NW/4 of Section 12 as a replacement well for the aforesaid Payne Well No. 2, and to dedicate said 160-acre tract to said well, and to plug the Payne Well No. 2 back to the Fruitland formation and recomplete said well as a Fruitland gas well.

(12) That recompletion of said Payne Well No. 2 as a Fruitland gas well, and completion of a new well as a Pictured Cliffs gas well, may result in the production of otherwise unrecoverable gas reserves, thereby preventing waste, will not violate correlative rights, and should be approved.

(13) That the Payne Well No. 2 as well as the replacement well for Payne Well No. 2 should both be exempt from the provisions of the Natural Gas Pricing Act.

IT IS THEREFORE ORDERED:

(1) That the Carroll-Cornell Well No. 2, located in Unit D of Section 12, Township 29 North, Range 12 West, NMPM, and the gas proration unit comprising the NW/4 of said Section 12, be and the same hereby are declared non-productive and non-capable of producing natural gas from the Fulcher Kutz-Pictured Cliffs Pool on December 31, 1974.

(2) That the Natural Gas Pricing Act does not apply to the Producing Royalties, Inc. Payne Well No. 2, located in Unit F of the aforesaid Section 12, or to any replacement well for said Payne Well No. 2 drilled and completed in the Pictured Cliffs formation in the NW/4 of said Section 12.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY
Director

A L

Dockets Nos. 21-78 and 22-78 are tentatively set for hearing on June 21 and July 6, 1978. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - JUNE 7, 1978

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

The following cases will be heard before Daniel S. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

- CASE 6235: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Black Diamond Oil Company and all other interested parties to appear and show cause why the Well No. 1 located in Unit C of Section 27, Township 29 North, Range 11 West, San Juan County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 6236: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Bloomfield Oil & Gas Company and all other interested parties to appear and show cause why the C. Hare Well No. 3 located in Unit N of Section 15 and the H. D. Abrams Well No. 5 located in Unit E of Section 23, both in Township 29 North, Range 11 West, San Juan County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 6237: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Finley & Johansen and all other interested parties to appear and show cause why the Hare Well No. 1 located in Unit C of Section 22, Township 29 North, Range 11 West, San Juan County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 6238: Application of Barber Oil, Inc., for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for its Saladar Unit Area comprising 240 acres, more or less, of Federal and fee lands in Township 20 South, Range 28 East, Eddy County, New Mexico.
- CASE 6226: (Continued from May 17, 1978 Examiner Hearing)
- Application of Barber Oil, Inc. for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project on its Saladar Unit, by the injection of water into the Yates formation through five wells located in Units K, L, N and O of Section 33, Township 20 South, Range 28 East, Saladar-Yates Pool, Eddy County, New Mexico.
- CASE 6239: Application of Robert N. Enfield for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for his North Lake McMillan Unit Area comprising 3194 acres, more or less, of Federal and fee lands in Township 19 South, Ranges 26 and 27 East, Eddy County, New Mexico.
- CASE 6240: Application of Bass Enterprises Production Company for an unorthodox oil well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Navajo 20 Well No. 1, a Barker Creek oil test to be drilled 1190 feet from the South line and 2510 feet from the East line of Section 20, Township 27 North, Range 19 West, San Juan County, New Mexico, the SW/4 SE/4 of said Section 20 to be dedicated to the well.
- CASE 6241: Application of Yates Petroleum Corporation for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Eagle Creek Permo-Penn and West Atoka-Morrow gas production in the wellbore of its Powell DG Well No. 1 located in Unit O of Section 35, Township 17 South, Range 25 East, Eddy County, New Mexico.
- CASE 6242: Application of C & E Operators, Inc., for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pictured Cliffs formation underlying the SE/4 of Section 32, Township 32 North, Range 10 West, San Juan County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6243: Application of Caulkins Oil Company for four unorthodox gas well locations, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Breech "E" Wells Nos. 104 and 587, located in Unit P of Section 5 and Unit J of Section 4, respectively; and its Breech "A" Wells Nos. 207 and 679, located in Unit J of Sections 10 and 9, respectively, all in Township 26 North, Range 6 West, Blanco Mesaverde Pool, Rio Arriba County, New Mexico.

CASE 6204: (Reopened and Readvertised)

Application of Producing Royalties, Inc., for an exemption from the Natural Gas Pricing Act, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks a determination as to whether the proration unit consisting of the NW/4 of Section 12, Township 29 North, Range 12 West, San Juan County, New Mexico, on which the Carroll-Cornell Well No. 2 is located was producing or capable of producing natural gas prior to January 1, 1975, from the Fulcher Kutz-Pictured Cliffs reservoir; if so, applicant seeks exemption from the Natural Gas Pricing Act for two replacement Pictured Cliffs wells in the same proration unit pursuant to a finding that the wells are justified for reasons other than avoiding the application of the Act.

CASE 6244: Application of Tom L. Ingram for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Abo Reef formation through the perforated interval from 8915 feet to 8992 feet in his State M Well No. 1 located in Unit O of Section 18, Township 17 South, Range 36 East, Vacuum-Abo Pool, Lea County, New Mexico.

CASE 6245: Application of Germany Investment Company for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Wolfcamp and Canyon production in the wellbore of its USA 9 Well No. 1 located in Unit I of Section 9, Township 20 South, Range 28 East, North Burton Flat Field, Eddy County, New Mexico.

CASE 6246: Application of Exxon Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location for a Silurian test to be drilled 1880 feet from the South line and 825 feet from the West line of Section 30, Township 26 South, Range 26 East, Eddy County, New Mexico, the S/2 of said Section 30 to be dedicated to the well.

CASE 6247: Application of Mobil Oil Corporation for a unit agreement, Lea County, New Mexico, or statutory unitization. Applicant, in the above-styled cause, seeks approval of its North Vacuum Abo East Unit Area, comprising 866 acres, more or less, of State lands in Township 17 South, Range 35 East, Lea County, New Mexico.

In the absence of voluntary unitization, applicant seeks statutory unitization, for the purpose of pressure maintenance, of all mineral interests in the North Vacuum Abo East Unit underlying the following described lands in Township 17 South, Range 35 East, Lea County, New Mexico:

Section 7: S/2
Section 18: N/2, SW/4, and W/2 SE/4

The unitized interval would be from a depth of 4385 feet subsea to 5225 feet subsea in the Mobil State "UU" Com. Well No. 1, located in Unit F of the aforesaid Section 7.

Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of the horizontal and vertical limits of the unit area; the determination of a fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations, including, but not necessarily limited to, unit voting procedures, selection, removal, or substitution of unit operator, and time of commencement and termination of unit operations.

CASE 6248: Application of Mobil Oil Corporation for a pressure maintenance project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a pressure maintenance project in the North Vacuum Abo East Unit Area by the injection of water into the Abo formation through five wells located in Units N and P of Section 7, and Units F, H, and N of Section 18, all in Township 17 South, Range 35 East, North Vacuum Abo Pool, Lea County, New Mexico, and the promulgation of special rules governing said project.

CASE 6249: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, abolishing, and extending certain pools in Chaves, Lea, and Eddy Counties, New Mexico:

(a) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Mississippian production and designated as the Bar U-Mississippian Pool. The discovery well is Charles F. Harding State "3" Well No. 1 located in Unit G of Section 3, Township 9 South, Range 32 East, NMPM. Said pool would comprise:

TOWNSHIP 9 SOUTH, RANGE 32 EAST, NMPM
Section 3: NE/4

(b) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Strawn production and designated as the West Hoag-Strawn Gas Pool. The discovery well is Yates Petroleum Corporation CC Tank Unit Well No. 1 located in Unit F of Section 28, Township 19 South, Range 24 East, NMPM. Said pool would comprise:

TOWNSHIP 19 SOUTH, RANGE 24 EAST, NMPM
Section 28: N/2

(c) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Ellenburger production and designated as the Langley-Ellenburger Gas Pool. The discovery well is Atlantic Richfield Company Langley Deep Well No. 1 located in Unit C of Section 28, Township 22 South, Range 36 East, NMPM. Said pool would comprise:

TOWNSHIP 22 SOUTH, RANGE 36 EAST, NMPM
Section 28: NW/4

(d) CREATE a new pool in Eddy County, New Mexico, classified as an oil pool for Cisco production and designated as the Loco Hills-Cisco Pool. The discovery well is Depco, Inc. Welch Federal Well No. 1 located in Unit G of Section 8, Township 18 South, Range 29 East, NMPM. Said pool would comprise:

TOWNSHIP 18 SOUTH, RANGE 29 EAST, NMPM
Section 8: NE/4

(e) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Atoka production and designated as the Maljamar-Atoka Gas Pool. The discovery well is Western Oil Producers, Inc. Amoco State Well No. 1 located in Unit M of Section 28, Township 16 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 16 SOUTH, RANGE 33 EAST, NMPM
Section 28: W/2

(f) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Cisco production and designated as the Maljamar-Cisco Pool, to take in acreage from abolished Maljamar-Pennsylvanian Pool.

TOWNSHIP 16 SOUTH, RANGE 33 EAST, NMPM
Section 32: W/2

TOWNSHIP 17 SOUTH, RANGE 33 EAST, NMPM
Section 5: NW/4

(g) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the Maljamar-Morrow Gas Pool. The discovery well is Western Oil Producers, Inc. Union State Well No. 2 located in Unit O of Section 29, Township 16 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 16 SOUTH, RANGE 33 EAST, NMPM
Section 29: S/2

(h) CREATE a new pool in Eddy County, New Mexico, classified as an oil pool for Grayburg production and designated as the North McMillan-Grayburg Pool. The discovery well is Yates Petroleum Corporation Federal HF Well No. 1 located in Unit A of Section 10, Township 19 South, Range 27 East, NMPM. Said pool would comprise:

TOWNSHIP 19 SOUTH, RANGE 27 EAST, NMPM
Section 10: NE/4

(i) ABOLISH the Maljamar-Pennsylvanian Pool in Lea County, New Mexico, described as:

TOWNSHIP 16 SOUTH, RANGE 33 EAST, NMPM
Section 32: W/2

TOWNSHIP 17 SOUTH, RANGE 33 EAST, NMPM
Section 5: NW/4

(j) EXTEND the Angell Ranch-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 27 EAST, NMPM
Section 36: S/2

- (k) EXTEND the Blinebry Oil and Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM
Section 23: NW/4

- (l) EXTEND the Buckeye-Abo Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM
Section 9: NE/4
Section 10: N/2

- (m) EXTEND the Buffalo Valley-Pennsylvanian Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 15 SOUTH, RANGE 27 EAST, NMPM
Section 36: W/2

- (n) EXTEND the East Carlsbad-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 27 EAST, NMPM
Section 26: W/2
Section 36: E/2

- (o) EXTEND the East Carlsbad-Wolfcamp Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 27 EAST, NMPM
Section 36: E/2

- (p) EXTEND the Corbin-Queen Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 33 EAST, NMPM
Section 5: E/2 NW/4

- (q) EXTEND the Drinkard Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 36 EAST, NMPM
Section 13: NE/4

- (r) EXTEND the East Empire Yates-Seven Rivers Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM
Section 22: SE/4 SE/4
Section 23: SW/4 SW/4

- (s) EXTEND the Indian Flats-Delaware Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 28 EAST, NMPM
Section 35: NE/4 SW/4

- (t) EXTEND the Kennedy Farms-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 26 EAST, NMPM
Section 15: E/2
Section 21: E/2
Section 22: W/2

- (u) EXTEND the Kennedy Farms-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 26 EAST, NMPM
Section 21: E/2

- (v) EXTEND the Linda-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 6 SOUTH, RANGE 25 EAST, NMPM
Section 25: SE/4 SE/4

TOWNSHIP 6 SOUTH, RANGE 26 EAST, NMPM
Section 29: N/2 SW/4
Section 30: S/2 SW/4 and SW/4 SE/4
Section 31: W/2 and W/2 NE/4

TOWNSHIP 7 SOUTH, RANGE 26 EAST, NMPM
Section 6: N/2 NW/4

- (w) EXTEND the Malaga-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 24 SOUTH, RANGE 28 EAST, NMPM
Section 14: W/2
Section 15: S/2

- (x) EXTEND the West Parkway-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM
Section 20: S/2

- (y) EXTEND the Sams Ranch-Grayburg Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 14 SOUTH, RANGE 28 EAST, NMPM
Section 14: SW/4
Section 16: NE/4

- (z) EXTEND the Sanmal-Pennsylvanian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 33 EAST, NMPM
Section 33: SE/4
Section 34: SW/4

- (aa) EXTEND the Shugart Yates Seven Rivers-Queen-Grayburg Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM
Section 26: NE/4

TOWNSHIP 19 SOUTH, RANGE 31 EAST, NMPM
Section 2: NW/4 SW/4

- (bb) EXTEND the Spencer-Paddock Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 36 EAST, NMPM
Section 25: N/2

- (cc) EXTEND the Square Lake Grayburg-San Andres Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 30 EAST, NMPM
Section 28: NE/4

- (dd) EXTEND the Teague-Devonian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 37 EAST, NMPM
Section 27: NE/4

- (ee) EXTEND the Tom-Tom San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 7 SOUTH, RANGE 31 EAST, NMPM
Section 33: NE/4

- (ff) EXTEND the Twin Lakes-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 28 EAST, NMPM
Section 36: SE/4 SE/4

- (gg) EXTEND the White Ranch-Mississippian Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 11 SOUTH, RANGE 29 EAST, NMPM
Section 33: N/2

CASE 6250: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, extending, and redesignating certain pools in McKinley, Rio Arriba, Sandoval,

and San Juan Counties, New Mexico:

(a) CREATE a new pool in San Juan County, New Mexico, classified as a gas pool for Chacra production and designated as the Animas-Chacra Pool. The discovery well is the Mesa Petroleum Corporation Primo Well No. 1A located in Unit D of Section 6, Township 31 North, Range 10 West, NMPM. Said pool would comprise:

TOWNSHIP 31 NORTH, RANGE 10 WEST, NMPM
Section 6: NW/4

(b) CREATE a new pool in Rio Arriba County, New Mexico, classified as an oil pool for Dakota production and designated as the Gallo-Dakota Oil Pool. The discovery well is the Amerada Hess Corporation Jicarilla Apache B Well No. 16 located in Unit K of Section 29, Township 24 North, Range 5 West, NMPM. Said pool would comprise:

TOWNSHIP 24 NORTH, RANGE 5 WEST, NMPM
Section 29: NE/4 SW/4

(c) CREATE a new pool in San Juan County, New Mexico, classified as a gas pool for Nacimiento production and designated as the Kiffen-Nacimiento Pool. The discovery well is the Kimbark Operating Company Storey Well No. 3 located in Unit P of Section 34, Township 32 North, Range 11 West, NMPM. Said pool would comprise:

TOWNSHIP 32 NORTH, RANGE 11 WEST, NMPM
Section 34: SE/4

(d) CREATE a new pool in San Juan County, New Mexico, classified as a gas pool for Chacra production and designated as the Navajo City-Chacra Pool. The discovery well is the Lively Exploration Company Lively Well No. 7Y located in Unit E of Section 35, Township 30 North, Range 8 West, NMPM. Said pool would comprise:

TOWNSHIP 30 NORTH, RANGE 8 WEST, NMPM
Section 35: NW/4

(e) CREATE a new pool in San Juan County, New Mexico, classified as an oil pool for Mancos-Dakota production and designated as the White Wash Mancos-Dakota Oil Pool. The discovery well is the Dugan Production Corporation Blanco Wash Well No. 2 located in Unit F of Section 2, Township 29 North, Range 9 West, NMPM. Said pool would comprise:

TOWNSHIP 24 NORTH, RANGE 9 WEST, NMPM
Section 1: W/2
Section 2: All

(f) EXTEND the vertical limits of the South Los Pinos-Fruitland Pool to include therein the Pictured Cliffs formation, change the pool name to the South Los Pinos Fruitland-Pictured Cliffs Pool, San Juan County, New Mexico, and extend the horizontal limits to include therein:

TOWNSHIP 31 NORTH, RANGE 7 WEST, NMPM
Section 2: S/2 and NW/4
Section 3: S/2
Section 10: NW/4

TOWNSHIP 32 NORTH, RANGE 7 WEST, NMPM
Section 35: W/2

(g) EXTEND the Alamito-Gallup Pool in Sandoval and San Juan Counties, New Mexico, to include therein:

TOWNSHIP 22 NORTH, RANGE 8 WEST, NMPM
Section 1: N/2
Section 2: E/2 and SW/4
Section 3: SE/4
Section 10: NE/4

TOWNSHIP 23 NORTH, RANGE 7 WEST, NMPM
Section 31: SW/4

TOWNSHIP 23 NORTH, RANGE 8 WEST, NMPM
Section 36: SE/4

(h) EXTEND the Aztec-Fruitland Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 28 NORTH, RANGE 10 WEST, NMPM
Section 9: W/2

(i) EXTEND the Blanco-Mesaverde Pool in Rio Arriba and San Juan Counties, New Mexico, to include therein:

TOWNSHIP 27 NORTH, RANGE 2 WEST, NMPM
Section 29: N/2
Section 30: N/2

(j) EXTEND the Blanco-Pictured Cliffs Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 29 NORTH, RANGE 8 WEST, NMPM
Section 11: W/2 and SE/4
Section 15: N/2
Section 16: N/2

TOWNSHIP 30 NORTH, RANGE 8 WEST, NMPM
Section 32: S/2
Section 33: W/2 and SE/4

TOWNSHIP 32 NORTH, RANGE 11 WEST, NMPM
Section 8: E/2
Section 9: All
Section 16: N/2
Section 17: N/2 and SW/4
Section 23: SE/4
Section 26: All
Section 35: N/2
Section 36: S/2

(k) EXTEND the South Blanco-Pictured Cliffs Pool in Rio Arriba, San Juan, and Sandoval Counties, New Mexico, to include therein:

TOWNSHIP 24 NORTH, RANGE 4 WEST, NMPM
Section 14: NE/4

TOWNSHIP 25 NORTH, RANGE 4 WEST, NMPM
Section 1: NW/4
Section 2: NE/4
Section 30: SW/4
Section 31: All

TOWNSHIP 25 NORTH, RANGE 5 WEST, NMPM
Section 25: S/2
Section 36: N/2

TOWNSHIP 26 NORTH, RANGE 4 WEST, NMPM
Section 33: SE/4

(l) EXTEND the Chacon-Dakota Associated Pool in Rio Arriba and Sandoval Counties, New Mexico, to include therein:

TOWNSHIP 23 NORTH, RANGE 3 WEST, NMPM
Section 3: NW/4 and S/2
Section 4: W/2
Section 10: All
Section 11: S/2
Section 20: NW/4 and SE/4

TOWNSHIP 24 NORTH, RANGE 3 WEST, NMPM
Section 31: NE/4

(m) EXTEND the Choza Mesa-Pictured Cliffs Pool in Rio Arriba County, New Mexico, to include therein:

TOWNSHIP 28 NORTH, RANGE 3 WEST, NMPM
Section 18: S/2

TOWNSHIP 28 NORTH, RANGE 4 WEST, NMPM
Section 15: SE/4
Section 22: SE/4
Section 25: E/2
Section 26: S/2
Section 27: SE/4
Section 34: NE/4
Section 35: N/2
Section 36: NW/4

- (n) EXTEND the Franciscan-Lake Mesaverde Oil Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 20 NORTH, RANGE 6 WEST, NMPM
Section 13: N/2

- (o) EXTEND the Fulcher Kutz-Pictured Cliffs Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 28 NORTH, RANGE 11 WEST, NMPM
Section 26: NE/4

- (p) EXTEND the Gavilan-Pictured Cliffs Pool in Rio Arriba County, New Mexico, to include therein:

TOWNSHIP 27 NORTH, RANGE 3 WEST, NMPM
Section 28: NE/4

- (q) EXTEND the West Kutz-Fruitland Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 29 NORTH, RANGE 12 WEST, NMPM
Section 7: W/2
Section 18: NW/4

- (r) EXTEND the Largo-Chacra Pool in San Juan and Rio Arriba Counties, New Mexico, to include therein:

TOWNSHIP 27 NORTH, RANGE 8 WEST, NMPM
Section 9: E/2
Section 10: W/2 and SE/4
Section 15: N/2
Section 16: NE/4
Section 27: S/2

- (s) EXTEND the West Lindrith Gallup-Dakota Pool in Rio Arriba County, New Mexico, to include therein:

TOWNSHIP 24 NORTH, RANGE 4 WEST, NMPM
Section 3: NW/4

- (t) EXTEND the North Los Pinos-Fruitland Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 32 NORTH, RANGE 8 WEST, NMPM
Section 23: SE/4

- (u) EXTEND the Marcelina-Dakota Oil Pool in McKinley County, New Mexico, to include therein:

TOWNSHIP 16 NORTH, RANGE 10 WEST, NMPM
Section 24: SE/4 NE/4

- (v) EXTEND the Nipp-Pictured Cliffs Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 25 NORTH, RANGE 12 WEST, NMPM
Section 2: NE/4
Section 4: All
Section 5: SE/4

TOWNSHIP 26 NORTH, RANGE 12 WEST, NMPM
Section 27: W/2
Section 28: E/2

TOWNSHIP 27 NORTH, RANGE 13 WEST, NMPM
Section 36: SW/4

- (w) EXTEND the Otero-Chacra Pool in Rio Arriba County, New Mexico, to include therein:

TOWNSHIP 25 NORTH, RANGE 5 WEST, NMPM
Section 19: SE/4

TOWNSHIP 26 NORTH, RANGE 5 WEST, NMPM
Section 28: E/2
Section 33: NE/4

TOWNSHIP 26 NORTH, RANGE 6 WEST, NMPM
Section 17: S/2
Section 18: SE/4
Section 19: NE/4
Section 20: N/2

- (x) EXTEND the Rusty-Chacra Gas Pool in Sandoval County, New Mexico, to include therein:

TOWNSHIP 22 NORTH, RANGE 7 WEST, NMPM
Section 11: E/2
Section 13: W/2
Section 14: E/2
Section 22: NE/4

- (y) EXTEND the Shiprock-Gallup Oil Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 29 NORTH, RANGE 18 WEST, NMPM
Section 16: NE/4 SW/4

- (z) EXTEND the Tapacito-Pictured Cliffs Pool in Rio Arriba County, New Mexico, to include therein:

TOWNSHIP 27 NORTH, RANGE 3 WEST, NMPM
Section 30: SE/4
Section 32: NW/4

TOWNSHIP 27 NORTH, RANGE 4 WEST, NMPM
Section 7: NE/4

- (aa) EXTEND the Tocio Dome-Pennsylvanian "D" Oil Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 26 NORTH, RANGE 18 WEST, NMPM
Section 9: NW/4

- (bb) EXTEND the Ute Dome-Paradox Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 31 NORTH, RANGE 14 WEST, NMPM
Section 11: All

TOWNSHIP 32 NORTH, RANGE 14 WEST, NMPM
Section 24: All
Section 26: All

- (cc) EXTEND the WAW Fruitland-Pictured Cliffs Pool in San Juan County, New Mexico, to include therein:

TOWNSHIP 26 NORTH, RANGE 13 WEST, NMPM
Section 3: NW/4
Section 5: N/2

TOWNSHIP 27 NORTH, RANGE 13 WEST, NMPM
Section 19: S/2
Section 20: W/2
Section 27: NE/4
Section 32: SE/4

GAS PRODUCTION and TOTAL REVENUE received by PRODUCING ROYALTIES, INC. from
 CARROLL-CORNELL No. 2 Gas Well (Unit "D") in NW $\frac{1}{4}$ of NW $\frac{1}{4}$ of Section 12; T-29-N; R-12-W;
 San Juan County, New Mexico - during the following period:

DATE	MONTHLY PRODUCTION of GAS in MCF	PROD. ROY., INC. TOTAL REVENUE per month rec. from 83.25% (100% W. Int.)	DATE	MONTHLY PRODUCTION of GAS in MCF	PROD. ROY., INC. TOTAL REVENUE per month rec. from 83.25% (100% W. Int.)
Prod. Roy. Inc. Physical Year also by Month			Prod. Roy. Inc. Physical Year also by Month		
1964-65 July	0	\$. 0	1967-68 Nov	1290	\$ 120.81
Aug	0	0	Dec	972	91.02
Sept	0	0	Jan	613	57.41
Oct	0	0	Feb	30	2.82
Nov	0	0	Mar	22	2.06
Dec	3327	311.00	April	931	82.48 *
Jan	3624	338.76	May	1122	105.07
Feb	0	0	June	437	40.92
Mar	0	0	Totals	7499	\$ 697.54
April	0	0			<i>see 409.97 below</i>
May	0	0	1968-69 July	0	0
June	0	0	Aug	0	0
Totals	6951	\$ 649.76	Sept	16	1.50
1965-66 July	1571	146.86	Oct	1	.09
Aug	2560	129.16 *	Nov	11	1.03
Sept	1481	98.76 *	Dec	0	0
Oct	0	0	Jan	0	0
Nov	69	6.46	Feb	46	4.68
Dec	54	5.05	March	0	0
Jan	0	0	April	0	0
Feb	0	0	May	0	0
Mar	0	0	June	0	0
April	0	0	Totals	74	\$ 7.30
May	50	4.67	1969-70 July	0	0
June	166	15.51	Aug	0	0
Totals	5951	\$ 406.47	Sept	0	0
1966-67 July	0	0	Oct	0	0
Aug	0	0	Nov	0	0
Sept	0	0	Dec	28	2.85
Oct	0	0	Jan	38	3.86
Nov	0	0	Feb	0	0
Dec	0	0	Mar	0	0
Jan	0	0	April	0	0
Feb	0	0	May	0	0
Mar	0	0	June	0	0
April	0	0	Totals	68	\$ 6.91
May	0	0			
June	0	0			
Totals	00	00			
1967-68 July	327	30.61 **			
Aug	216	20.22 **			
Sept	667	62.46 **			
Oct	872	81.66			
Nov - (continued at top of page)					

BEFORE EXAMINER NUTTER
 OIL CONSERVATION COMMISSION
 EXHIBIT NO. 6204
 CASE NO. 6204

Adjustment for repayment of drilling gas borrowed from Southern Union Gas Co. used in working on Cornell gas wells Nos. 1 & 2

** Southern Union charged \$409.97 for gas used in May and June, 1967 in efforts to clean liquids, soaps, etc. out of Carroll-Cornell No. 2 by gas injection.

Carroll-Cornell No. 2 Well in NW $\frac{1}{4}$ of NW $\frac{1}{4}$ of Section 12; T-29-N; R-12-W;
(Unit "D"), San Juan County, New Mexico

GAS PRODUCTION HISTORY during the following period

DATE			DATE		
Year	Month	MONTHLY PRODUCTION in MCF	Year	Month	MONTHLY PRODUCTION in MCF
1970	January	38	1973	June (continued)	0
"	February	0	"	July	0
"	March	0	"	August	0
"	April	0	"	September	0
"	May	0	"	October	0
"	June	2	"	November	0
"	July	0	"	December	0
"	August	0	1974	January	0
"	September	0	"	February	0
"	October	0	"	March	0
"	November	0	"	April	0
"	December	0	"	May	0
1971	January	0	"	June	0
"	February	0	"	July	0
"	March	0	"	August	0
"	April	0	"	September	0
"	May	0	"	October	0
"	June	0	"	November	0
"	July	0	"	December	0
"	August	0	1975	January	0
"	September	0	"	February	0
"	October	0	"	March	0
"	November	0	"	April	0
"	December	0	"	May	0
1972	January	0	"	June	0
"	February	0	"	July	0
"	March	0	"	August	0
"	April	0	"	September	0
"	May	0	"	October	0
"	June	0	"	November	0
"	July	0	"	December	0
"	August	0	1976	January	0
"	September	0	"	February	0
"	October	0	"	March	0
"	November	0	"	April	0
"	December	0			
1973	January	0			
"	February	0			
"	March	0			
"	April	0			
"	May	0			

(Continued on next Column)

The plugging and abandonment of this
Carroll-Cornell No. 2 Gas well was completed
on April 14, 1976.

The above producing history was taken from the production records of Producing Royalties, Inc.,
and verified by the records of the New Mexico Oil & Gas Commission.

P. L. Payne, Jr.
By P. L. Payne, Jr., President of
PRODUCING ROYALTIES, INC.

GAS PRODUCTION and TOTAL REVENUE received by PRODUCING ROYALTIES, INC. from
CARROLL-CORNELL No. 2 Gas Well (Unit "D") in NW $\frac{1}{4}$ of NW $\frac{1}{4}$ of Section 12; T-29-N; R-12-W;
San Juan County, New Mexico - during the following period:

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Oct	0	0	Jan	0	0
Nov	69	6.46	Feb	46	4.68
Dec	54	5.05	March	0	0
Jan	0	0	April	0	0
Feb	0	0	May	0	0
Mar	0	0	June	0	0
April	0	0	Totals	74	\$ 7.30
May	50	4.67			
June	166	15.51	1969-70 July	0	0
Totals	5951	\$ 406.47	Aug	0	0
1966-67 July	0	0	Sept	0	0
Aug	0	0	Oct	0	0
Sept	0	0	Nov	0	0
Oct	0	0	Dec	28	2.85
Nov	0	0	Jan	38	3.86
Dec	0	0	Feb	0	0
Jan	0	0	Mar	0	0
Feb	0	0	April	0	0
Mar	0	0	May	0	0
April	0	0	June	2	.20
May	0	0	Totals	68	\$ 6.91
June	0	0			
Totals	00	00			
1967-68 July	327	30.61 **			
Aug	216	20.22 **			
Sept	667	62.46 **			
Oct	872	81.66			
Nov - (continued at top of page)					

* Adjustment for repayment of drilling gas borrowed from Southern Union Gas Co. used in working on Cornell gas wells Nos. 1 & 2

** Southern Union charged \$409.97 for gas used in May and June, 1967 in efforts to clean liquids, soaps, etc. out of Carroll-Cornell No. 2 by gas injection.

6-7-78

Case 4204

Ex. 1

Carroll-Cornell No. 2 Well in NW $\frac{1}{4}$ of NW $\frac{1}{4}$ of Section 12; T-29-N; R-12-W;
(Unit "D"), San Juan County, New Mexico

GAS PRODUCTION HISTORY during the following period

DATE		MONTHLY PRODUCTION in MCF	DATE		MONTHLY PRODUCTION in MCF
Year	Month		Year	Month	
1970	January	38	1973	June (continued)	0
"	February	0	"	July	0
"	March	0	"	August	0
"	April	0	"	September	0
"	May	0	"	October	0
"	June	2	"	November	0
"	July	0	"	December	0
"	August	0	1974	January	0
"	September	0	"	February	0
"	October	0	"	March	0
"	November	0	"	April	0
"	December	0	"	May	0
1971	January	0	"	June	0
"	February	0	"	July	0
"	March	0	"	August	0
"	April	0	"	September	0
"	May	0	"	October	0
"	June	0	"	November	0
"	July	0	"	December	0
"	August	0	1975	January	0
"	September	0	"	February	0
"	October	0	"	March	0
"	November	0	"	April	0
"	December	0	"	May	0
1972	January	0	"	June	0
"	February	0	"	July	0
"	March	0	"	August	0
"	April	0	"	September	0
"	May	0	"	October	0
"	June	0	"	November	0
"	July	0	"	December	0
"	August	0	1976	January	0
"	September	0	"	February	0
"	October	0	"	March	0
"	November	0	"	April	0
"	December	0			
1973	January	0			
"	February	0			
"	March	0			
"	April	0			
"	May	0			

(Continued on next Column)

The plugging and abandonment of this
Carroll-Cornell No. 2 Gas well was completed
on April 14, 1976.

The above producing history was taken from the production records of Producing Royalties, Inc.
and verified by the records of the New Mexico Oil & Gas Commission.

P. L. Payne, Jr.
By P. L. Payne, Jr., President of
PRODUCING ROYALTIES, INC.

Southern Union Gathering Co.

Re 3-9-7

Fidelity Union Tower -- Dallas, Texas 75201

Exhibit "B"

March 5, 1976

Month of February, 1976

Statement of Gas Received From Producing Royalties, Inc.

P. O. Box 1071

Lubbock, Texas

Location Fulcher Kutz Pictured Cliff

San Juan County, New Mexico

Pressure Base 15.025#

BTU at 15.025#

BTU

209506	Carroll-Cornell #1	DISCONNECTED 2-25-76	SF 065557	days produced
			MCF	

✓209606	Carroll-Cornell #2	DISCONNECTED 4-17-71	SF 065557	days produced
			MCF	

209706	Carroll-Cornell #5	DISCONNECTED 11-25-73	SF 065557	days produced
			MCF	

209806	Carroll-Cornell #6	1141	776	SF 065557	24	days produced
				MCF		

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 2
CASE NO. 6204

Producing Royalties - Lubbock
Gas Accounting
USGS
File - 3

SOUTHERN UNION GATHERING COMPANY
FIRST INTERNATIONAL BUILDING
DALLAS, TEXAS 75270

RECEIVED
MAY 15 1978

May 11, 1978

State of New Mexico
Energy and Minerals Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico

Attention: Ms. Lynn Teschendorf
General Counsel

Case 6204

RE: Producing Royalties, Inc.
Carroll-Cornell #2

Dear Ms. Teschendorf:

Reference your May 4, 1978 letter regarding producing capabilities of the above referenced well as of 12-31-74, we advise as follows.

The well had no production since January, 1970 due to its' inability to produce.

In April, 1971, we advised the operator that until remedy work was done on the well, we were suspending the changing of charts.

It was not until April 12, 1976 that we were advised that the well had been plugged and abandoned.

If we can be of any further assistance, please advise.

Very truly yours,



R. J. McCrary, Manager
Purchases & Prorations Dept.

RJM:dl

Dockets Nos. 16-78 and 17-78 are tentatively set for hearing on May 3 and 17, 1978. Application for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - APRIL 19, 1978

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

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

ALLOWABLE: (1) Consideration of the allowable production of gas for May, 1978, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.

(2) Consideration of the allowable production of gas for May, 1978, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 6151: (Continued from March 22, 1978, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Vega Petroleum Corporation, American Employers' Insurance Company, and all other interested parties to appear and show cause why the North Caprock Queen Unit No. 1 Well No. 5Y located in Unit E of Section 8, Township 13 South, Range 32 East, Lea County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 6199: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Marion B. Edmonds and O. A. Peters and all other interested parties to appear and show cause why the Edmonds & Peters Federal Well No. 1 located in Unit M of Section 3, Township 15 North, Range 33 East, Harding County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 6200: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Astro-Tex Oil Corp., American Employers' Insurance Co., and all other interested parties to appear and show cause why the Cain Well No. 2 located in Unit J of Section 22, Township 15 North, Range 33 East, Harding County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 6201: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Paul Haskins and all other interested parties to appear and show cause why the Federal "17" Well No. 1 located in Unit P of Section 17, Township 15 North, Range 33 East, Harding County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 6202: Application of Amoco Production Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Teledyne Fed. Gas Com Well No. 1 to be located 660 feet from the South line and 1980 feet from the East line of Section 4, Township 23 South, Range 29 East, Eddy County, New Mexico, the E/2 of said Section 4 to be dedicated to the well.

CASE 6203: Application of Walter W. Krug DBA Wallen Production Co., for special casing-cementing rules in the Potash-Oil Area, Lea County, New Mexico. Applicant, in the above-styled cause, asks that the special cable tool casing-cementing rules for wells in the North Lynch Yates-Seven Rivers Pool, as promulgated by Order No. R-4253, be extended to encompass additional lands, including all or portions of Sections 20, 21, 27, 28, 33 and 34, Township 20 South, Range 34 East, Lea County, New Mexico.

CASE 6204: Application of Producing Royalties, Inc., for exemption from the Natural Gas Pricing Act, San Juan County, New Mexico. Applicant, in the above-styled cause, proposes to drill a replacement Pictured Cliffs gas well in the same proration unit as its Payne Well No. 2, that is, the NW/4 of Section 12, Township 29 North, Range 12 West, San Juan County, New Mexico, and seeks exemption from the Natural Gas Pricing Act pursuant to a finding that the new well is justified for reasons other than avoiding the application of said act.

CASE 6205: Application of Gifford, Mitchell & Wisenbaker for an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Quanah Parker Well No. 2-Y to be located 2770 feet from the South line and 2310 feet from the East line of Section 28, Township 26 South, Range 36 East, West Scarborough-Yates Pool, Lea County, New Mexico, the SW/4 NE/4 of said Section to be dedicated to the well.

- CASE 6206: Application of Cleary Petroleum Corporation for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Morrow test well at a point 4650 feet from the South line and 1980 feet from the West line of Section 5, Township 21 South, Range 32 East, South Lake-Morrow Field, Lea County, New Mexico, Lots 11, 12, 13, and 14, and SW/4 of said Section 5 to be dedicated to the well.
- CASE 6207: Application of Belco Petroleum Corporation for an unorthodox location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Little et al Well No. 1 to be drilled 1290 feet from the South line and 1720 feet from the West line of Section 20, Township 22 South, Range 27 East, South Carlsbad-Cherry Canyon Pool, Eddy County, New Mexico, the SE/4 SW/4 of said Section 20 to be dedicated to the well.
- CASE 6208: Application of Layton Enterprises, Inc., for two non-standard oil proration units and two unorthodox locations, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks approval for two non-standard oil proration units in Township 8 South, Range 38 East, Bluit-San Andres Associated Pool, Roosevelt County, New Mexico, each to be dedicated to a well to be drilled at an unorthodox location thereon. The first unit would comprise 102.55 acres being the N/2 NW/4 and Lot 1 of Section 16 with the well located 800 feet from the North line and 450 feet from the East line of the section; the second unit would comprise 101.84 acres being the S/2 NW/4 and Lot 2 of Section 16 with the well located 2120 feet from the North line and 450 feet from the East line of the section.
- CASE 6209: Application of Southern Union Exploration Co., for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pictured Cliffs formation underlying the NW/4 of Section 18, Township 25 North, Range 13 West, San Juan County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6210: Application of Orla Petco, Inc., for salt water disposal, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Upper Delaware formation through the perforated interval from 2560 feet to 2690 feet in its Sanders Well No. 1 located in Unit G of Section 6, Township 23 South, Range 28 East, Herradura Bend-Delaware Field, Eddy County, New Mexico.



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

JERRY APODACA
GOVERNOR

NICK FRANKLIN
SECRETARY

May 4, 1978

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

Southern Union Gathering Co.
First International Building
Suite 1800
Dallas, Texas 75270

Re: Producing Royalties, Inc.
Case No. 6204

Gentlemen:

I am trying to obtain some information on the Carroll-Cornell Well No. 2 located in the NW/4 NW/4 of Section 12, Township 29 North, Range 12 West, San Juan County, New Mexico. This well belongs to Producing Royalties, Inc., and the transporter is listed as Southern Union Gathering Co. The well has not been metered since 1970 or 1971, but Southern Union did not disconnect it until some time in 1976.

I am trying to make a determination as to whether this well was "capable of producing" on December 31, 1974. It would be helpful if you could tell me why Southern Union stopped purchasing and why the well was not disconnected until 1976.

I would appreciate hearing from you at your earliest convenience.

Very truly yours,

(Ms.) LYNN TESCHENDORF
General Counsel

LT/dr



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

JERRY APODACA
GOVERNOR

NICK FRANKLIN
SECRETARY

May 3, 1978

POST OFFICE BOX 2008
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

Mr. Michael Campbell
Campbell, Bingaman & Black, P. A.
P. O. Box 877
Santa Fe, New Mexico 87501

Re: Case No. 6204

Dear Mike:

Having discussed the Payne Well No. 2-R with Division personnel, I have concluded that if that well is completed in the Pictured Cliffs, and the Payne No. 2 is plugged back to the Fruitland, you would need an exemption from the Natural Gas Pricing Act for the replacement well in the Pictured Cliffs. This could only be granted administratively upon a showing that the No. 2 was lost due to mechanical failure or was non-commercial in the Pictured Cliffs. Otherwise, a hearing will be required.

You have requested Division approval for this plan and assurance that an exemption would be available. At the hearing on April 19 the Division was not presented testimony on the necessity for a replacement well on the proration unit. A decision on whether an exemption should be granted cannot be made until such testimony is presented. The Division will have to re-open the case for further testimony before granting you an exemption for the No. 2-R should it be completed in the Pictured Cliffs formation. The case will have to be re-advertised. If you wish to have the case heard on June 7, please have your application in by May 18.

Of course, the basic issue is whether the proration unit was "producing or capable of producing prior to 1-1-75." We will have to make a determination as to whether the Carroll-Cornell No. 2 was capable of producing on December 31, 1974. This evidence probably would be best presented at said hearing.

Mr. Michael Campbell

-2-

May 3, 1978

If for some reason this is not agreeable to you, we
certainly can discuss it further.

Very truly yours,

LYNN TESCHENDORF
General Counsel

LT/dr

cc: Paul Biderman



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

May 3, 1978

JERRY APODACA
GOVERNOR

NICK FRANKLIN
SECRETARY

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

Mr. Paul Biderman
Assistant Attorney General
Bataan Memorial Building
Santa Fe, New Mexico 87501

Re: Producing Royalties, Inc.
Case No. 6204

Dear Paul:

This letter concerns a possible violation of the Natural Gas Pricing Act by Producing Royalties, Inc. We have obtained the following information.

Producing Royalties drilled their Carroll-Cornell Well No. 2 in Unit D, Section 12, Township 29 North, Range 12 West, San Juan County, in 1953 on a 160-acre proration unit. This well was apparently disconnected from Southern Union Gathering Company's line in 1971. However, the report of disconnection was not filed until 1976. The U. S. Geological Survey has no information that this well was ever plugged, dissolving the proration unit, but Michael Campbell, Producing Royalties' attorney, assures me that it was plugged in 1976.

Producing Royalties drilled a second well on the same proration unit in 1976 in Unit F of Section 12. This well, the Payne No. 2, is currently producing at rates outside of the application of the Act. However, this well was drilled "within an established proration unit which was producing or capable of producing natural gas prior to January 1, 1975 from the same reservoir." And Producing Royalties has never obtained from the Oil Conservation Division an exemption from the provisions of the Act. Therefore, they probably should be charging regulated prices.

Producing Royalties has now come in for an exemption for a third well on this proration unit. It would seem that they are probably entitled to exemptions for both the second and third wells on this unit. However, until they obtain these exemptions, they may be overcharging their customers. You may wish to discuss this matter with them under the terms of Section 8 of the Act.

Mr. Paul Biderman

-2-

May 3, 1978

Mr. Campbell has pointed out that the Act cannot apply retroactively to the Payne Well No. 2. This may very well be true; I believe that is a legal question for your interpretation.

Please let me know if you need more information.

Very truly yours,

LYNN TESCHENDORF
General Counsel

LT/dr

cc: Michael Campbell
Joe D. Ramey

CAMPBELL, BINGAMAN AND BLACK, P. A.

LAWYERS

JACK M. CAMPBELL
JEFF BINGAMAN
BRUCE D. BLACK
MICHAEL B. CAMPBELL

Case 6204
MAY 19 1978
POST OFFICE BOX 2208
JEFFERSON PLACE
SANTA FE, NEW MEXICO 87501
TELEPHONE (505) 988-4421

March 23, 1978

Mr. Joe D. Ramey
Director
Oil Conservation Commission
State of New Mexico
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Application for Hearing

Dear Mr. Ramey:

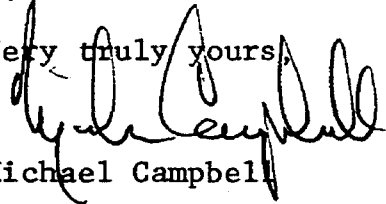
Producing Royalties, Inc. requests a hearing before the Oil Conservation Commission on an application to drill a replacement well for the Payne No. 2 well in SE1/4, NW1/4, Sec. 12, T29N, R12W, NMPM, San Juan County, New Mexico.

The current well is a commercial producer in the Pictured Cliffs formation and Producing Royalties, Inc. is receiving the highest price available under the New Mexico Natural Gas Pricing Act, and federal ceilings.

Producing Royalties, Inc. wishes to drill a new well, the Payne No. 2-R, on the same quarter section and to complete in either the Pictured Cliffs or Fruitland formation. If the new well is completed in the Pictured Cliffs, the No. 2 well would be plugged in the Pictured Cliffs.

This application does not appear to come within the provisions of OCC Order No. 5900.

Very truly yours,


Michael Campbell

MC:dnc

cc: Mr. Paul Payne

OIL CONSERVATION COMMISSION
P. O. BOX 2088
SANTA FE, NEW MEXICO 87501

Can
6204

March 14, 1978

C
O
P
Y

Producing Royalties, Inc.
Box 1071
Lubbock, Texas 79408

Attention: Mr. P. L. Payne, Jr.

Gentlemen:

This is with reference to your letter of March 9, 1978, wherein you request Oil Conservation Commission approval under the Natural Gas Pricing Act to drill a replacement well for your Payne No. 2 located in Unit F, Section 12, Township 29 North, Range 12 West, San Juan County, New Mexico.

Since the well is now a commercial producer the Commission cannot grant administrative approval for a new well. However, since the well is receiving the highest price rate allowed, I cannot see any difficulty in the Commission, after notice and hearing, approving the replacement well at a comparable price.

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Producing Royalties, Inc.

P. O. Box 1071 3822 N.W. Loop 289

Phone 806 - 762-2164

Lubbock, Texas 79408

March 9, 1978

Case
6204

Mr. Joe D. Ramey
Commissioner and Secretary
Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

In Re: Producing Royalties, Inc.—Payne #2 Pictured Cliffs producing
gas well "F" location in SE of NW 1/4 Section 12; T-29-N;
R-12-W; San Juan County, New Mexico

Dear Mr. Ramey,

The caption well was spudded on July 22, 1976 and completed on August 14, 1976. It is producing from the Pictured Cliffs formation at 1909 to 1926 feet, and is presently producing in excess of one-million cu. ft. of gas per month. We are currently receiving a price for this gas at the highest rate permitted at this date by the Federal Government even though the gas is being taken as intra-state gas by Southern Union Gathering Co of Dallas, Texas. This gas price may be higher than the maximum price allowed by the State of New Mexico to be paid for intra-state gas from newly drilled wells under the law passed since the caption well was completed.

Mr. Ramey, the caption well is a commercial well and we are receiving a good price for the gas being produced. In developing the well we were able to log a favorable appearing zone identified as the Fruitland formation that might produce gas from this well. We could not attempt a dual completion in this well bore because of its size. There are no wells within two or more miles of this well that are producing from the Fruitland formation, therefore we may not be able to off-set this well and be able to complete a Fruitland zone well.

If the Commission and other necessary authorities would permit us to drill another well located on our lease one location or less to the westward direction from this Payne #2 to a depth of at least to the bottom of the Pictured Cliffs formation, we would test either the Fruitland or Pictured Cliffs formation in the newly drilled hole and complete the well if possible in one or the other of the two formations. If at that time the decision was made to complete a Pictured Cliffs formation gas well from the newly drilled well, we would plug the Payne #2 well back to a depth that would enable us to attempt to complete the well for gas in the Fruitland formation. It is not our intention herein to request to receive permission from you to drill and produce two wells from the Pictured Cliffs formation from this one-fourth of a Section of land, but instead to drill the second well enabling one to be produced from the Pictured Cliffs formation and the other from the Fruitland formation if it is possible to produce gas from the Fruitland zone in this area.

(continued on Page No. 2.)



Mr. Joe D. Ramey

March 9, 1978

(Case 6204)
Page No. 2.

As mentioned above we are currently receiving the highest price for our gas from the Payne #2 that is allowed by the Federal Government, and we request permission from the Commission and any other State authorities that we be permitted to receive the same high price and consideration for intra-state gas on the newly drilled well if it is completed in the Pictured Cliff Formation as we are now enjoying from the currently producing Payne #2 gas well.

The consideration of you and the other members of the Oil Conservation Commission on these two requests is certainly appreciated. We look forward to hearing from you in the near future of your decisions. We thank you and Mr. Arnold for the time and suggestions you availed to us in our meeting with you on Tuesday, March 7.

Sincerely submitted,

PRODUCING ROYALTIES, INC.

P. L. Payne, Jr.
P. L. Payne, Jr.
President

PLP:jr

CAMPBELL, BINGAMAN AND BLACK, P. A.
LAWYERS

JACK M. CAMPBELL
JEFF BINGAMAN
BRUCE D. BLACK
MICHAEL B. CAMPBELL

POST OFFICE BOX 2208
JEFFERSON PLACE
SANTA FE, NEW MEXICO 87501
TELEPHONE (505) 988-4421

May 8, 1978

*Part of record
in CS 6204*

Ms. Lynn Teschendorf
General Counsel
State of New Mexico
Energy and Minerals Department
Oil Conservation Division
Post Office Box 2088
State Land Office Building
Santa Fe, New Mexico 87501

Re: Oil Conservation Division, Case No. 6204

Dear Mr. Teschendorf:

Set for June 7

I have your letter of May 3 which I assume is an official ruling of the Oil Conservation Division on the above-styled matter. I do request a supplemental hearing on the case and wish to outline what we will request as the scope at such a hearing.

A brief review of the facts is necessary. In 1957, Producing Royalties, Inc. (P.R.I.) purchased certain acreage in San Juan County, including the SE/4, NW/4 of Sec. 12, T29N, R12W. At the time of purchase, the noted acreage contained a producing well, the Carroll-Cornell No.2 Well. The Carroll-Cornell No.2 Well continued to produce gas until approximately mid-1970. The well shows no production history after June, 1970. The well was physically disconnected from gathering lines on April 17, 1971. On April 14, 1976, the well was physically plugged by Larry Bedford, d/b/a Bedford, Inc.

On July 22, 1976, P.R.I. spudded the Payne No.2 Well in the Pictured Cliffs formation on the same acreage. The Payne No.2 Well is currently classified as a commercially producing well. The gas is purchased by Southern Union Gathering Company and resold exclusively on the intrastate market at the highest price payable.

Ms. Lynn Teschendorf
May 8, 1978
Page Two

The New Mexico Natural Gas Pricing Act became effective on March 28, 1977. The Act provides:

"The provisions of the Natural Gas Pricing Act shall not apply to the production and sale of natural gas in intrastate commerce from a well, the drilling or first intrastate sale of which commenced on or after January 1, 1975. However, the Natural Gas Pricing Act shall apply to such a well if it is drilled within an established proration unit which was producing or capable of producing gas prior to January 1, 1975" N. M. Stat. Ann. 65-15-5 (1977)

On April 23, 1978, P. R. I. filed an Application with the Division to drill a second well on the same noted acreage. The company anticipated completing the new well in the Pictured Cliffs and recompleting the Payne No. 2 Well in the Fruitland formation.

On April 24, 1978, a Supplemental Report of Abandonment of the Carroll-Cornell No. 2 Well was filed with the U.S.G.S.

In light of these facts, I believe the Division's initial inquiry should be whether the Natural Gas Pricing Act is applicable to a well that was physically plugged prior to the effective date of the Act. We will contend that at the time the Act became effective, the Carroll-Cornell No. 2 Well, drilled in 1976, was excluded from the terms of the Act, and therefore, that the requested new well is likewise excluded from restrictions imposed by the Act. If the Division finds that the Carroll-Cornell was incapable of producing gas after December 31, 1974, we assert that the Division must find that the Payne No. 2 and the suggested new well are both excluded from the terms of the Act.

If the Division finds that the proration unit, because the Carroll-Cornell No. 2 Well had not been plugged, was capable of producing gas after December 31, 1974, we anticipate submitting evidence that the Payne No. 2 Well was a

Ms. Lynn Teschendorf
May 8, 1978
Page Three

justified replacement well for a non-commercial producer. We believe that evidence will substantiate that gas from the Payne No.2 Well should receive a new gas price as a replacement well for the Carroll-Cornell No. 2 Well.

If the Division finds that the Payne No.2 Well should be exempted from the Pricing Act as a replacement well, we see no impediment to Division permission to drill a new well which would assume production from the same formation. The Payne No. 2 Well would then begin production from another formation, the Fruitland, and we would urge that no violation of the Act has occurred.

The nature of the Application, i.e., to drill two wells to different formations on the same proration unit, is causing unnecessary confusion. We believe the requested new well is neither a replacement well nor an in-fill well, and we do not believe evidence of those issues is relevant.

We ask that a Division rehearing encompass the issues raised herein. We believe that such a hearing will illustrate that P.R.I. has violated neither the letter nor spirit of the Pricing Act.

Please call me if you have any questions.

Very truly yours,


Michael Campbell

MC: ama

cc: Mr. Paul Payne
Mr. Paul Biderman

CAMPBELL, BINGAMAN AND BLACK, P. A.

LAWYERS

JACK M. CAMPBELL
JEFF BINGAMAN
BRUCE D. BLACK
MICHAEL B. CAMPBELL

*Part of Record
6204*
POST OFFICE BOX 2208
JEFFERSON PLACE
SANTA FE, NEW MEXICO 87501
TELEPHONE (505) 966-4421

April 26, 1978

Mr. Richard L. Stamets
Examiner
New Mexico Oil Conservation
Commission
State of New Mexico
Post Office 2088
Santa Fe, New Mexico 87501

Re: Oil Conservation Division, Case No. 6204

Dear Mr. Stamets:

You will recall that the above-noted case was an application by Producing Royalties, Inc., for exemption from the New Mexico Natural Gas Pricing Act.

P.R.I. spudded the Payne No. 2 Well on July 22, 1976, in the SE1/4, NW1/4, Sec. 12, T29N, R12W, San Juan County, New Mexico. The Payne No. 2 Well is currently producing approximately 1,000,000 c.f. per month in the Pictured Cliffs formation. The gas produced from the well is not affected by the Pricing Act. It is purchased by Southern Union Gathering Company at the highest market price payable and is transported for consumption solely within New Mexico.

By its application, P.R.I. seeks permission to drill a new well located upon the same lease acreage to the west of the Payne No. 2 Well. The Company seeks to drill the new well to at least the bottom of the Pictured Cliffs formation. The Company would test the new well in either the Fruitland or the Pictured Cliffs and complete the well in the most favorable formation. If the new well is completed in the Pictured Cliffs, the Company would plug the Payne No. 2 Well back to a depth that would enable them to complete the well in the Fruitland.

The Company seeks Commission approval for this plan of operation and assurance that, should a new well be drilled and pro-

duced in the Pictured Cliffs formation, and should the old Payne No. 2 Well be plugged and recompleted back to the Fruitland formation, that gas produced from both wells would obtain the highest price possible for gas and would not be hindered by application of the New Mexico Natural Gas Pricing Act.

At the hearing on this matter, it was generally concluded that the provisions of Section 6 of the Act, and regulations promulgated pursuant thereto, would not apply to the facts presented. The reason for this initial conclusion was that both the Payne No. 2 Well and the contemplated new well would be drilled after the applicable date of the Pricing Act.

Miss Lynn Teschendorf asked whether there was any production or capability of production on the lease acreage prior to January 1, 1975. The question was related to a provision in Section 6 of the Natural Gas Pricing Act which provided that the Act:

" . . . shall apply to such a well if it is drilled within an established proration unit which was producing or capable of producing natural gas prior to January 1, 1975 from the same reservoir . . . "

P.R.I. informed the Commission that there was an old well on the lease acreage, the Carroll-Cornell No. 2 Well, which had been plugged and abandoned some years ago. I believe that the conclusion of the examiner was that if the Carroll-Cornell No. 2 Well had been plugged and abandoned prior to January 1, 1975, the proration unit would not be "producing or capable of producing" natural gas prior to that time and would, therefore, not be within the provisions of the Act.

We have investigated the production history of the Carroll-Cornell No. 2 Well on the noted acreage. It appears that while there was no production from the noted well since 1970, the well was not formally plugged and abandoned until 1976. I have attached hereto as Exhibit "A" the gas production history of the noted well. You will see that the last production from the well was in January, 1970. Exhibit "B" is a statement of gas received from Producing Royalties, Inc. prepared by Southern Union Gathering Company. You will note that the Carroll-Cornell No. 2 Well was disconnected from the Gathering Company's lines on April 17, 1971. Exhibit "C" indicates that the Gathering Company notified the Commission of its intention to disconnect the subject well on April 12, 1976. There is no indication in our records why the Gathering Company disconnected the well on April 17, 1971, yet failed to inform the Commission of the disconnection

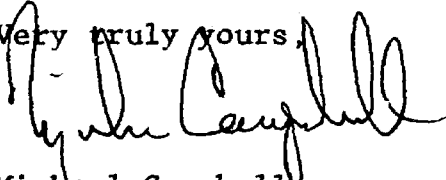
Mr. Richard L. Stamets
April 26, 1978
Page Three

until April 12, 1976. Exhibit "D" is a notice of intention to abandon the Carroll-Cornell No. 2 Well filed with the U.S.G.S. Such abandonment was approved on April 11, 1976.

The exhibits indicate that while formal abandonment of the noted well was not completed until after 1975, there was no production from the well after 1975 and in fact the well had been disconnected from the gathering lines in 1971. I believe these facts support the conclusion that the lease acreage was not a "proration unit which was producing or capable of producing natural gas prior to January 1, 1975." That conclusion would mean that the Payne No. 2 Well, spudded in 1976, and the anticipated new well on the same acreage, would both be exempt from the provisions of the Natural Gas Pricing Act, as was your initial conclusion.

I would request that the Commission enter an order dismissing the application. Please call me if you have any questions on this matter or if you desire further documentation or testimony on the application. Mr. Payne has informed me that a drilling rig is available for the proposed new well and we would hope to obtain a decision on the application at your earliest convenience. Thank you for your attention to this matter.

Very truly yours,



Michael Campbell

MC:dnc

Enclosures

cc: Mr. Paul Payne (w/encs.)

Carroll-Cornell No. 2 Well in NW $\frac{1}{4}$ of NW $\frac{1}{4}$ of Section 12; T-29-N; R-12-W;
(Unit "D"), San Juan County, New Mexico

GAS PRODUCTION HISTORY during the following period

MONTHLY PRODUCTION			MONTHLY PRODUCTION		
Year	DATE Month	in MCF	Year	DATE Month	in MCF
1970	January	38	1973	June (continued)	0
"	February	0	"	July	0
"	March	0	"	August	0
"	April	0	"	September	0
"	May	0	"	October	0
"	June	2	"	November	0
"	July	0	"	December	0
"	August	0	1974	January	0
"	September	0	"	February	0
"	October	0	"	March	0
"	November	0	"	April	0
"	December	0	"	May	0
1971	January	0	"	June	0
"	February	0	"	July	0
"	March	0	"	August	0
"	April	0	"	September	0
"	May	0	"	October	0
"	June	0	"	November	0
"	July	0	"	December	0
"	August	0	1975	January	0
"	September	0	"	February	0
"	October	0	"	March	0
"	November	0	"	April	0
"	December	0	"	May	0
1972	January	0	"	June	0
"	February	0	"	July	0
"	March	0	"	August	0
"	April	0	"	September	0
"	May	0	"	October	0
"	June	0	"	November	0
"	July	0	"	December	0
"	August	0	1976	January	0
"	September	0	"	February	0
"	October	0	"	March	0
"	November	0	"	April	0
"	December	0			
1973	January	0			
"	February	0			
"	March	0			
"	April	0			
"	May	0			

(Continued on next Column)

The plugging and abandonment of this
Carroll-Cornell No. 2 Gas well was completed
on April 14, 1976.

The above producing history was taken from the production records of Producing Royalties, Inc.,
and verified by the records of the New Mexico Oil & Gas Commission.

P. L. Payne, Jr.
By P. L. Payne, Jr., President of
PRODUCING ROYALTIES, INC.

Southern Union Gathering Co. *Re 3-9-76*

Fidelity Union Tower - Dallas, Texas 75201

Exhibit "B"

March 5, 1976

Month of February, 1976Statement of Gas Received From Producing Royalties, Inc.P. O. Box 1071Lubbock, TexasLocation Fulcher Kutz Pictured CliffSan Juan County, New MexicoPressure Base 15.025#BTU at 15.025#

BTU

209506 Carroll-Cornell #1 DISCONNECTED 2-25-76 MCF SF 065557 days produced

✓209606 Carroll-Cornell #2 DISCONNECTED 4-17-71 MCF SF 065557 days produced

209706 Carroll-Cornell #5 DISCONNECTED 11-25-73 MCF SF 065557 days produced

209806 Carroll-Cornell #6 1141 776 MCF SF 065557 24 days produced

Producing Royalties - LubbockGas Accounting

USGS

File - 3

OIL CONSERVATION COMMISSION
1000 RIO BRAZOS ROAD
AZTEC, NEW MEXICO

NOTICE OF DISCONNECT: Sta. #2096-06

DATE April 12, 1976

THIS IS TO NOTIFY THE OIL CONSERVATION COMMISSION THAT A DISCONNECT ON

<u>Producing Royalties, Inc.</u>	<u>Carroll Cornell</u>
OPERATOR	LEASE
<u>2</u>	<u>(D)12-29N-12W</u>
WELL UNIT	S - T - R
<u>Southern Union Gathering Co.</u>	<u>Fulcher Kutz PC</u>
NAME OF PURCHASER	POOL
<u>4-12-76</u>	
DATE	

DUE TO Operator advises well to be plugged and abandoned.

Southern Union Gathering Co.

PURCHASER

James R. Large

REPRESENTATIVE

James R. Large

Dispatch Manager

TITLE

JRL/sw

cc: Mr. Walter Bohls - Engineering
Mr. E. R. Corliss - Engineering
Mr. Oran Haseltine - Gas Supply
Mr. R. J. McCrary - Prorations
Mr. W. B. Richardson - Gas Measurement
Mr. Bruno Giovanini - Kutz
Mr. K. W. Blancett - Kutz
cc: OIL CONSERVATION COMMISSION - Aztec
Mr. Derald Ferrari - Kutz
File

Form 2-311
(Rev. 10-6-61)UNITED STATES
DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY

SUNDRY NOTICES AND REPORTS ON WELLS

(Do not use this form for proposals to drill or to deepen or plug back to a different reservoir.
Use "APPLICATION FOR PERMIT—" for such proposals.)

1. <input type="checkbox"/> OIL WELL <input type="checkbox"/> GAS WELL <input checked="" type="checkbox"/> OTHER		7. LAND ACRES, ENTIRE NAME	
2. NAME OF OPERATOR <i>Producing Royalties, Inc.</i>		8. NAME OF LEASE NAME <i>Cornell Cornell</i>	
3. ADDRESS OF OPERATOR <i>Box 1071 Lubbock, Texas 79408</i>		9. WELL NO. <i>2</i>	
4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements. See also space 17 below.) At surface <i>660 fNL ± 660 fNL Sec 12, T29N R12W</i>		10. FIELD AND POOL, OR WILDCAT <i>Fulcher Kitz PL</i>	
14. PERMIT NO.		11. SEC., T., R., M., OR BLS. AND SURVEY OR AREA <i>Sec 12 T29N R12W</i>	
15. ELEVATIONS (Show whether DE, RT, OR, etc.) <i>5804</i>		12. COUNTY OR PARISH <i>SAN JUAN</i>	
		13. STATE <i>N.M.</i>	

18. Check Appropriate Box To Indicate Nature of Notice, Report, or Other Data

NOTICE OF INTENTION TO:		SUBSEQUENT REPORT OF:	
TEST WATER SHUT-OFF <input type="checkbox"/>	PULL OR ALTER CASING <input type="checkbox"/>	WATER SHUT-OFF <input type="checkbox"/>	REPAIRING WELL <input type="checkbox"/>
FRACTURE TREAT <input type="checkbox"/>	MULTIPLE COMPLETE <input checked="" type="checkbox"/>	FRACTURE TREATMENT <input type="checkbox"/>	ALTERING CASING <input type="checkbox"/>
SHOOT OR ACIDIZE <input type="checkbox"/>	ABANDON* <input type="checkbox"/>	SHOOTING OR ACIDIZING <input type="checkbox"/>	ABANDONMENT* <input type="checkbox"/>
REPAIR WELL <input type="checkbox"/>	CHANGE PLANS <input type="checkbox"/>	(Other) <input type="checkbox"/>	

(NOTE: Report results of multiple completion on Well Completion or Recompletion Report and Log form.)

17. DESCRIBE PROPOSED OR COMPLETED OPERATIONS (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work. If well is directionally drilled, give subsurface locations and measured and true vertical depths for all markers and zones pertinent to this work.)

*This well has been disconnected from line
Operator intends to Plug & Abandon this well
as follows:*

- 1. Spot Cement Plug from TD 2021 to 1800'*
- 2. Pull 1" tbg & Perf 4 holes @ 765*
- 3. Squeeze Perfs w/ 100sx, Leaving Cement inside @ 600'*
- 4. Erect P & A marker w/ 105x*

RECEIVED

APR 11 1976

U. S. GEOLOGICAL SURVEY
WASHINGTON, D. C.

18. I hereby certify that the foregoing is true and correct

SIGNED *Larry A. Redford* TITLE *Agent for Operator* DATE *4-12-76*

APPROVED

APPROVED BY
CONDITIONS OF APPROVAL, IF ANY:

APR 11 1976

E. J. McGRATH

DISTRICT ENGINEER

*See Instructions on Reverse Side

BEFORE THE
NEW MEXICO OIL CONSERVATION DIVISION
SANTA FE, NEW MEXICO
APRIL 19, 1978

EXAMINER HEARING

)
)
IN THE MATTER OF:)
)

)
) Application of Producing)
) Royalties, Inc., for exemption)
) from the Natural Gas Pricing)
) Act, San Juan County, New)
) Mexico.)
)

Case 6204

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conservation Division:

Lynn Teschendorf, Esq.
Legal Counsel for the Division

For the Applicant:

CAMPBELL, BINCAMAN & BLACK, P.A.
Attorneys at Law
San Francisco & N Guadalupe
Santa Fe, New Mexico 87501
By: Michael B. Campbell, Esq.

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P.O. BOX 449
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SANTA FE, NEW MEXICO 87501

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* * * * *

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MR. STAMETS: We will take Case 6204.

MS. TIESCHENDORF: Case 6204. Application of Producing Royalties, Inc., for exemption from the Natural Gas Pricing Act, San Juan County, New Mexico.

MR. CAMPBELL: Mr. Examiner, my name is Michael Campbell. I'm an attorney with Campbeel, Bingaman and Black, Santa Fe, appearing today on behalf of Producing Royalties, Inc. I have an opening statement that I would like to make if I could.

MR. STAMETS: Feel free.

MR. CAMPBELL: Mr. Examiner, Producing Royalties, Inc. filed an application in Case No. 6204 for exemption from the New Mexico Natural Gas Pricing Act. The application is somewhat unusual and we have been informed that an administrative hearing will be necessary for approval.

The company spudded the No. 2 well on July 22, 1976 in the southeast quarter of the northwest quarter of Section 12, 29 North, 12 West, San Juan County, New Mexico. The well is currently producing approximately a million cubic feet per month in the Picture Cliffs formation.

The gas produced from this well is not

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affected by the Pricing Act. It is purchased by Southern Union Gathering Company at the highest market price payable and is transported for consumption solely within New Mexico.

Producing Royalties contemplates and by its application today seeks permission to drill a new well located upon the same lease acreage to the west of the Payne No. 2 Well. The Company seeks to drill the new well to at least the bottom of the Pictured Cliff formation. The company would test the new well in either the Fruitland or the Pictured Cliff formation and complete the well in the most favorable formation.

If the new well is completed in the Pictured Cliff formation the company would plug the Payne No. 2 Well back to a depth that would enable them to complete the well in the Fruitland formation.

If testing and completion follows our anticipation the new well would produce in the Pictured Cliffs formation and the old No. 2 Payne Well would produce in the Fruitland formation.

Currently there are no producing wells in the Fruitland within one mile of the old Payne No. 2 Well and the old well, should it be completed in the Fruitland

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would be considered a wildcat well.

We seek today Commission approval for this plan of operation and assurance that should a new well be drilled and produced in the Pictured Cliff and should the old Payne No. 2 Well be plugged and recompleted back to the Fruitland formation that gas produced from both wells would obtain the highest price possible and would not be hindered by application of the New Mexico Natural Gas Pricing Act.

The application is unusual in that the present well, the Payne No. 2 Well, was drilled after the statutory date specified for application of the New Mexico Natural Gas Pricing Act and that the contemplated well, which might be termed, for lack of a better word, a replacement well, would likewise be drilled and completed after the jurisdictional date of that Act.

In reading the Natural Gas Pricing Act and the regulations of this Commission in Case No. 5900 I do not believe that there is any impediment to the plan proposed by Producing Royalties, Incorporated.

We request approval of the Commission to drill a new well to be designated as the Payne No. 2A Well for possible completion in the Pictured Cliffs formation

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and permission, should that occur, to recomplete the present No. 2 Well to the Fruitland formation with appropriate assurance that production from both wells will receive the highest price payable and will not be hindered by application of the New Mexico Natural Gas Pricing Act.

Mr. Examiner, we have people from the company here to testify. I made this opening statement because I think, I am not quite sure why a hearing was requested. As I read the statutes and the regulations concerning the Natural Gas Pricing Act it may be a case where the Commission, in this specific circumstance does not have to grant an exemption from the Natural Gas Pricing Act.

MR. STAMETS: Mr. Campbell, I'm curious about the application myself, in Section 6 of the Act does seem to exempt just this situation. Perhaps there is some question on the part of transporters or operators about the applicability of this and it could be that if we issue an order in this case clarifying what is meant or what we feel is meant by this part of the Act it's something that all operators could cite in the future as an order exempting them without the necessity of coming in to a hearing.

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It certainly seems clear to me that Section 6 provides an exclusion in this particular case.

MR. CAMPBELL: I would hope so, Mr. Examiner. But we were requested to seek administrative hearing on it and we have done that and we would request that--I don't know exactly how the order would be formed. This is basically an attempt to recomplete a well that was drilled after the applicable date of the Act and I don't know how many circumstances will arise which would present the Commission with that set of facts. But we were directed to seek a hearing and if it is a matter of obtaining an exemption rather than these circumstances, presenting an exclusion from the Act, then we are seeking an exemption.

MS. TESCHENDORF: If the Payne No. 2 was drilled in July of '76, did you say?

MR. CAMPBELL: Yes.

MS. TESCHENDORF: Then there was not an established proration unit capable of producing prior to January 1, '75.

MR. CAMPBELL: That would be correct.

MR. RAMEY: Mr. Campbell, has the operator in this case talked to the transporter to see if there

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would be any problem with the transporter?

MR. CAMPBELL: Mr. Ramey, I don't believe we have talked to the purchaser. This lease is committed to, dedicated to Southern Union Gathering Company and I would assume if there is increased production that it will be recognized by the purchaser at new gas prices.

In other words, the purchaser did not direct us to seek an exclusion or exemption.

PAUL L. PAYNE, JR.

the witness herein, having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CAMPBELL:

Q Would you please state your name?

A I'm Paul L. Payne, Jr.

Q Are you employed by or would you state your position with Producing Royalties, Inc.?

A I'm an officer with Producing Royalties, Inc.

Q Have you testified before this Commission, and if so, in what capacity?

A A number of years ago I testified on behalf of Arrow Design Southern Union to not discontinue their pipeline to our gas wells, a number of years ago.

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Q Are you a geologist or are you a management person with the company?

A I'm a management person with the company.

MR. CAMPBELL: Mr. Examiner, we do not anticipate any expert testimony and we would request that Mr. Payne be allowed to testify on the management position of the application.

Q (By Mr. Campbell) Mr. Payne, would you please state when the Payne No. 2 well was spudded?

A The No. 2 Payne Well was spudded on July 22, 1976 and it was completed on August 14, 1976.

Q Who purchases the gas produced from that well?

A Southern Union Gathering Company.

Q Would you explain briefly what you seek to do by this application today?

A We did not know until the Payne No. 2 Well was drilled that there might be a possibility of Fruitland zone producing in the area and since we had planned to drill a Pictured Cliff well with that hole and that's why we completed the well. In the area there are not very many Fruitland wells at this time and none within a mile of us. And the nearest that I can find would be

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almost two miles. If we completed a Fruitland well, we would consider it a wildcat well and we hated to give up a Picture Cliff position on our present well with price and production unless we had the opportunity to drill another well to the Pictured Cliff formation. And if we drilled a second well we may not be able to get Fruitland well, so we wanted to drill another hole through the Pictured Cliff and completed it in the Pictured Cliff, if it's possible, plug the current No. 2 Well in the Pictured Cliff back up to the Fruitland and try to complete a wildcat well in the Fruitland.

Q So both the well that is currently producing and the contemplated new well on the same acreage are, and will be drilled after January 1, 1975, is that correct?

A This is true.

MR. STAMETS: Mr. Campbell, it would appear to me from the testimony that we have at the present time and from reading of Section 6 in the Natural Gas Pricing Act that that Act does not apply to either of the two wells in this case. But let me just make it perfectly clear for the record, were there any wells located in such a way as to be capable of producing from

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northwest quarter of Section 12, Township 20, north, range 12 west, from the Pictured Cliffs formation before January 1, 1975?

MR. PAYNE: Mr. Examiner, may I try to answer that question?

MR. STAMETS: Certainly.

MR. PAYNE: A number of years ago we had Pictured Cliff well in the northwest of the northwest quarter of Section 12 and that well produced for a number of years and finally we cannot get it to produce any longer and we were asked to plug that well several years ago.

That well was plugged approximately two and a half or three years ago and then later the Payne No. 2 well was drilled. Does that answer your question, Mr. Examiner?

MR. STAMETS: When was the well plugged?

MR. PAYNE: I'm sorry I cannot give you that date.

MR. CAMPBELL: Was it plugged prior to the enactment of the Natural Gas Pricing Act?

MR. PAYNE: Yes, it was. Probably a year to a year and a half before that enactment.

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MR. CAMPBELL: Mr. Examiner, we can get that date for you if you would like.

MR. PAYNE: I would be pleased to do so. I have it in the office but I did not bring it with me.

MR. STAMETS: You can supply the Division with a copy of the plugging report and you are confident that will show the proration that was plugged out before January 1, 1975?

MR. PAYNE: Yes.

MR. CAMPBELL: Yes, Mr. Examiner. I believe it was plugged before that date but we will supply the plugging report.

MR. STAMETS: I would also assume since you are collecting a higher price than would be allowed under the Natural Gas Pricing Act that you are confident that the well was plugged and that there was no proration unit capable of producing natural gas prior to January 1, 1975?

MR. CAMPBELL: I am much more confident of that proposition, yes, but we will supply the plugging report.

MR. STAMETS: Under those terms it would appear to me that no exclusion or no reason why this

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Division should justify the drilling of the second well or replacement well because the Act does not apply. Findings to that effect will be made and the case will be dismissed.

MR. CAMPBELL: Thank you, Mr. Examiner.

MR. STAMETS: Witness is excused. Anything further in this case. Case will be taken under advisement.

(WHEREUPON, hearing was concluded.)

* * * * *

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REPORTER'S CERTIFICATE

I, BETTY J. LANPHERE, CSR-RPR with offices in Santa Fe, New Mexico, do hereby certify that the foregoing transcript is a complete and accurate record of said proceedings as the same were recorded by me stenographically and reduced to typewritten transcript by me or under my supervision.

DATED at Santa Fe, New Mexico, this fourth day of May, 1978.

Betty J. Lanphere
Betty J. Lanphere, Court Reporter
chm

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6204 heard by me on 5/18/78
Richard L. Clam, Examiner
New Mexico Oil Conservation Commission

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Case 6204 - Re-opened and re-advertised

June 7th 1975

Application of Producing Royalties, Inc., for
an exemption from the Natural Gas
Pricing Act, San Juan County, N.M.

Applicant in the above styled
cause seeks a determination as to
whether the proration unit consisting
of the NW 1/4 of Section 12, T 29 N, R 12 W,
San Juan County, NM, in which the
Carroll-Cornell Well No. 2 is located
was producing or capable of producing
natural gas prior to January 1, 1975,
^{under the Natural Gas Pricing Act}
^{from the ~~same~~ Pictured Cliffs}
^{applicant} ^{from the Natural Gas Pricing Act}
seeks exemptions for replacement
Pictured Cliffs wells in the same
proration unit pursuant to a
finding that the wells are justified
for reasons other than avoiding
the application of the Natural Gas
Pricing Act.

Application of Producing Payables, Inc.,
for exemption from the Natural Gas Pricing
Act, San Juan County, New Mexico.

Applicant, in the above-styled cause, ~~seeks~~ proposes
~~authority~~ to drill a replacement Pictured
Cliffs gas well in the same ~~quarter~~ production
~~unitization~~ as its Payne Well No 2, that is,
the NW 1/4 of Section 12, Township 29 North,
Range 12 West, San Juan County, New
Mexico, and seeks exemption from the
Natural Gas Pricing Act pursuant to a finding
that the new well is justified for reasons other
than avoiding the application of said act.

ROUGH

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6204

Order No. R-5714

all
APPLICATION OF PRODUCING
ROYALTIES, INC., FOR AN EX-
EMPTION FROM THE NATURAL
GAS PRICING ACT, SAN JUAN
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 7,
19 78, at Santa Fe, New Mexico, before Examiner Daniel S.

Nutter.

NOW, on this _____ day of June, 19 78,

the Division Director, having considered 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 Division has jurisdiction of this cause and the
subject matter thereof.

(2) That the applicant, Producing Royalties, Inc., is the owner of an oil and gas lease comprising, among other lands, the NW/4 of Section 12, Township 29 North, Range 12 West, NMPM, San Juan County, New Mexico.

(3) That said NW/4 of Section 12 was previously dedicated to applicant's Carroll-Cornell Well No. 2, located in Unit D of said Section 12, which well was completed in and produced gas from the Fulcher Kutz-Pictured Cliffs Pool ~~until it was~~ ^{prior to being} disconnected from the pipeline April 17, 1971.

(4) That the applicant plugged and abandoned said well April 14, 1976, and subsequently drilled its Payne Well No. 2, located in Unit F of said Section 12, completing the same as a producing well in the Fulcher Kutz-Pictured Cliffs Pool on August 14, 1976, with the NW/4 of said Section 12 ^{being} ~~dedicated~~ to the well.

U.M.S.A. (5) That ^{1976-1977 Interim Supplement,} Section 65-15-5, ~~NMCA~~ 1953 Comp. ^{being} a portion of the New Mexico Natural Gas Pricing Act of 1977, reads in its entirety as follows:

^{U.M.S.A.} 65-15-5. EXCLUSIONS.

"The provisions of the Natural Gas Pricing Act shall not apply to the production and sale of natural gas in intrastate commerce from a well the drilling or first intrastate sale of which commenced on or after January 1, 1975. However, the Natural Gas Pricing Act shall apply to such a well if it is drilled within an established proration unit which was producing or capable of producing natural gas prior to January 1, 1975 from the same reservoir unless the oil conservation commission exempts such well upon a finding that such new well was justified for reasons other than avoiding the application of the Natural Gas Pricing Act."

(6) That the applicant herein, Producing Royalties, Inc., seeks a determination as to whether the proration unit comprising the NW/4 of Section 12, Township 29 North, Range 12 West, NMPM, San Juan County, New Mexico, on which the aforesaid Carroll-Cornell Well No. 2 ^{plugged and abandoned} ~~is~~ ^{and the Payne Well No. 2 are} located, was producing or capable of producing natural gas from the Fulcher Kutz-Pictured Cliffs Pool prior to January 1, 1975; if so, applicant seeks exemption from the Natural Gas Pricing Act for the aforesaid Payne Well No. 2 and also for another well applicant proposes to drill on the same proration unit.

(7) That the evidence adduced at the hearing of this case establishes that the Carroll-Cornell Well No. 2 was incapable of producing natural gas from the Fulcher Kutz-Pictured Cliffs Pool on December 31, 1974.

(8) That inasmuch as the proration unit dedicated to said Carroll-Cornell Well No. 2, namely the NW/4 of Section 12, Township 29 North, Range 12 West, NMPM, was incapable of production from the Fulcher-Kutz Pictured Cliffs Pool on December 31, 1974, the Payne Well No. 2 was not drilled within an established proration unit which was producing or capable of producing natural gas from the same reservoir immediately prior to January 1, 1975, and the Natural Gas Pricing Act would therefore not apply to said Payne Well No. 2.

(9) That inasmuch as the aforesaid Act does not apply to the said Payne Well No. 2, it follows that a replacement well for the Payne Well No. 2 would not be drilled for the purpose of avoiding the application of the Act.

(10) That the log of the Payne Well No. 2 indicates the presence of a potential gas reservoir in the Fruitland formation in said well, and said Fruitland gas reservoir is not present in other wells in the immediate area.

(11) That the applicant proposes to drill another well to the Pictured Cliffs formation in the NW/4 of Section 12 as a replacement well for the aforesaid Payne Well No. 2, and to

dedicate said 160-acre tract to said well, and to plug the Payne Well No. 2 back to the Fruitland formation and recomplete said well as a Fruitland gas well.

(12) That recompletion of said Payne Well No. 2 as a Fruitland gas well, and completion of a new well as a Pictured Cliffs gas ^{well,} may result in the production of otherwise unrecoverable gas reserves, thereby preventing waste, will not violate correlative rights, and should be approved.

(13) That the Payne Well No. 2 as well as the replacement well for Payne Well No. 2 should both be exempt from the provisions of the Natural Gas Pricing Act.

IT IS THEREFORE ORDERED:

(1) That the Carroll Cornell Well No. 2, located in Unit D of Section 12, Township 29 North, Range 12 West, NMPM, and the gas proration unit comprising the NW/4 of said Section 12, be and the same hereby are declared non-productive and non-capable of producing natural gas from the Fulcher-Kutz-Pictured Cliffs Pool on December 31, 1974.

(2) That the Natural Gas Pricing Act does not apply to the Producing Royalties Inc. Payne Well No. 2, located in Unit F of the aforesaid Section 12, or to any replacement well for said Payne Well No. 2 drilled and completed in the Pictured Cliffs formation in the NW/4 of said Section 12.

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

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