

Oil Conservation Commission
of New Mexico
Santa Fe, New Mexico

Gentlemen:

This will have reference to Case No. 204, Order R-3, and to Order R-6 which granted Amerada Petroleum Corporation rehearing on their application for the establishment of 80-acre proration units in the Knowles Pool, Lea County.

We wish to respectfully point out, that even though we have no material interest in any leases which may produce from the Knowles Pool, we have keen interest in the outcome of the hearing. From rather wide experience obtained from a good many years of drilling for and producing crude oil, qualifies us, we believe, to make the following statements concerning the economics of drilling for and producing deep wells.

The Knowles Pool is producing from the Devonian formation at an approximate depth of 12,500 feet. Our records show that it costs approximately \$294,000 to \$300,000 to drill and equip a flowing well at comparable depths in the Permian Basin, and further that the overall lifting costs on such wells are very high over the producing life of the wells. An operator, at best, will do well to break even on such operation, and will in all probability lose money after deductions are made for royalties, for State and Federal taxes, and for lifting costs. This then would not provide sufficient capital to enable an operator to invest in further exploration, with the result that many deep reserves may never be explored, and there would certainly be no incentive for deep-well exploration. We believe that economics is certainly pertinent to waste in that the leaving of oil in the ground, due to the fact that the cost of drilling and producing the same is economically prohibitive, is certainly waste.

We wish to respectfully call attention to the Commission's past policy, recognizing economics in considering Field Rules. We refer specifically to your findings published under Order 779, issued July 27, 1948, and having reference to

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Practical
80-acre proration units in the Cross Roads Pool. We believe that in a reservoir with pay continuity one well will do as efficient a job of draining 80 acres as will two wells, and that the only difference in ultimate recovery lies in the time element. Under proration one well will recover essentially the same volume of oil, but will require twice the time to accomplish this as two wells. The Commission, therefore, is faced only with the time element, and not with the degree of ultimate recovery. We do, however, appreciate the position of the royalty owner. His economic picture may dictate that he obtain twice his present income, *for a shorter period of time* and this, from his standpoint, is necessary. However, it is not reasonable to expect operators to take an overall ultimate loss to accommodate such royalty owners. *under these conditions.*

be such
We, therefore, respectfully request that you give serious consideration to all factors involved when you act on the Case No. 204, as we feel that the outcome of this hearing is of extreme importance.

Very truly yours,

and prefer to
STANOLIND OIL AND GAS COMPANY

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

PROCEEDINGS

The following matter came on for consideration before a joint hearing of the Oil Conservation Commission of the State of New Mexico, pursuant to legal notice, at Santa Fe, New Mexico, on December 20, 1950, at 11:35 A. M.

NOTICE FOR PUBLICATION
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

The State of New Mexico by its Oil Conservation Commission hereby gives public notice pursuant to law of a public hearing to be held December 20, 1950, at 10:00 A. M., of that day in the City of Santa Fe, New Mexico, at the State Capitol Building.

STATE OF NEW MEXICO TO:

All named parties in the following case, and notice to the public:

CASE 204

In the matter of the hearing called by the Oil Conservation Commission of the State of New Mexico for the purpose of considering:

In the matter of the application of Amerada Petroleum Corporation for the establishment of proration units and uniform spacing of wells in the Knowles Pool in Lea County, New Mexico.

Given under the seal of the Oil Conservation Commission of New Mexico, at Santa Fe, New Mexico, on June 14, 1950.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

/s/ R. R. Spurrier
R. R. Spurrier, Secretary

SEAL

BEFORE:

Honorable Guy Shepard, Chairman
George Graham, Attorney
R. R. Spurrier, Secretary

REGISTER:

R. S. Blymm
Hobbs, New Mexico
For the New Mexico Oil Conservation Commission

Cecil R. Buckles
Tulsa, Oklahoma
For Sinclair Oil & Gas Co.

C. V. Millikan
Tulsa, Oklahoma
For Amerada Petroleum Corporation

Booth Kellough
Tulsa, Oklahoma
For Amerada Petroleum Corporation

R. S. Christie
Fort Worth, Texas
For Amerada Petroleum Corporation

Oliver Seth
Santa Fe, New Mexico
For Amerada Petroleum Corporation

John A. Veeder
Midland, Texas
For Amerada Petroleum Corporation

CHAIRMAN SHEPHARD: Will the meeting please come to order.

(Mr. Graham read Notice of Publication.)

MR. KELLOUGH: I am Booth Kellough. I represent Amerada Petroleum Corporation. On behalf of the Amerada Petroleum Corporation, we ask the Commission for an extension or continuance of the present effective Order according to its present provisions, with one exception, which is that the paragraph providing for the allowable be changed so as to permit Amerada Petroleum Corporation to increase the allowable not to exceed double the allowable which would be applicable to a 40 acre unit with the deep pool adaptation. In that connection, I would like to ask Mr. C. V. Millikan, Chief Petroleum Engineer for Amerada Petroleum Corporation, to make a recommendation and give his opinion to the Commission in connection with the allowable increase.

(Mr. Millikan was then sworn.)

MR. MILLIKAN: If the Commission please, our reason for asking for that particular

provision be omitted from the permanent Order, which has been requested, is that we have had much better performance in this reservoir than we had expected, and we did expect good performance. The pool has produced, up to the first of this month, approximately 435,000 barrels of oil with decline in reservoir pressure of only 30 pounds. In view of this good performance, we believe that the current allocation to the pool can be substantially increased with no detriment whatever to the reservoir. I recommend that the allowable be increased to at least one and one half times the current allowable which is the allowable for a 40 acre spacing with deep well adaptation. In view of the 80 acre spacing, it would appear reasonable to ask for a double.....increase to double the current allowable. As a whole, I believe that this would cause no detriment to the reservoir. The only fear that we have is that the Hamilton No. 1 Well is currently making 11% water and we are somewhat concerned that too great an increase might be detrimental to this well. We are, however, quite agreeable to increasing the allowable up to double the current allowable and if there should be an indication on this particular well, or on other wells, of detrimental effect, we would so advise the Commission. In view of the conditions in the reservoir, it is suggested that the Commission consider one and 3/4ths times the current allowable to be effective January 1, 1951.

CHAIRMAN SHEPHARD: Any questions? Anybody have anything to say?

MR. KELLOUGH: So that there may be no misunderstanding as to Amerada Petroleum Corporation, we are asking the Commission for a permanent Order without time limitation, extending time on present Order with the exception of the allowable as recommended.

CHAIRMAN SHEPHARD: We will go ahead and grant this Order and just hold jurisdiction so that at any time we want to we can re-open it. At this time we will grant the Order.

MR. KELLOUGH: I assumed the Commission had that authority.

MR. SPURRIER: Right.

CHAIRMAN SHEPHARD: If there is nothing further, the meeting is adjourned.

C E R T I F I C A T E

I HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Commission of New Mexico, in Santa Fe, New Mexico, on December 20, 1950, at 11:35 A. M., is a true record of such proceedings to the best of my knowledge, skill, and ability.

DATED at Santa Fe, New Mexico, this 21st day of December, 1950.

Imogene Enckes
Reporter

Edward W. Oil Con. Comm.	San Antonio
G. H. GRAY	Sinclair Oil & Gas Co. Midland
Sam R. Buckles, Atty. General	El Paso Co. El Paso, Tex.
Mr. Ralph Fitting Jr.	Midland
W. R. Childers	Hobbs
W. R. Childers	Hobbs, Tex.
R. V. Fitting Jr.	Midland, Texas
A. M. Rose	Hobbs, N. M.

7:05 PM, Dr. Matry.