

(Mr. Graham reads notice of publication.)

Mr. KELLOUGH: My name is Booth Killough, and I represent Amerada Petroleum Corporation. Mr. Justin Reid of the firm of Seth and Montgomery appears with us and is here also representing Amerada. Mr. Reid filed on behalf of Amerada an application with the Commissioner of the Land office for approval of the unit agreement between the Amerada and the Gulf, and simultaneously filed an application with this Commission for approval of the same agreement.

I would like to first offer in evidence the documentary evidence which we have involved in this hearing. We first offer in evidence by reference to the records in the Land Commissioner's office the oil and gas lease designated No. E-1021, dated October 10, 1946, from the State of New Mexico to Morgan G. Smith, and the various assignments -- there are several of them -- into Amerada, covering the NESE of Sec. 34, T. 11S-R. 33E. That is the 40 acres, the north 40 acres, of the 80-acre unit involved, which is owned by Amerada. We further wish to offer in evidence by reference to the records in the Land Office the oil and gas lease from the State of New Mexico to the Gulf Oil Corporation, which covers, among other lands, the SESE of Sec. 34, T. 11S-R. 33E. Under both of these leases the records, the public records, show that the state owns 100 per cent royalty. We wish to offer in evidence,

by reference, the leases and assignments referred to. For identification, Amerada's lease, covering the NESE, we will refer to as Applicant's Exhibit 1, and the Gulf lease as Exhibit 2.

Now as Applicant's Exhibit 3, we wish to -- we offer in evidence an executed copy of the unit agreement. We have three executed copies of the unit agreement, executed by Gulf and Amerada, and wish to offer one in evidence with the privilege we may withdraw the original document and substitute a copy here so that we may file these three originals in the Land Office.

MR. SPURRIER: Very well.

MR. KELLOUGH: As Exhibit 4, we offer in evidence the operating contract between Amerada and Gulf, covering the E $\frac{1}{2}$ SE Sec. 34, T. 11S-R. 33E. And in this instance also, since this is our only copy, we would like the privilege of substituting a photostatic copy of the operating contract.

As Exhibit 5, we offer in evidence a copy of order No. R-69, Case 249, which is a temporary 80-acre spacing order, entered for the Devonian formation in this Bagley pool.

I wish to make it clear at this time that the issue of whether or not the 80-acre spacing should -- spacing order -- should be continued is not in any manner, shape or form involved in this hearing. If the 80-acre order is extended, then the pooling of these two 40's would be necessary to

form the 80-acre unit. On the other hand, if it isn't, the lease owner will be under the same obligation as any other lease owner in the field to drill at the same density; and it will, in effect, simply establish this 80-acre tract as one 80-acre lease. So, whatever may be the spacing, whether 40, 80 or 10, it will apply equally to this tract in the same manner as all other tracts.

I wish to further point out at this time that the unit agreement offered in evidence clearly shows on its face that this an application to pool all formations, the Pennsylvanian as well as the Devonian.

Mr. Christie, will you please take the stand?

R. S. CHRISTIE, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. KELLOUGH:

Q Will you please state your name?

A R. S. Christie.

Q You are a petroleum engineer for Amerada Petroleum Corporation?

A Yes, sir.

Q And you have been previously -- you have previously testified before this Commission in your capacity as petroleum engineer and expert witness.

A Yes, sir, I have.

MR. KELLOUGH: Are his qualifications acceptable?

MR. SPURRIER: They are.

Q Mr. Christie, I hand you what has been identified as Applicant's Exhibit 6, and ask you to state what that exhibit shows?

A Exhibit No. 6 locates the Bagley-Siluro-Devonian field, and the Bagley-Pennsylvanian field, and also the Hightower-Devonian field, and the Hightower-Pennsylvanian field. It also shows the proposed unit that is sought in this application, which is designated by being encircled in red; which is the NESE and the SESE, Sec. 34, T. 11S-R. 33E.

Q Now, the Hightower-Devonian pool is not in any manner involved in this proceeding?

A No, sir.

Q As far as this hearing is concerned, the map could be just cut into in the middle?

A Yes, sir. The map also shows the fields separated by different designations. In other words, the legend at the bottom indicates the Pennsylvanian wells to be two circles while the Siluro-Devonian wells are a small dot.

Q The map then shows all the Pennsylvanian and Devonian wells in the Bagley field, isn't that right?

A That is correct.

Q The unit agreement for which we are asking approval applies to all formations, doesn't it?

A Yes, sir.

MR. KELLOUGH: We offer in evidence Exhibit 6.

MR. SPURRIER: Without objection, these exhibits, one to six, will be accepted.

Q Mr. Christie, referring to Exhibit No. 7, will you please state to the Commission what that shows?

A Exhibit No. 7 is a structure map, contoured on top of the Devonian formation. The contour interval is 50 ft.

Q This map shows and includes the land involved in this application?

A Yes, sir. It is a contour on top of the Devonian in the Bagley field, which includes this unit in question.

Q As far as the Devonian formation is concerned, is the E $\frac{1}{2}$ of the SE of Sec. 34 involved in this application within the probable productive limits of the pool?

A Yes, it is.

Q In other words, all of this 80 acres is within the probable productive limits?

A Yes, sir.

Q What is the relative structure relation between the two 40's involved?

A There is very little difference in the structural relationship.

Q Mr. Christie, can you state that this structure map is a true and correct representation of the Devonian formation?

A Yes, I believe it is.

MR. KELLOUGH: We offer in evidence Exhibit 7.

MR. SPURRIER: Without objection, it will be received.

Q Mr. Christie, in your opinion, will the unit agreement proposed tend to promote the conservation of oil and gas?

A Yes, I believe it will.

Q Will you please explain your reason for your conclusion?

A Well, in the first place, if the present Bagley order is extended, then the one well to the unit will be necessary, and it will save considerable material over and above of what would be required if each company had to drill a well on the 40.

Q On the other hand, if the 80-acre unit is not continued, then what will be the benefit of the unit from a conservation point of view?

A Well, there will be less material required under unit operation regardless of the density than there would be if the unit were not formed. For example, it will take just one tank battery for the unit, whereas if drilled separately it would take two. And of course, the more tank batteries you have, the more above-ground waste you have. In addition to the savings of material you would have some above-ground waste.

Q Then there is nothing in the unit proposal which would prevent the operators from drilling the same number of wells as would be required by anybody else in the Bagley pool?

A That is correct. We are obligated under the terms of the agreement to develop the unit as if it were a separate unit in the field. In other words, if the 80-acre unit is not continued,

spacing is not continued, there is nothing in this agreement that would prevent us from developing the area to the same density as the rest of the operators in the field.

Q In other words, then -- to make it clear -- if the 80-acre order should be continued, then this pooling agreement would save the drilling of a useless and unnecessary well, is that right?

A Yes, sir.

Q On the other hand, if the 80-acre order is not continued and the pool is developed on 40 acres, then the approval of this unit would result in a saving of material, such as separate tankage and so forth, is that right?

A That is correct, yes, sir.

Q Now, Mr. Christie, under the unit agreement, in your opinion, will the state receive its fair share of the recoverable oil and gas in place under the lands in the area affected?

A Yes, sir, I think they will. Inasmuch as the allowable here is based on straight acreage, and this tract will be drilled to the same density as the other tracts in the field, regardless what the density might be, then the state will receive its fair share of the oil and gas produced therefrom.

Q In other words, whatever may be the spacing in the pool, this 80-acre tract will be subject to the same spacing?

A Yes, sir.

Q And if wells are drilled to the same density on this 80 acres as on any other 80 in the field, then will the State get

its fair share of the royalty?

A Yes.

Q Now, Mr. Christie, in your opinion, is the agreement in other respects for the best interests of the state?

A Well, yes, I think it is, because the reason -- by reason of the fact that we have this unit agreement the state will at least be assured of a well and very quickly. Otherwise, it might be sometime before there was a well drilled on either of the tracts, and it may be possible there wouldn't be a well drilled on either. But under the agreement there assuredly will.

Q This agreement definitely provides for the drilling of a well at what location on the map? Refer, please, to Exhibit No. 6.

A On Exhibit 6 the location of the proposed well on the unit is in the center of the SESE of 34-11S-33E. I think it might be said also that since there is going to be a saving in material by reason of this unit operation, it will provide additional material for other development in other parts of the county or state, and in that respect I think the state would also benefit.

MR. KELLOUGH: That is all, Mr. Christie.

Under authority of Chapter 88, Sections 1,2 and 3 of the laws of 1943 as amended, which appears as Title 8, Sec. 1138, 39 and 40 under the 1941 statutes, we request and respectfully

ask this Commission to approve this unit agreement.

MR. SPURRIER: IS there any further question of this witness? Mr. Graham.

MR. GRAHAM: Mr. Christie, if the general policy of the Commission and the Land Office tended to uphold the idea of the basic lease -- you have two leases involved -- what is your idea of that?

A I don't believe that is an engineering question. I think probably our attorney might be able to answer that.

MR. KELLOUGH: Mr. Graham, I wish you would repeat the question. I don't quite understand. I might say this by way of explanation. The well will be on the Gulf 40, which is the south 40. The Amerada 40 is the north 40. And our lease at this time has no well on any other part. It does cover other acreage, but the termination, the primary term of which expires in 1956. Now, it is our view, as a matter of law, that the well on the unit, under the law, will hold all the leases within the unit, subject, of course, to the same implied covenants for future development as any other lease. The effect simply converts it into one 80-acre oil and gas lease.

MR. GRAHAM: Did I understand you to say those 40-acre assignments are from the same basic lease? The Gulf 40 --

MR. KELLOUGH: -- The Gulf lease, as I understand is direct from the state to the Gulf Oil Corporation. The Amerada lease is from the state to Morgan G. Smith, which covers this tract and other lands. Morgan G. Smith has then

assigned three 40's, contiguous 40's, including this tract.

MR. GRAHAM: But there are two basic leases involved.

MR. KELLOUGH: There are two basic leases involved.

That's right. And the state being the owner of each one 100 per cent.

MR. GRAHAM: The only theory on which the Commissioner can consolidate the two leases is under authority of part of Chapter 88 there.

MR. KELLOUGH: The authority on which we are relying is the one which I read into the record.

MR. GRAHAM: To unitize a pool or any part.

MR. KELLOUGH: That's right.

MR. GRAHAM: You have offered no geological information to show there is a pool under this.

MR. KELLOUGH: Yes, sir. We have offered -- it is part of another pool. I beg your pardon. We have offered our geological evidence to show that the Bagley-Devonian -- the structure map shows -- that the Bagley-Devonian formation is a pool of which this is a part.

MR. GRAHAM: Do you have any information as to the institutional ownership?

MR. KELLOUGH: As to the state royalty? No, sir. I do not know. Both leases are from the State of New Mexico, and that is all I know about it.

MR. GRAHAM: The Land Office in this case has committed

itself that it would not approve or disapprove the application presented to it until after a hearing before this body.

MR. KELLOUGH: I understand that is right.

MR. GRAHAM: Now, certainly the Commissioner would not approve a situation where there is two institutional leases or ownerships involved because it would violate the accounting practices of the office.

MR. KELLOUGH: Well, it would appear --

MR. GRAHAM: -- each institution would ~~not~~ get its fair share.

MR. KELLOUGH: Well, the royalty from the production from the 80-acre unit would be apportioned equally between the two tracts. So that the state as lessee, whether it was separate departments or not, would each receive the same royalty as if there was a well on the tract. As between the two, it may present an accounting problem; but as between the two state institutions there would certainly be no inequity as to what they would receive. They would participate in the production the same as Amerada or Gulf.

MR. GRAHAM: The Land Office has always resisted the confusion of institutional royalties.

MR. KELLOUGH: Well, I would like to suggest --

MR. GRAHAM: -- in other words, each is supposed to get its absolute share. If there are two institutions involved, I would suggest that the tract books of the Land Office be consulted and a statement made to the Commission as to this

institutional ownership.

MR. KELLOUGH: We would be very glad to do that. But I wish to make it plain as far as we are concerned it is our opinion under this agreement inasmuch as you have two 40-acre tracts, and an equal division of royalty, that there could be no inequity resulting from one institution to the other institution. They would get the same amount of royalty as if they had two wells with half the allowable of a pool. There is no disproportionate apportionment of the royalty between either of the institutions. If it requires a little extra accounting procedure, it would appear, and we would like to suggest to the Commission, that the interest of savings in materials and of conservation to get the well drilled and to create this unit, would seem to far overshadow a little extra bookkeeping in dividing the royalty between two state institutions. Certainly it has been done before. But we will be very glad to examine the records in the Land Office and advise the Commission here as to whether or not there is separate departments. I don't know, actually.

MR. SPURRIER: Is there any further question of the witness? If not, the witness may be excused. Do you have any other witnesses?

MR. KELLOUGH: No, sir.

MR. SPURRIER: Mr. Campbell.

MR. CAMPBELL: If the Commission please, Jack M. Campbell, Roswell, N. M., appearing on behalf of the Gulf Oil Corporation.

Guld being a party to the unit agreement and operating agreement which has been submitted in the record here, wishes to concur in the application of Amerada for the approval of this 80-acre unit agreement. It concurs in the statements made by the witness on behalf of Amerada.

MR. GRAHAM: Mr. Campbell, will you yield to a question?

MR. CAMPBELL: Yes, sir.

MR. GRAHAM: You are aware of the position of the State Land Office in the matter of perpetuation of a state lease?

MR. CAMPBELL: I am aware what the law is and how that perpetuates it, yes, sir.

MR. GRAHAM: And in the case of unitization only the land out of a lease within the unit generally is consolidated and perpetuated.

MR. CAMPBELL: That must be the policy of the Commissioner. That is not what the law provides.

MR. GRAHAM: Now, did you have in mind the approving under that of lands under the Gulf lease outside the lease?

MR. CAMPBELL: Proving them as productive?

MR. GRAHAM: Perpetuating them as productive.

MR. CAMPBELL: I think that is a question that will have to be determined apart from this hearing. I think that is what the law provides. I don't know that the question has ever been determined as a matter of interpretation of the law. I know it is the way the Commissioner presently uses it. And it is

something that will have to be ultimately determined in this situation or some other perhaps.

MR. GRAHAM: That possibility doesn't have any bearing on your decision to unitize this --

MR. CAMPBELL: -- the possibility that the land office may take the position it doesn't perpetuate the balance of the lease?

MR. GRAHAM: Yes, sir.

MR. CAMPBELL: No, it wouldn't have any --

MR. GRAHAM: -- no bearing on that matter?

MR. CAMPBELL: No, not on this application.

MR. GRAHAM: No further questions.

MR. SPURRIER: We will take the case under advisement and proceed to the twelfth case on the docket, Case 349.


STATE OF NEW MEXICO:

ss

COUNTY OF BERNALILLO

I HEREBY CERTIFY That the foregoing transcript is a true is a true record of the matters therein contained.

DONE at Albuquerque, N. M., March 21, 1952.



Notary Public

My Commission Expires: 8-4-52