

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

TRANSCRIPT OF HEARING

Cases No. 631
632 and 633

(Consolidated)

January 20, 1954
Regular Hearing

BEFORE THE
OIL CONSERVATION COMMISSION
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In the Matter of:

Continental's application for approval of
160 acre unorthodox gas proration unit in
Jalco Gas Pool; W/2 SE/4 and E/2 SW/4 of
19-25S-37E.

Cases No. 631
632 and 633

Continental's application for approval of
160 acre unorthodox gas proration unit in
Jalco Gas Pool: W/2 W/2 19-25S-37E.

(Consolidated)

Continental's application for approval of
160 acre unorthodox gas proration unit in
Eumont Gas Pool: E/2 SW/4 and Lots 11 and
14 of 4-21S-36E.

(Notice of Publication read by Mr. Graham).

MR. KELLAHIN: If the Commission please, Jason Kellahin,
representing Continental Oil Company, we have three cases which are
similar in nature. They are applications for unorthodox drilling
units, unorthodox production units for gas production. 631, 632 and
633, and I suggest they be consolidated for purposes of hearing and - -

MR. JOHN F. RUSSELL: Mr. Russell, Roswell, representing
Texas Pacific Coal and Oil Company. We would like to object to the
consideration by the Commission of any testimony on Case 631 or 632
at this time, for the reason that the rehearing is scheduled for
tomorrow on the proration order. I feel that it is our position
that the order is suspended pending the rehearing. Therefore, any-
thing considered at this time would not be proper.

MR. KELLAHIN: It is my understanding that the order was not

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suspended and it is competent for the Commission to go ahead as if the order were in full force and effect until it rules on the rehearing.

MR. SPURRIER: You may proceed, Mr. Kellahin.

MR. RUSSELL: My objection has been over-ruled?

MR. SPURRIER: Yes, sir.

MR. KELLAHIN: I would like to call Mr. Homer Dailey as a witness.

H O M E R D A I L E Y

having been duly sworn, testifies further as follows:

DIRECT EXAMINATION

By MR. KELLAHIN:

Q Would you state your name, please?

A Homer Dailey.

Q By whom are you employed?

A Continental Oil Company.

Q What capacity?

A Regional Engineer.

MR. KELLAHIN: Are the witness's qualifications acceptable in these three cases?

MR. SPURRIER: They are.

Q Mr. Dailey, have you prepared plats of the proposed unit in Case 361, which covers the west half of ^{the} southeast quarter and the east half of the southwest quarter Section 19, Township 25 South, Range 37 East, being the Sholes B-19 Well No. 1, in the Jalco Pool?

A I have.

Q Do you have that with you?

Q Mr. Dailey, does the plat reveal the ownership of the area involved in this hearing?

A It does.

Q Does it show the proposed unit requested by Continental?

A The proposed unit is outlined in red and the well on the unit is circled in red.

Q Will you describe the ownership, please?

A Around the well?

Q Around the well, yes, sir.

A In Section 19 the Continental Oil Company has all but the east half of the east half; the east half of the northeast quarter is owned by the Leonard Oil Company. The east half of the southwest quarter is owned by R. Olsen. Both of these two 80 acre tracts have gas wells on them. The Sholes B-19 No. 1 Well, which is located 660 feet from the south and 1980 feet from the west lines of Section 19, Township 25 South, Range 37 East, was completed in March of 1941, at a total depth of 2945 feet for an initial potential of twelve million cubic feet of gas per day. The pay in the well is from 2850 to 2945 and is in the Yates Formation. The well, or rather the unit is within the limits of the Jalco Gas Pool.

Q Is part of that land part of the unit previously approved by the United States Geological Survey, Mr. Dailey?

A That is in Case 632?

Q I am referring to the west half of the southwest quarter, wasn't that approved as a part of a unit?

A The west half, yes.

Q Were the offset operators contacted in regard to this case?

A They were notified that we were having this case.

Q In your opinion, Mr. Dailey, does that form a reasonable unit for the production of gas which will effectively protect the correlative rights of other operators?

A It does.

Q Is there any other well on the proposed unit which has been suggested by Continental Oil Company?

A No.

MR. KELLAHIN: That is all. We ask the introduction in evidence of the plat, Exhibit No. 1, in Case 361.

MR. SPURRIER: Is there any objection?

MR. CAMPBELL: I would like to see it. I have nothing.

MR. SPURRIER: Without objection it will be admitted.

MR. KELLAHIN: Mr. Dailey, have you prepared a plat showing the ownership and the well location in Case 632, which covers the Sholes B-19 No. 1 well?

A I have.

MR. KELLAHIN: The unit to consist of the west half of the west half of Section 19, Township 25 South, Range 37 East, Lea County, New Mexico, in the Jalco Pool?

A I have.

MR. STANLEY: Could we have a copy of the Exhibits put on the board?

MR. KELLAHIN: They are quite small, I don't believe you could see them. We could put them up.

(Questions by MR. DEANLEY)

Q What does the plat reflect that you have prepared?

A I have a plat here which is similar to the one submitted in the previous case, in which the proposed unit to consist of the west half of the west half of Section 19, Township 25 South, Range 37 East, is outlined in red and the well on the unit is circled in red.

Q Would you point it out on the plat up there so they can see?

(Witness complies)

Q What is the lease ownership adjacent to that location?

A To the west in Section 24, Township 25 South, Range 36 East the Continental Oil Company has its Sholes A 24 lease, which consists of the east half of the east half of Section 24. To the north is the R. Love-Ross lease, which consists of the southwest quarter of Section 18, Township 25 South, Range 37 East. To the east of the proposed unit is the Continental Sholes B-19 lease, which consists of the west half of the east half and the east half of the west half of Section 19, Township 25 South, Range 37 East. To the south of the proposed unit is the Continental Sholes B-30 lease, which consists in part of the northwest quarter of Section 30, Township 25 South, Range 37 East. The remainder of the northwest quarter of Section 30 is the Olsen-Winningham lease.

Q Were the offset operators notified of this hearing by the applicant, Mr. Dailey?

A They were.

Q Has this acreage which is proposed to be included within the unit been pooled with the approval of the United States Geological Survey?

A That is correct. Originally the 120 acres, the north 120 acres of this lease for what we termed our Sholes A-19 lease, the south 40 acres was a portion of the Sholes B-19 lease. I don't have the exact date when the communitization was made, but we communitized the 40 acres of the B lease with the 120 acres of the A lease to make a 160 acre tract. This was done several years ago, I don't know the exact date.

Q Has that been operated as a unit for production purposes for a number of years?

A For several years, I don't know just how many.

Q Do you know anything about the completion date of that well?

A Yes. This well was originally drilled as the Sholes A-19 No. 1, and if I remember correctly was originally drilled by the Marlin Oil Company, predecessor of the Continental Oil Company. It was drilled in 1928 and completed at a total depth of 3,030 feet for initial potential of seventy million cubic feet of gas per day. The well has been producing since sometime in the early thirties.

Q Is this proposed unit adjacent to the one we discussed in Case 631, Mr. Dailey?

A It is.

Q Is it immediately contiguous to that proposed unit?

A It is.

Q Where, at the south end?

A At the south end.

Q In your opinion would approval of the proposed unit result in a reasonable production unit and protect the correlative rights of other operators within the area?

A I believe so.

Q What pool was that located in, Mr. Dailey?

A That is in the Jalco Gas Pool.

Q Is there any other producing gas well located within the proposed unit?

A No.

MR. KELLAHIN : That is all.

MR. SPURRIER: Anyone have a question of the witness?

(Questions by Mr. Kellahin:)

Q Mr. Dailey, have you prepared a plat showing the lease ownership and location of the proposed unit in the Case 633, which covers the Meyer B-4 Well, No. 6, in the Eumont Pool?

A I have.

Q The proposed unit consisting of the east half, southwest quarter and lots 11 and 14 of Section 4, Township 32, South, Range 12, East.

A I have.

MR. KELLAHIN: We offer in evidence Exhibit No. 2 in Case 632.

MR. SPURRIER: Any objections? If not, it will be admitted.

(Continental Oil Company's Exhibit
No. 3, Case 633, Marked for
Identification)

Q Will you describe the ownership in regard to the Meyer B-4 Well, No. 6?

A This plat is prepared very similar to the other two plats, in that the proposed unit is outlined in red and the producing well is encircled with red.

Q Yes.

A The Continental-Meyer B-4 lease consists of all of Section 4, with the exception of a strip a quarter of a mile wide along the west side, which was operated by Gulf. It should be noted that the section is along the correction line between Townships 20 and 21, and is approximately a mile and a half long instead of the regular mile.

To the south of the proposed unit the Continental-Meyer B-9 lease consists of the east half of the west half of Section 9, Township 21 South, Range 36 East. The remainder of the west half of Section 9 being operated by the Gulf Company.

Q Was the offset operator in this case notified?

A They were.

Q Would you give the information on the completion data on the well involved in this case?

A The Meyer B-4 No. 6 Well was completed in 1936 as an oil well from the Grayburg Formation and as a Braden Head gas well, between the five and one-half and seven and five-eighths inch casing. The seven and five-eighths inch casing was set at 2582, which is through the salt section and above the Yates. This string of casing was cemented with 900 sacks of cement. The five and one-half inch casing was set at 3782 and was cemented with 150 sacks. We believe the gas coming from this Braden Head is coming from the Queen Horizon.

Q Do you have a log of the well?

A I have a sample log of the well.

(Continental Oil Company's Exhibit No. 4, Case No. 633, Marked for Identification)

A The color code on this, the purple, stands for anhydrite; the

blue for dolomite; the yellow for sand, and the black for shale. The portions with the ink checks between 2400 and 2550 represent salt. In addition we have an Exhibit showing the way the well is completed, a sketch.

(Continental Oil Company's Exhibit No. 5, Case No. 633, Marked for Identification)

A The well has been producing gas practically ever since its completion. At the time it was completed the gas was chiefly used as drilling fuel on the lease. Since that time it has been used for gas lift purposes on the lease.

Q What is the royalty ownership on the Continental lease?

A It is federal acreage.

Q What is it on the Gulf lease?

A State.

Q In your opinion will the approval of this proposed unorthodox unit result in a reasonable unit and protect the correlative rights of other operators?

A It will.

Q What pool is this located in?

A Eumont.

Q Is there any other producing gas well on the proposed unit?

A There is not. The only other gas well on the lease is the well No. 14, which is in Lot 7 of the section.

Q Would the fact that this is a Braden Head completion complicate the problems in connection with pooling or communitization with other tracts, Mr. Dailey, in your opinion?

A It would. I believe most of these older wells which are

either Braden Head or duly completed, are going to be a considerable problem to work out the equities.

MR. KELLAHIN: That is all.

MR. SPURRIER: Are there any questions of the witness?

MR. CAMPBELL: Jack Campbell, Roswell, New Mexico. I would like to ask a few questions on behalf of Gulf Oil Corporation.

(Questions by Mr. Campbell)

Q First may I ask you, Mr. Dailey, what zone is this well completed in?

A We believe it to be completed in the Queen.

Q Producing from the Queen?

A The gas, yes.

Q Are you in the Eumont Pool, gas pool?

A Yes.

Q Mr. Dailey, Gulf, as you have stated, owns the ^{four}/40 acre tracts joining the proposed unit on the west, does it not?

A That is right.

Q In the event any of the wells located there are recompleted as gas wells would Continental have any objection to Gulf's seeking an unorthodox gas proration unit consisting of those four 40 acre tracts?

A We would not.

Q Mr. Dailey, if that were done isn't it true that the result, so far as the unit pattern is concerned, would confine your two units to two governmental quarter sections, without the necessity and the complications of a communitization agreement?

A That is right.

MR. CAMPBELL: That is all.

MR. HINKLE: Clarence Hinkle, representing Humble Oil and Refining Company. I would like to go back to Case 631 and 632 and ask Mr. Dailey a question or two.

(Questions by Mr. Hinkle)

Q Mr. Dailey, in connection with your testimony concerning Cases 631 and 632, did you testify as to the location of the wells?

A The footage location?

Q No, the location of the wells on those units that you seek to form, are there wells at the present time on those units?

A Oh, I see what you mean. Yes, there is testimony on that.

Q Where is the well located that is on the unit, proposed unit 631?

A It is in the southwest corner of the unit. However, it is 660 feet from the edges of the line.

Q That would be on the southwest quarter of Section 19, would it not?

A It is 1980 from the west and 660 from the south of the section.

Q Which would throw it in the southwest quarter, of Section 19. Now, where is the well located in connection with the proposed unit in Case No. 632?

A There is a little question in there as to the exact footage location of that well. According to the surveyor that staked it the well is 330 feet south of the west quarter corner of Section 19, and 330 feet east of the west line.

Q Would that throw it within the southwest quarter of Section 19?

A It would.

Q That means that both of the wells are located, in connection

with these proposed units 631 and 632, on the southwest quarter of Section 19, does it not?

A That is correct.

Q Are you asking for two allowables on those wells?

A We are.

Q They are both within the standard unit?

A That is correct.

Q Otherwise the southwest quarter would be the standard unit, your two wells on it, and you are asking for two allotments?

A That is correct.

MR. HINKLE: That is all.

MR. SPURRIER: Anyone else?

MR. FOSTER: I don't have any questions to ask the witness, but I do want to make a statement about the application.

MR. KELLAHIN: I have a few more questions.

(Questions by Mr. Kellahin)

Q Mr. Dailey, in connection with the questions asked by Mr. Hinkle, what would be the situation to the north of these proposed units, is there an 80 acres which could be communitized with another 80 in that area?

A I don't see just exactly - -

Q The north 80 acres of the 19 unit, with approval of this unit, would that remove the necessity for drilling another well?

A I believe so.

Q Isn't it true, Mr. Dailey, that you have two producing gas wells to which you can allocate these 60 acre units without the necessity of drilling another well?

A That is right.

MR. KELLAHIN: That is all. We offer in evidence Exhibits 3, 4, and 5 in connection with Case 633.

MR. SPURRIER: Is there any objection? Without objection they will be admitted. Are there any further questions of the witness? If not the witness may be excused.

(Witness excused)

MR. FOSTER: Mr. Chairman: I want to state Phillips Petroleum Company's position regarding the present rule in these various gas pools, and the interpretation apparently which the Commission places on these rules. As we read the rule the gas proration unit, standard and non-standard, is defined as land lying wholly within a legal quarter section. The only difference between a standard and non-standard unit is in size of the unit. The location is the same. Rule Two requires the unit to be within a legal quarter section. Then Rule Seven-A contains the further provision saying that after notice and hearing the Commission may permit the establishment of the unit other than a legal quarter section. Now, it is with this provision that we are in disagreement, this last provision. We have no objections to the Commission defining a proration unit as consisting of 160 acres or less or more, located wholly within a legal quarter section. But we do take the position that the Commission is without any jurisdiction or authority to permit a collateral attack upon that rule which does establish proration units as consisting of legal quarter sections. Now, I noticed here in Case 631 that 80 acres of this proposed unit is located in one quarter section and 80 acres is located in another

quarter section. Now, the Commission has indicated, as I understand it, that they would probably permit the formation of a unit, part of the land which would be in one quarter section and part in another quarter section within the same section, but would not permit the formation of such a unit if part of the land was in one section and part in another section. But be that as it may, we are interested and we think it is our duty to call the matter to the attention of the Commission. We don't care which way you write the rule just so you will write it so we know what it is. You define a proration unit one way and turn right around and define it another way. I don't know whether this Commission is regarding the provision in the rule which permits the establishment of proration units other than legal quarter sections as exemptions to the rule, or whether they regard it as the rule itself, but if you, you are treating it apparently in these hearings as a part of the rule itself. The provisions are just simply contradictory. It permits this Commission to just either grant or withhold the establishment of one of these unorthodox units for no reason at all, and we think the Commission ought to be bound by a rule one way or the other. We don't care how you define it as long as you define it.

I don't want my statement to be taken here as a direct objection to the application of Continental, to form these units, insofar as the land may be in different quarter sections within the same section or within different quarter sections in different sections. But we do make the point that the Commission should and that it is now without any jurisdiction to permit a collateral attack to be made on these rules. We think you can write a rule and we think you should write a

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rule properly defining a proration unit. Then if you want an exemption to the defined proration unit which would be based on the prevention of waste or the confiscation of a producer's property, well, then, just say so, but you certainly haven't done it in this rule. That is our position about the matter and later on in this hearing, today or tomorrow in these other hearings, we proposed to introduce some testimony and some exhibits which will illustrate our position.

MR. CAMPBELL: Before the debate gets started may I make a statement in Case 633 only?

MR. SPURRIER: Yes, sir.

MR. CAMPBELL: Campbell, for Gulf Oil Corporation. I wish to state that Gulf supports the application of Continental Oil Company in Case No. 633. We feel that the rules which can be accomplished if this application is granted will be what the Commission had undertaken to do without the cumbersome procedure and the complications that arise out of unnecessary communitization agreements. As a matter of fact there isn't very much reason for anyone to communitize where wells are already drilled, since all the allowable he will get will be his acreage anyway, and where communitization agreements can be avoided in a matter of this kind we feel that the Commission, to avoid even greater problems than are facing them, should consider these applications favorably.

MR. HINKLE: Mr. Hinkle, representing Humble Oil Refining Company. The Humble Company has no acreage that is directly effected by these cases under consideration, 631, 632 and 633, but it has acreage in the field, at least in the Jalco Eumont Fields, which would be indirectly effected, and the Humble wishes to go on record as a

matter of policy as being opposed to the granting of any unorthodox unit outside of the regular quarter section. The reason for that is set forth in the last hearing and we believe that the Commission is without jurisdiction to grant any unorthodox unit outside of a regular quarter section.

MR. SPURRIER: Mr. Kellahin?

MR. KELLAHIN: If the Commission please it is the Continental's interpretation of the rule that there is a provision made for the application that we have filed here under Rule 6, provided, however, that "a gas proration unit other than a legal quarter section may be formed after notice and hearing by the Commission." I have great respect for Judge Foster's ability and his interpretation, and I think it is a serious question to the position; I think it should be studied. If our interpretation is not a correct one we think that ^{should} the order/be changed so that the unit can be formed for the reasons stated by Mr. Campbell. The situation is that we have over here wells that have been producing for many, many years. They have established equities which would be very difficult to determine if we were forced into a communitization of each governmental quarter section. Now, Continental, in its application, has notified all of the offset operators. There has been no objection voiced here from any of the offset operators, and we do not believe that any of them would be left without acreage with which they could pool or communitize, and none of them would be adversely effected. In many instances, unless the Commission sees fit to approve the type of unorthodox unit for which we are applying, it would result in the drilling of unnecessary wells, which in my opinion would certainly constitute waste.

The operators have been producing these wells over a period of many years. As you know we have had a form of pipeline prorationing, they have allocated acreage to the wells and produced them on the basis of the ownership as we have proposed in this hearing. We urge that the Commission approve these unorthodox units for the benefit of all concerned.

MR. WOODWARD: If the Commission please, I would like to make a statement regarding Amerada.

MR. SPURRIER: Would you give your name?

MR. WOODWARD: John Woodward, with Amerada. First, with respect to the collateral attack, I think the fact that the order itself provides for, and I think wisely provides for the granting of an exemption, and that these applications based on that provision in the order itself relieve it from any possible stigma, that it constitutes a collateral attack on the order itself in as much as the order expressly provides for it.

The second question regarding the Commission's jurisdiction. We note that Section 69-2-10 of the New Mexico Statutes of 1941, as amended, provide as follows: This is the general authority of the Commission. "Commission is empowered within its duty to prevent the waste prohibited by this act and to protect correlative rights to that end" - - the Commission is - - "to define and to do whatever is reasonably necessary to carry out the purposes of this act, whether or not indicated or specified in any section hereof." This section as we construe it in general terms confirms the primary powers granted to the Commission by the legislature, namely the prevention of waste and protection of correlative rights. It further invests the Commission

with such unspecified incidental powers that are necessary to the exercise of these two primary powers, for the prevention of waste and protection of correlative rights. The Commission has entered its order establishing 160 acre proration units in the form of the square in the various pools, with the exception of the provision within the Commission's Discretion. Exceptions to this order may not be essential to the prevention of waste or protection of correlative rights, but the act doesn't require that they be essential. The act only requires that orders for exceptions be reasonably necessary in carrying out the purposes for which the order was originally promulgated, in our opinion.

It is within the scope of the Commission's incidental power to put out a workable order. I think we are all familiar with the situation here. You have got a great number of cases, wells that were drilled many years ago. Wells are expensive, they have been re-completed or dually completed with gas wells in many cases. The location is there, the well is producing at these locations, that is completed, and the acreage that is going to be attributed to these various wells for allowable purposes is not going to effect the location of those wells that are already drilled and producing. To a certain extent this allocation of acreage here, whether it be in the form of a square or rectangle, is to some extent arbitrary, and if the range along ownership lines permits or eliminates some of these operational difficulties it doesn't vary the average

well density in the sections, and it does not prejudice anyone's correlative rights or result in waste in any form. We see no reason why it should not be a practical solution to the Commission in this classification.

MR. SPURRIER: Anyone else? If not we will take the cases under advisement. I am going to deviate from the docket because we neglected to put Case 626 in the docket and we will take it next.

STATE OF NEW MEXICO)
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COUNTY OF BERNALILLO)

I HEREBY CERTIFY that the foregoing and attached transcript of hearing in Cases No. 631, 632 and 633 (Consolidated), before the Oil Conservation Commission, State of New Mexico, at Santa Fe, on January 20, 1954, is a true and correct record of the same to the best of my knowledge, skill and ability.

DATED at Albuquerque, New Mexico, this 26TH day of January, 1954.


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