

BEFORE THE
OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

Santa Fe, New Mexico
February 17, 1955
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TRANSCRIPT OF PROCEEDINGS

CASE NOS. 830 & 831
Consolidated
Regular Hearing

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
February 17, 1955

IN THE MATTER OF:

The application of the Oil Conservation Commission for revision of an administrative order in creation of a non-standard gas proration unit.

Applicant, in the above-styled cause, seeks an order amending Administrative Order NSP-68 and directing Gulf Oil Corporation to reduce the size of the non-standard gas proration unit permitted therein to conform to provisions of Paragraph 3 of Rule 5(a) of the Special Rules and Regulations for the Jalmat Gas Pool, as set forth in Order R-520; the resulting proration unit to consist of S/2 of Section 3, Township 22 South, Range 36 East, Lea County, New Mexico.

Case No. 830

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The application of the Oil Conservation Commission for revision of an administrative order in creation of a non-standard gas proration unit.

Applicant, in the above-styled cause, seeks an order amending Administrative Order NSP-59 and directing Gulf Oil Corporation to reduce the size of the non-standard gas proration unit permitted therein to conform to provisions of Paragraph 3 of Rule 5(a) of the Special Rules and Regulations for the Jalmat Gas Pool, as set forth in Order R-520; the resulting proration unit to consist of N/2 of Section 34, Township 21 South, Range 36 East, Lea County, New Mexico.

Case No. 831

(Consolidated)

BEFORE:

Honorable John Simms, Jr.
Mr. E. S. (Johnny) Walker
Mr. William B. Macey

TRANSCRIPT OF HEARING

MR. MACEY: The next case on the docket is Case 830.

(Statement of Policy on the Formation of Non-Standard Gas Proration Units (Presented at February 16 Hearing by W. F. Kitts, Attorney)).

Considerable confusion has developed in recent weeks regarding the formation of non-standard gas proration units in Lea County gas pools, and the following statement is presented in an effort to eliminate this confusion and to clarify the requirements in filing applications for approval of non-standard gas proration units in the Southeast gas pools.

The basic considerations for approval of all applications will be that the formation of such unit will:

1. Prevent Waste
2. Protect Correlative Rights
3. Serve the Best Interests of Conservation

For an application to receive consideration for administrative approval, the unit for which the exception is requested must in all respects meet the requirements of Rule 5(a) paragraph 3 and Rule 5(b) of the various pool rules contained in Order R-520. Any application which does not meet these requirements for administrative approval must be heard after notice at a hearing of the Commission at which time the merits of the application can be considered.

Further, the Commission Staff feels that Order R-520 clearly implies the radius of influence for one well in the various Southeast gas pools, covered by Order R-520, to be 3735' -- that is, the radius of a circle which will totally enclose a 640-acre section. And that such radius should be applied to all applications for exception to the provisions of Order R-520. Quite naturally, this radius of influence cannot be the only consideration and factors

of economics, offset counter-drainage, and good operating practice must be considered. The Commission Staff is aware that each request for approval of a non-standard gas proration unit must stand on its own merits, and be treated individually - and we take note of this fact.

We have briefly outlined our position in an effort to assist the operators in making application for and securing non-standard proration units, and with the hope that the operators can assist the Commission Staff by keeping their units within the limits as set out in this statement, in so far as economics and good operating practice will permit.

We are certain that we can count on the full support of all of the operators.)

MR. MALONE: May it please the Commission, Ross Malone, representing Gulf Oil Corporation. We would like to move that Cases 830 and 831 be consolidated for hearing in view of the fact they relate to adjacent units and the problems presented are common, we believe. The testimony which would be directed to one would likewise be directed to the other, to a large extent. The hearing will be expedited if we can consolidate them.

MR. MACEY: Is there objection to consolidation of Cases 830 and 831, solely for the purpose of testimony.

MR. MALONE: For the purpose of testimony.

MR. MACEY: That is all right with us, Mr. Malone.

MR. MALONE: At the outset, in view of the fact that the show-cause order which has been directed to Gulf relates to the administrative approval which has been granted to the two units here involved, and in light of the statement of the Staff's position

yesterday, without reopening the discussion Gulf would like to state a position with reference to the statement so made. The Commission has spent some two years of careful consideration of testimony and of proposed rules as a basis for the promulgation of Order R-520. The statement made by the Staff yesterday, as it is construed by us, as it is understood by us, actually constitutes an amendment of Order R-520 without going through the procedure which the Commission has established for the amendment of its orders. If that is correct, Gulf views with some concern any amendment which does not follow the orderly processes by which the order was originally promulgated.

We feel that is particularly true with reference to the requirement in the statement that for an application to receive consideration for administrative approval, the unit for which the exception is requested must in all respects meet the requirements of Rule 5(a) paragraph (b) and the various pool rules contained in Order R-520. Order R-520 does not so provide. Order 520, in Paragraph 5(b) states the requirements which must be met in order to entitle application to administrative approval. We are expressing no opinion as to the wisdom of considering an application, or as to the exercise of the discretion by the director. We do express concern about a staff statement which appears to amend the order without going through the procedure which is contemplated, because the effect of the statement is to amend Rule 5(a), so that the last two lines of that rule would read as follows:

"Provided, however, that a non-standard gas proration unit may be formed after notice and hearing by the Commission, or if it consists of 160 or 320 acres, meeting the requirement of the third paragraph,

it may be granted under the provision of Paragraph (b) of this rule."

We would suggest to the Commission the desirability, if that amendment is to be made, of making it after the procedure for amending the rules that have been followed, and not by a statement of Staff policy.

With reference to Cases Number 830 and 831, Gulf Oil Corporation is appearing in response to communications from the Secretary Director of the Commission, dated January 21, 1955, stating in part as follows: "Information available to me at this time indicates that I exceed the authority granted to me by the provisions of Rule 5(b) of Order R-520, Jalmat Pool Rules, due to the fact that the third paragraph of Rule 5(a) specifically limits the maximum amount of acreage that may be assigned to a gas well, the amount being governed by the well location."

It is the position of Gulf that the order issued by the Director was properly issued, that it conformed to the requirements of Rule R-520 and was a valid order. In view of the fact, however, that the Commission does not concur in that view, we are glad to present testimony in support of the continuation of that order in effect. Our first witness will be Mr. Ross.

J O H N L. R O S S ,

called as a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By MR. MALONE:

Q State your name, please.

A John L. Ross.

Q By whom are you employed, Mr. Ross?

A Gulf Oil Corporation.

Q In what capacity?

A Reservoir Engineer.

Q How long so employed?

A Approximately four years.

Q You have testified previously before this Commission, as an Engineer?

A Yes, sir.

MR. MALONE: Are the witness's qualifications acceptable?

MR. MACEY: They are.

Q Did you testify in Case No. 666, heard by the Commission one year and one day ago, relating to the unit formed around the W. A. Ramsay No. 1?

A I did.

Q Have you prepared an exhibit for presentation to the Commission in connection with the application now under consideration?

A I did.

(Marked Gulf Oil Corporation's
Exhibit No. 1 for identification.)

Q Will you refer to Gulf's Exhibit No. 1 and state what it portrays, please?

A Gulf's Exhibit No. 1 is a map showing ^{existing} proration units for certain Gulf Oil Corporation gas wells located in the Jalmat Gas Pool, of Lea County, New Mexico. Outlined in yellow on this exhibit is the 640-acre proration unit assigned to the Gulf W. A. Ramsay Well No. 1, located in Unit M. Section 34, Township 21 South,

Range 36 East. Outlined in green is the 480-acre proration unit assigned to the Gulf W. A. Ramsay No. 17, located in Unit F, Section 34, Township 21 South, Range 36 East. Outlined in red is the 480-acre proration unit assigned to Harry Leonard D No. 3 located in Unit K, Section 3, Township 22 South, Range 36 East.

Q Can you state the completion dates of the Ramsay No. 17 and the Leonard D No. 3 wells?

A Gulf's W. A. Ramsay No. 17 was completed June 25, 1954, as a gas well in the Yates, Seven Rivers formations in the Jalmat Gas Pool.

Q What is the location of that well?

A The location of that well is 1980 feet from the north line of Section 34, and 1980 feet from the west line of Section 34, Township 21 South, Range 36 East.

Q How many acres were attributed to that well in the unit which was approved by the Commission?

A 480 acres were assigned to the proration unit for Well No. 17 on the Ramsay Lease.

Q Will you give the same information, please, for the Harry Leonard No. "D" 3?

A Harry Leonard D No. 3 was completed July 22, 1954 as a gas well, producing from the Yates and Seven Rivers formation of the Jalmat Gas Pool. This well is located 1980 feet from the south line and 1980 feet from the west line of Section 3, Township 22, Range 36 East. This well was assigned 480 acres as the proration unit. It consists of the south half of Section 3 and the northeast quarter of Section 3.

Q By whom is the leasehold estate and the acreage attributed

to the Harry Leonard D No. 3 Well only?

A Gulf is the working interest owner of all acreage and the State of New Mexico is the royalty owner of the 480 acres. The same is true for the 480 acres assigned to the W. A. Ramsay 17.

Q Referring to the 640-acre unit shown in Exhibit 1 in yellow, who is the working interest owner and the mineral owner under that lease?

A The Gulf Oil Corporation is the working interest owner and the State of New Mexico is the royalty owner for all of the 640 acres assigned to proration unit for W. A. Ramsay Well No. 1.

Q If I correctly understand your testimony then, the working interest and the royalty ownership is common and uniform to all acreage attributed to the W. A. Ramsay No. 17 F?

A Yes, sir.

Q The same statement is true with reference to the Harry Leonard D No. 3 Well?

A Yes, sir.

Q And the unit which has been approved for that well?

A Yes, sir.

Q Exhibit 1 shows, does it not, that the proration units here under consideration each lie wholly within a single governmental section?

A They do.

Q And consist of contiguous quarter sections?

A They do.

Q Have you^{made} a study of the area with the information available from an engineer's point of view, to determine whether or not the acreage attributed to each of the wells under consideration may

reasonably be presumed to be productive of gas?

A Yes, sir. That study indicates that the acreage assigned said wells is reasonably assumed to be productive of gas.

Q Do you have information as to the deliverability of the W. A. Ramsay No. 17?

A On a test conducted from November 5th through November 13, 1954, this was a joint test conducted by the Gulf Oil Corporation and Permian Basin Pipeline Company, the W. A. Ramsay, during a 48 hour period, produced 2,570,000 cubic feet of gas per day against a back pressure of 979.4 pounds per square inch absolute. Calculated deliverability for that well is 6,285,000 cubic feet per day.

Q Will you give the same information with reference to the Harry Leonard D No. 3?

A On a test conducted from November 5th through November 13, 1954, the Harry Leonard D No. 3 produced 2,495,000 cubic feet per day, with a back pressure on the tubing of 832.9 pounds per square inch absolute. Its calculated deliverability is 5,410,000 cubic feet per day.

Q Mr. Ross, do any other operators own in within 1500 feet of either of the two wells, as to which you have testified, other than Gulf?

A No, sir.

Q For that reason it was not necessary to file waivers in connection with them?

A No waivers were required for the administrative order on these two said units.

Q You testified at the hearing in Case No. 666 that, in your opinion the W. A. Ramsay Well No. 1 would drain 640 acres, did you

not?

A I did.

Q Has the information disclosed by the subsequent drilling of the W. A. Ramsay 17 and Harry Leonard D No. 3 caused you to change your opinion in any respect in that regard?

A No, sir, on the contrary, the information obtained by the drilling of two additional wells in this immediate area further verified the facts that wells located in this particular area will drain in excess of 640 acres.

Q Will each of the wells drain the acreage that is allocated to it?

A In my opinion, Harry Leonard D No. 3 and W. A. Ramsay No. 17 will efficiently and effectively drain the 480 acres assigned to the proration units.

Q Will the production of gas from those units through these wells, in any respect adversely affect the correlative rights of the owners in the area?

A It is my opinion that the correlative rights will be protected by the producing of gas for the 480 acres through these wells.

Q Could any waste result in such production?

A No waste would result in such production.

Q Is there anything further in connection with the applications that you would like to state to the Commission?

A I would like to state to the Commission that if our request is not granted, and these proration units are reduced in size to 320 acres, it would require the drilling of an additional well which, in my opinion, would be unnecessary expense and, therefore, waste. Or, I believe we could conform and make a standard unit here

if we would cut down the size of the existing proration unit for W. A. Ramsay No. 1, simply reducing the size of it and increasing the size then of the other two units would accomplish the same thing, and would make the proration units assigned to Ramsay No. 17 and Harry Leonard D No. 3 then, in the Commission's viewpoint, the wells would be located then correctly.

Q How does the deliverability of the W. A. Ramsay No. 1 compare to the deliverability of the two wells concerning which you are testifying?

A The W. A. Ramsay No. 1 has a greater deliverability than the two wells in question.

Q And a reduction in the size of the unit attributed to that well, therefore, would not be efficient, would it?

A No, sir.

MR. MALONE: I believe that is all.

MR. MACEY: Any questions of the witness? If not the witness may be excused. (Witness excused.)

MR. MALONE: Gulf would like to offer in evidence its Exhibit Number 1, and the file of the Commission incidental to the administrative approval of the two applications' rehearing which was ordered in Cases 830 and 831.

MR. MACEY: Is there objection to the introduction of Exhibit 1 in Cases 830 and 831? If not it will be received in evidence. Do you have anything further?

MR. MALONE: Nothing further.

MR. KELLAHIN: Jason Kellahin, for Continental. Continental Oil Company owns acreage offsetting the lands involved in Case 830. ~~We would like to make the statement that we feel, due to the location~~

of the land and ownership of the land, this is a case where no inequity would be involved and we would support Gulf's application. In regard to Mr. Malone's statement on Rule 5(a), like Mr. Malone, I don't like to reopen an argument, however, I do feel that the interpretation which has been placed on the rule by the Commission, at the present time is the correct one, but upon reading the order itself, there is clearly language in there in the way the order is set up for an interpretation such as Mr. Malone stated. And, under those circumstances we feel, if the Commission's Legal Staff arrives at the same conclusion, the matter should be set down for hearing by this Commission, and the order changed to the present interpretation placed on it by the Commission.

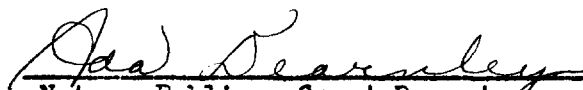
MR. MACEY: For the purpose of the record, I think possibly that the Commission's Staff acted in writing their statement, based upon my statement. That, of course, was to discretion as to whether I should approve a non-standard unit or not. I informed them that I would not approve any application which did not conform to the footage requirements of the Paragraph (a). I believe that is where they got the interpretation. There is no question in my mind but what there is a very serious question of what the interpretation of the rule is. We took the stand that the safe way was to call a hearing rather than go by the administrative rule.

We will take the case under advisement.

STATE OF NEW MEXICO)
 : ss.
 COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Court Reporter, do hereby
 certify that the foregoing and attached transcript of proceedings
 before the New Mexico Oil Conservation Commission at Santa Fe,
 New Mexico, is a true and correct record to the best of my
 knowledge, skill and ability.

IN WITNESS WHEREOF I have affixed my hand and notarial
 seal this 24th day of February, 1955.


 Notary Public, Court Reporter

My Commission Expires:

June 19, 1955