

BEFORE THE
NEW MEXICO OIL CONSERVATION EXAMINER
FARMINGTON, NEW MEXICO
JUNE 25, 1957

CASE NO. 1272

T R A N S C R I P T O F P R O C E E D I N G S

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3-6691 5-9546

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
FARMINGTON, NEW MEXICO
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IN THE MATTER OF: :
: :

CASE NO. 1272: Application of El Paso Natural Gas Company
for the transfer and/or non-cancellation
and reinstatement of allowables for wells
previously involved in maximum pressure
build-up tests in certain gas pools in San
Juan and Rio Arriba Counties, New Mexico.
Applicant, in the above-styled cause, seeks
an order authorizing the non-cancellation
of allowables which accrued to 19 wells as a
result of being shut-in for maximum pressure
build-up tests during 1956 in the Blanco-
Mesaverde, South Blanco-Pictured Cliffs,
Ballard-Pictured Cliffs, and Fulcher Kutz-
Pictured Cliffs Gas Pools, and further,
authorizing the transfer of said allowables
to other wells on the same basic lease, and
for the reinstatement of underage for six
of said wells which was cancelled February
1, 1957. :
: :
-----: :

BEFORE:

Warren W. Mankin, Examiner

T R A N S C R I P T O F P R O C E E D I N G S

MR. MANKIN: The hearing will come to order. The next
and last case on the docket is Case 1272.

MR. COOLEY: 1272. Application of El Paso Natural Gas
Company for the transfer and/or non-cancellation and reinstatement
of allowables for wells previously involved in maximum pressure
build-up tests in certain gas pools in San Juan and Rio Arriba
Counties, New Mexico.

MR. DANIEL: L. R. Daniel, representing El Paso Natural
Gas Company. My witness in this case is Mr. David H. Rainey.

(Witness sworn.)

D A V I D H. R A I N E Y

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

DIRECT EXAMINATION

BY MR. DANIEL:

MR. DANIEL: Are the qualifications of this witness still acceptable to the Commission?

MR. MANKIN: Yes, sir, they are.

Q You may state your name and address and occupation to the Commission.

A David H. Rainey, Staff Assistant, Proration Department, El Paso Natural Gas Company, El Paso, Texas.

Q Are you the same Mr. Rainey who testified in the previous cases, 1270 and 1271? A Yes, sir, I am.

Q Are you familiar with the application filed in this case? A Yes.

Q Will you please tell, in your own words, what it seeks to do?

A This applicant, El Paso Natural Gas Company, seeks reinstatement of cancelled allowables on five wells that we shut-in for maximum pressure build-up test, which lost allowables on February 1, 1957; further, for non-cancellation and/or transfer of allowables which may be lost on August 1, 1957, on those wells, and twelve--excuse me, and fourteen other wells.

Q I hand you this paper marked Exhibit "A", and ask you if it lists the wells, their locations, the acreage to which they are dedicated, and the fields in which they are located, covered by the application in this case?

4

A It does. As in the previous cases, this is merely a copy of that Exhibit "A" which was attached to the application furnished in this case.

Q Is El Paso the operator of these wells and the oil and gas leases on which they are located? A It is.

Q Does the Exhibit cover wells previously shut-in for maximum pressure build-up tests which, as a result of such tests, had certain of their unproduced allowables cancelled?

A It does.

Q Which wells were they?

A These wells, the Fields No. 1, Jacquez Pool Unit No. 1, Mansfield No. 4, the Mudge No. 5, the Pierce No. 1, in the Blanco-Mesaverde Gas Pool, and the Hargraves No. 2, in the Fulcher Kutz-Pictured Cliffs Gas Pool.

Q During which period did these unproduced allowables accrue?

A The allowables to these six wells that was cancelled was accrued during the periods from February 1, 1956 to August 1, 1956, and was cancelled on February 1, 1957.

Q Why weren't such allowables produced by El Paso?

A These wells were shut-in for maximum pressure build-up, and due to the unforeseen length of time necessary to obtain that maximum pressure build-up, those wells were not able to produce the allowables we had accrued to them during that period of time.

Q Were these tests successfully completed?

A Yes, sir.

Q In your opinion was the acreage dedicated to these wells drained by adjoining wells during the periods in which they

were shut-in for tests?

A Quite possibly.

Q In your opinion, were the operator, royalty and other interest owners in these wells deprived of their correlative rights by the cancellation on February 1, 1957, of unproduced allowables previously accruing to these wells?

A Yes, sir, in the event there was drainage waste, as I said, it was quite possible.

Q What action does El Paso desire the Commission take with respect to such cancelled allowables?

A El Paso requests reinstatement of this cancelled allowable, and a period of time in which to produce that allowable that has been cancelled.

MR. DANIEL: Could I have marked Exhibit "1" through "38" for identification?

MR. COOLEY: They will be so marked for identification purposes.

(El Paso Natural Gas Exhibits "1" through "38" were marked for identification.)

Q (By Mr. Daniel) Mr. Rainey, I refer you to the papers in your folder, marked Exhibit "1" through "38", and ask what those are?

A As in the previous cases, these are Exhibits prepared, showing a plat, indicating the shut-in well, marked with a red square, and the off-set well on the same basic lease, circled in red. Plat further shows the ownership and the wells in approximately a nine section area, surrounding this test well. Second Exhibit, in regard to each well, is a data sheet showing completion data on the test well itself, the date of the shut-in of that test well, and further shows the wells on the same basic lease to which

allowable may be transferred; at this point, I might make a correction in Exhibits "1", "2", which is a data sheet for Fields No. 1 Well. In the middle of the page, it shows that the well was put on test, 5-17-'57, that should be 5-17-'56.

Q Mr. Rainey, can you tell us which of these exhibits apply to the six wells that you mentioned here originally?

A The first twelve exhibits will apply to the first six wells.

Q Once again, for the record-- A Yes.

Q What action does El Paso desire the Commission take with respect to such cancelled allowables?

A El Paso requests reinstatement of that cancelled underage which accrued to those shut-in wells, or which may accrue to the shut-in wells, and might be cancelled as of August 1, 1957; requests they be allowed to transfer that allowable to other well or wells on the same basic lease.

Q We are speaking of wells' allowables which have been cancelled? A Yes, sir.

Q We are not speaking of wells which will be cancelled, possibly? A Yes.

Q Those that can be cancelled, what does--

A Request reinstatement of those wells to be cancelled; request these be allowed to be transferred, those allowables, to other wells on the same basic lease; or in the alternative, that they should be allowed to produce those allowables during the proration period from August 1, 1957 to February, 1958.

Q In other words, you would like to have those allowables produced by what date? A February 1, 1958.

Q In what manner would you request the Commission transfer these allowables, Mr. Rainey, if they decided to do that?

A It was requested that these allowables be transferred by application of El Paso Natural Gas Company to the Oil Conservation Commission for an order, if this application be granted, issued in the form of a supplemental order to transfer well or wells.

Q Does each of the exhibits, covering the first of these six wells here, set out possible transfer wells which the Commission might use to transfer and reinstate allowables?

A Yes, sir, it does.

Q Does Exhibit "A" cover wells previously shut-in for maximum pressure build-up tests which, as a result of such tests, may have certain of their unproduced allowables cancelled in the future?

A Yes, sir.

Q Which wells are they?

A All of the wells shown on the Exhibit "A", which is attached to the application, stand possibly to lose allowables which had accrued to them during the time of shut-in, and may be lost at the August 1, 1957 balancing period.

Q Over what period of time would those have been accrued?

A These allowables would have been accrued during the periods, August 1, 1956, to February 1, 1957.

Q And when possibly might those be cancelled?

A August 1, 1957, effective August 1, 1957.

Q Will you tell us why these allowables weren't produced by El Paso?

A As previously stated, these wells were shut-in for

maximum pressure build-up and due to the unforeseen length of time necessary to obtain that maximum pressure build-up of these wells, certain underages accrued that they have not had the opportunity, at this time, to make up.

Q Were the tests, all tests as to these wells conducted in good faith and successfully completed? A Yes, sir.

Q In your opinion was the acreage dedicated to these wells drained by adjoining wells during the periods in which they were shut-in for testing?

A Yes, sir, it's quite possible.

Q In your opinion would a cancellation of these unproduced allowables deprive the operator, royalty and other interest owners in these wells of their correlative rights?

A Yes, sir.

Q What action does El Paso desire that the Commission take with respect to such unproduced allowables which might possibly be cancelled on August 1st of this year?

A El Paso requests that the appropriate rules in the fields in question, which are the Blanco-Mesaverde Gas Pool, Fulcher Kutz-Pictured Cliffs Gas Pool, and the South Blanco-Pictured Cliffs Gas Pool, and the Ballard-Pictured Cliffs Gas Pool, be suspended with regard to the overages and underages provision in the appropriate rules, and that the underages be allowed to be produced until February 1, 1958, or in the alternative, that the accrued underages be allowed to transfer to off-set wells on the same basic lease.

Q It is possible that you have two things applying to each well, haven't you? It read, "and/or transfer", and--

A (Interrupting) That is correct, these wells, to the

best of my knowledge, are capable of making up an underproduction; it would be our experience that to make up underproduction is possible from the well itself. Further, we would request authorization to transfer allowables to other wells on the same basic lease.

Q Are you asking that the Commission not cancel the under-produced allowables--

A That is correct.

Q --on August 1?

A Yes, sir, that is correct. In that request for suspension of the appropriate rules, of the field rules governing these particular fields.

Q And how would you ask the Commission transfer these allowables?

A Request that these allowables be transferred by application to the Commission, designating the off-set wells on the same basic lease, and by issuance of an appropriate supplementary order for additional allowables from these wells.

Q Mr. Rainey, were all the tests conducted with respect to these wells listed in Exhibit "A" conducted by El Paso in good faith?

A Yes, sir.

Q In your opinion were such tests conducted without violation of correlative rights?

A Yes, sir, in the event that this application is granted in regard to the non-cancellation, and then the transfer of allowables.

Q In your opinion, will the production of reinstated and uncanceled, unproduced allowables constitute waste?

A No, sir.

Q In your opinion, will the production of reinstated and uncanceled unproduced allowables violate correlative rights?

A Would you repeat that please?

Q In your opinion, will the production of reinstated and uncanceled, unproduced allowables violate correlative rights?

A No, sir.

MR. DANIEL: I have no further questions of this witness.

BY MR. MANKIN:

Q Mr. Rainey, you started to testify, you indicated that there were five wells that would have their allowables, that had some allowables cancelled, and you later corrected that to six, would you care to have--

A (Interrupting) That is correct, it should be six. I inadvertently overlooked the line of the Fulcher Kutz-Pictured Cliffs; in the Blanco-Mesaverde there are five, and one in the Fulcher Kutz-Pictured Cliffs formations.

Q Alright, in checking over these six wells, which have had allowables cancelled in the past, I noticed that those tests have been going on anywhere from a year to one and a half years, is that correct?

A These tests are completed at the present time.

Q They have been completed?

A Yes, sir, these tests were completed the latter part of 1956, or the early part of 1957.

Q Which would mean that they were accomplished within anywhere from a year to a year and a half?

A That is correct.

Q In regard to the nineteen additional wells that are likely to have allowables cancelled unless their requests are granted,

I notice that those times stated for pressure build-up tests vary anywhere from six months to one and a half year, is that correct?

A Yes, sir, as in the case of those first six; these other thirteen wells have been, the tests have been completed on those wells also.

Q What wells are the thirteen wells that the tests have been completed upon?

A All the wells shown on this Exhibit "A", attached to the application, in Case 1272, have had the tests completed.

Q There are a total of nineteen wells?

A There are a total of nineteen wells; six actually had allowables cancelled on February 1, 1957; there are thirteen that have not had any allowable cancelled.

Q I want to ask you on your Exhibit "36", which is in relation to the Gordon No. 1 in Fulcher Kutz--

A (Interrupting) Yes, sir.

Q I notice there is no test date shown on that, is that an oversight, does it have a date--

A (Interrupting) Yes, sir.

Q --when the maximum pressure build-up test was started?

A It was an oversight, and I don't have the information available, I don't know what that date was.

Q It has been at least six months, you think?

A I would think so. We will be glad to furnish the date to the Commission, but apparently, I don't have that date right here.

Q Could you furnish that to the Commission?

A We certainly will, that was merely an oversight, and I don't have that data right here.

MR. MANKIN: Mr. Cooley.

BY

MR. COOLEY:

Q When you furnish that date that the one well was put on test, would you also furnish the dates that each of the wells were taken off test?

A Yes, sir; I have that information on some of them, right here, but I don't have it on all of them.

Q Just to make it complete, instead of the one, you just list the wells that are listed in Exhibit "A", attached to the application and outside, put the dates they were put on test.

A Alright, sir.

Q As to the allowables that were cancelled, with regard to the six wells just mentioned--

A Yes.

Q --would it be reinstated as of the effective date of the order and remain as allowables, they are capable of being produced until what date?

A February 1, 1958.

Q '58?

A Yes, sir, the end of the next balancing, after the August 1st balance period.

Q That would give you the six months balancing period or the six month proration unit, from August 1, 1957 to February 1, 1958?

A Yes, sir.

Q And the suspension of uncanceled allowables as to all nineteen wells, how long would that suspension remain in effect?

A The same date, February 1, 1958.

Q To remain unproduced as of February 1, 1958, they would be cancelled under the appropriate provisions?

A Yes, sir, we are asking for an extension of the appropriate rules, until February 1, 1958.

Q Would you please state what purpose would be served by permitting the transfer of allowables in this case since all wells are now under production, are they not?

A Yes, sir, the reason we request that, to be allowed to transfer allowables, as well as suspend the rules in regard to the uncanceled underproduction was in an effort to make this underage up in a more rapid fashion rather than try to run the thing over an extended period of time.

Q Would it not be more realistic to accrue capabilities of the wells, if they were not required to make up their underage on the well that had accrued, since they are under production at the present time?

A I think possibly that the wells could make up allowables if assigned to the individual well, but as I stated previously, it was our intention to try to make particularly the wells under production up as rapidly as possible, in an effort to not have the books of the New Mexico Oil Conservation Commission cluttered up, as it were, with this additional allowable.

Q You have testified in this case, and previously in Case 1271, that due to the unforeseen length of time it took--

A (Interrupting) Yes, sir.

Q (Continuing) --to conduct these tests, you find it necessary to make these applications. Would you--

A (Interrupting) Yes, sir.

Q Would you elaborate on that?

A Well, in most areas which I am familiar with, it takes

a relatively short period of time, I mean a week or a maximum of possibly thirty days to obtain maximum pressure build-up on the wells. Due to the nature of the reservoir in this area, it has been shown with these tests that it takes as much as a year, in some instances, to obtain maximum pressure build-up tests. When we started these tests, we had no knowledge that it would be more than a year.

Q And with the expectation that after the tests would be completed, what would be the maximum period of time?

A Thirty to six--

Q (Interrupting) El Paso then felt that they could absorb the loss of allowables rather than come to the Commission and apply for the non-cancellation of it?

A That is correct.

Q But now that it runs twelve times that amount or more, you request a transfer?

A Yes, sir.

Q You have testified that drainage occurred as a result of these wells having been shut-in?

A Yes, sir.

Q If any drainage did occur as the result of any activity of the Commission, did El Paso Natural Gas Company have an opportunity to produce their fair share of allowables for that period?

A Except for the fact that these wells were shut-in for pressure build-up. Had the wells been on production, the opportunity would have been given to El Paso, but we were not.

Q Does El Paso desire, and El Paso alone, to take the wells off production?

A Yes, sir.

MR. COOLEY: That is all for the present time.

BY

MR. MANKIN:

Q Mr. Rainey,--

A Yes, sir.

Q Did I understand you to say that on all nineteen wells maximum pressure tests have now been completed?

A Yes, sir.

Q Do you have knowledge of the maximum time that was utilized on these nineteen wells to determine this build-up, was it a year, or a year and a half? In other words, how long has it been since the last of these nineteen wells was completed?

A I would say it would run approximately a year; in some instances it ran less time. In some instances, I think it ran as little as thirty and eighty, and to thirty and ninety days.

Q Approximately one year?

A Approximately one year, yes, sir.

Q In this time, some of these wells have been off-set for at least six months, is that correct?

A Some of them have, yes, sir.

Q And others have just now recently been completed?

A Yes, sir.

Q Some of these, of course, were just put on some six months ago. Have they been completed in that six months' period?

A Yes, sir, all of these wells in this application have been completed.

Q So, it has varied from anywhere from six months to a year for the time to get this maximum build-up?

A Yes, sir, the maximum time has been approximately a year.

Q You stated the Pictured-Cliffs or the Mesaverde took another time, or can you generalize them?

A I would hesitate to generalize them, we could make

some studies and determine that, but I don't think off-hand that you could make a generalization in that regard.

Q What I meant by that question was, for instance, the Pictured Cliffs can be accomplished in this six months, where it takes, I think, a year for the Mesaverde. I wonder if you had any such generalization as to that?

A We have a well shut-in at the present time, under Order R-939, in the Pictured Cliffs Pool, I believe it's in these South Blanco Pictured Cliffs that has been shut-in for four hundred and twenty-six days, and has not reached stabilization. It's been shut-in for four hundred and twenty-three days, as of yesterday. It has not reached stabilization.

Q It would be rather difficult to generalize in the formation as to the time of pressure on the various pools, I presume?

A It varies as to progress and probably varies as to areas within a given pool, depending upon the permeability and porosity of the given pool.

Q They are controlling factors? A Yes, sir.

MR. MANKIN: Are there any further questions of this witness? Mr. Utz.

BY MR. UTZ:

Q Mr. Rainey, first referring to the six wells on which you want the reinstatement of allowables--

A Yes, sir.

Q --for underage, and you have knowledge as to the producing capabilities of those wells, are they non-marginal and capable of producing their allowable during the period they were shut-in?

A Yes, sir, all these wells are non-marginal; in every instance, when we picked a well for a maximum pressure build-up, we tried, to the best of our ability to pick a well that was of average producing ability, and was a non-marginal well.

Q So, that statement would also hold true for your additional fourteen wells on which you want now, non-cancellation or transfer?

A Yes, sir.

Q Do you know about how much underage we are talking about on those six wells?

A There was approximately fifty-one million cubic feet cancelled in February, 1957. I don't have the exact figures on a well by well basis, I'll just rough them in my head, it's about fifty-one million cubic feet.

Q And that was cancelled February 1, 1957?

A Yes, sir.

Q Since February 1, 1957, there has been quite a number of new connections in the pools in question, has there not?

A Yes, sir.

Q Do you know, if we reinstated this fifty-one million underage, how would that affect the allowable for the newly connected wells?

A No, sir, I don't think that there would be any great effect on these newly connect wells, due to the number of wells in the pool already.

Q There may be a slight decrease in allowables?

A There would be, yes, sir, there would be.

Q During the period in which this underage was accrued?

A Yes, sir, there would be a slight decrease.

Q In fact, there would be an increase in the status of the pools?

A Yes, sir, but, as stated previously, I think it's probable that there are so many wells in the pool, that the net effect on a personal well basis would be very small.

Q I believe you specifically stated that all of these nineteen wells, and the wells on which you want to transfer allowables, are on the same basic lease as the shut-in well lease?

A Yes, sir. I may call your attention to Exhibit "3", on the Jacquez Pool Unit. There again, it's my understanding, from our Lease Department that those leases involved on the off-set wells stated on this plat were also communitized leases, and in fact, all the holes are on the same basic lease. If the Commission so desires, we will furnish proof of that communitization, or the same ownership.

MR. MANKIN: Yes, please.

MR. COOLEY: Proof of royalty and ownership throughout the area, on all sections, wells, shown on Exhibit "3".

BY MR. UTZ:

Q Mr. Rainey, generally speaking, do you approve of reinstatement of underages which have already been cancelled for any other reason that you have not stated?

A As a general rule, no, sir. I think, as we have pointed out in the testimony in this case, this is somewhat of a special case.

Q So, without excellent reason, you wouldn't favor reinstatement of underages?

A Not as a general rule, no, sir.

Q In other words, it's water under the bridge, the allowables which have been distributed along all wells and pools, which

would affect when your reinstatement is again turned around, and taken away, all the old wells, and also the new wells?

A That is correct, as I previously stated, the effect on any individual well would be more or less negligible in this case, since there are some fifteen hundred wells in this pool, there are five years--

MR. UTZ: That is all I have.

BY MR. COOLEY:

Q Mr. Rainey, I noticed going through the Exhibits, there are numerous cases of divergence on new wells, that would indicate that they are also communitized?

A I think that in several instances--

Q (Interrupting) Exhibit "8" for instance--

A (Interrupting) "8". Those are all Pierce Wells, if I am looking at the correct Exhibit. What were you referring to?

MR. MANKIN: The four Mudge Wells, and the Lawson Well, and the Smyers Well, and the test well would be another well.

A Oh, as I have stated previously, all these wells and the data thereon was submitted by our Lease Department, and I was given to understand that these wells were on the same basic lease. I think, if you will notice on the Smyers Well, for instance, in the southwest quarter of Section 2, there are, can you--you can see by the dotted line in the west half of Section 2, there are several leases involved in that particular well, and a portion of the same basic lease on which the Mudge Wells lies dedicated to that well, and by virtue of the fact that portions of that lease are dedicated to that Smyers Well, it must be communitized with the other acreage on that well.

Q Would you repeat that? You say it has been--

A By virtue of the fact that there are some, or acreage on the Mudge Lease, if you will notice, the north half of the northwest quarter, and the southeast of the northwest quarter, it appears to me there are no leases hooked on it, but it appears to me that that one hundred and twenty acres is in the portion of the same basic lease as the acreage in Section 3, adjoining, by virtue of the fact that a hundred and twenty acres are dedicated to the Smyers Well, it must be designated, or be communitized with the remaining acreage on that well, half of Section 2, and consequently, that in effect, the Smyers Well is on the same basic lease as the Mudge Wells.

Q Say, for instance, that you transfer allowables, certain portions of allowables from the Aztec Well, from the southwest quarter of 3--

A Yes, sir.

Q --appearing on the Mudge lease--

A (Interrupting) Yes, sir.

Q --Mudge being the whole owner--

A (Interrupting) No, sir, that is a Federal Lease, to the best of my knowledge, all the leases are Federal Leases.

Q If you transfer allowables from that well to the Smyers Well in the southwest quarter of 2, would there not be an additional portion in royalty?

A No, sir, to the best of my knowledge, those wells are all Federal Leases.

Q But they are not the same basic lease are they?

A As I said, a portion of the basic lease that is attributable to the Mudge Wells, is also attributable to a portion of the acreage dedicated to the Smyers Well, by virtue of communitization,

since the west half of that Section 2 is dedicated to the Smyers Well. If they are in portions of the Mudge Lease, in the west half of Section 2, it must of necessity be communitized with the remaining leases in the west half of Section 2 to be dedicated to that Smyers Well; consequently, effectively, the Smyers Well is on the same basic lease as the Mudge Wells.

Q I can't follow that, sir. There would definitely have to be an apportionment of the royalty, I mean, if you've got apparently three different leases attributable to the Smyers Well, is that correct?

A Yes, sir.

Q And one of those tracts would be eighty acres, and the other two would be forty each?

A Yes sir--no, sir, that is a Pictured Cliff Well. If we have got a hundred and twenty acres dedicated to that well, I mean it's a Mesaverde, I beg your pardon, the whole west half of that section.

Q The whole west half of that section is Mesaverde?

A Yes, sir.

Q Alright, we have got three different leases in the southwest quarter?

A Yes, sir.

Q And two different leases in the northwest quarter?

A Yes, sir.

Q Five different leases?

A Yes, sir.

Q And each of those wells in this tract would share in a production of the Smyers Well in proportion to the acreage each individual unit bears to the total of three hundred and twenty?

A Yes, sir.

Q Which would be substantially different, the ownership

of this would be substantially different then, say, from the ownership under the west half of Section 3, would it not?

A Mr. Cooley, as I am not a lawyer, I am not qualified to testify as to the legal technicalities of the agreements, and the bearing it would have on making it the same basic lease. I can't say for certain, but it's my understanding that if the well is communitized, and it's a Federal Lease, the royalty interest is common, it is communitized with a portion of the same basic lease, as the Mudge Lease.

Q How does the Mudge Lease come into it?

A The Mudge Lease is the lease in Section 3 that you have questioned me about.

Q Was this Mudge Lease in Section 2?

A Yes, sir, that was the point I was making, I don't know whether it's the west half of the southwest quarter by looking at this plat, I don't know whether it's the west half of the southwest quarter, or whether it's a portion of that acreage in the northwest quarter, but, there is a portion of the basic Mudge Lease within the west half of Section 2.

Q Well, I think this is the basic lease, but I am going to question, I think, under the communitization agreement, if there be one, I am sure there is, on the west half of Section 2--

A Yes, sir.

Q Would it, in no way affect any ownership in Section 3?

A Mr. Cooley, I am not qualified to testify, as I stated before, I was given to understand by the legal staff in our Lease Department that these wells were on the same basic lease. The reasoning they used in determining that, I do not know.

MR. COOLEY: In view of the complications, Mr. Daniel, before anything in this case can be approved, concerning transfer to other acreages in the common basic lease, we must have some sort of a brief, in as much detail as possible. Do you care to submit that in brief form or what?

MR. DANIEL: We can.

MR. COOLEY: Because it appears to me, the ownerships in this case, for example, of transferring some allowable from the shut-in well, the west half of Section 5, to the Smyers Well in the west half of Section 2 would be a substantially different apportionment.

MR. DANIEL: You are assuming that, aren't you, Mr. Cooley, the ownership of transfer wells would be a different ownership than the shut-in well?

MR. COOLEY: I believe it's evidenced that it is, according to the plat in Exhibit "5", or Exhibit "7" rather.

MR. DANIEL: Well, Mr. Rainey testified here to the best of his ability, and knowledge, the plat reflects the records accurately, the records of the company, and--

MR. COOLEY: (Interrupting) I am assuming that it does, and if that is the case, then, the portion of the royalty would not be the same, the same people would not get the royalty that would get it if the gas was produced from the well in the half of Section 3, as it appears upon this plat. It may be, that is the requirement. Let me put it to you as to what must happen for allowables to be transferred. The same people, the same royalty, the same owners, the same overriding rights, and the same working owners must benefit, because if we deprive them of the benefit of the production, and if

that result is not obtained, then transfer is completely out of the question.

A Mr. Cooley, may I state, that was exactly the way it was put to us from our Lease Department, when they examined these records, and they advised me that the ownership, royalty interest was common, that the fact that it has a different name does not necessarily mean it goes to a different royalty, or different ownership.

Q There must be a legal arrangement whereby these results would be obtained, and we would have to be apprised of that arrangement.

A We'd be delighted to furnish it to you.

MR. DANIEL: Mr. Cooley, would you be satisfied as to all wells, with the exception of that Smyers Well, it's right on the Exhibit you are looking at now; in other words--

MR. COOLEY: (Interrupting) Take the, in the northwest quarter of Section, northeast quarter of Section 3, on Exhibit "7", there appears to be a division of royalty on the basic lease, or something is shown there by the dotted line.

MR. DANIEL: I think the dotted line in that particular case, I am sure it does reflect acreage to which the well is dedicated, doesn't it?

MR. COOLEY: No, sir, the whole west half is dedicated to the--

MR. DANIEL: (Interrupting) I see, wait a minute, what must we submit to the Commission?

MR. COOLEY: The results must be obtained that the production from the shut-in well, if it were produced before the shut-in well, for instance, Mr. A. and Mr. B. would not be deprived of their

benefits. Mr. A. is the interest owner, and Mr. B. would be the royalty owner, and that is the similar arrangement that you would have to have if you are going to transfer that to another well. Mr. A. and Mr. B. must own that well in such a respect that they get exactly the same, whether they would have the production taken from the well that is presently shut-in. If you have any arrangement that would achieve that result, then, it's satisfactory with the Commission.

MR. DANIEL: Will the Commission enter a postponement or the continuance of the case?

MR. COOLEY: Just submit a brief.

MR. MANKIN: There are several wells in this connection, where the test well and the wells to be transferred to are different names.

A Yes, sir.

MR. MANKIN: We want to be apprised in each situation as to what is the situation in regard to ownership.

MR. DANIEL: I will furnish that.

MR. COOLEY: That is just an example, each one has a divergence of ownership, which would require the same ownership. I am sorry to pose such a burden, but you couldn't possibly transfer unless you have such a rule--

MR. MANKIN: (Interrupting) In nineteen wells, it appears there are anywhere from ten to fifteen that need such clarification.

MR. DANIEL: We will furnish that information.

BY

MR. MANKIN:

Q Mr. Rainey,--

A Yes, sir.

Q I notice from the Howell No. 2 E, which is a Blanco-Mesaverde Well, I don't have the particular Exhibit here shown, but

I noticed that there are no, there is no transfer well. Is it the anticipation that that well is back on production, and the well will produce it's own allowable?

A Yes, sir, it is anticipated that well should be back in line by the end of July.

Q It would produce it's own allowable, there would be no transfer?

A Yes, sir.

Q Alright, there are at least two others, I noticed where the transfer well has not been tied in as yet, particularly the Zachary Pool Unit No. 1 and the Wallace No. 1 for transfer well, and also for the Lindsay No. 1 A to be transferred to the Archuleta No. 1, indicating there are no tie-ins. Is it your anticipation there are no tie-ins, it could be produced now, from the day that was previously shut-in?

A Yes, sir; the Zachary Pool Unit, what was the other unit well?

Q The Lindsay 1 A with the transferred well, the Archuleta No. 1, but there has been no tie-in by Southern Union as yet, it's on an estimated deliverability, on the transfer well.

A According to the statement we have here, the Lindsay 1 A would lose some allowable in August--

MR. MANKIN: Are there further questions of this witness?
Mr. Buell.

BY MR. BUELL:

Q Mr. Rainey, my name is Guy Buell, of Pan American Petroleum Corporation. I believe you mentioned in your direct, that you were aware of the fact that your company has advised Pan American that the Pierce Unit No. 1, is one of the wells that was

used for testing purposes, is that substantially correct?

A I don't recall testifying to that, but I presume that we did, if you have got an interest in the well--

Q (Interrupting) Alright, sir, are you also aware of the fact that during that shut-in period that Pan American made numerous requests to your company to put the Pierce Unit No. 1 back in production?

A No, sir.

Q You are not aware of that? A No, sir.

Q I believe you testified that, Mr. Rainey, that you anticipated complete build-up, maximum build-up within thirty days, did I understand you correctly on that?

A No, sir, I stated that in areas in which we had previous experience in the obtaining of maximum build-up, that thirty days would be more than sufficient time to obtain it. We have no knowledge as to what it would take; the maximum build-up, we presume, on knowledge from other areas, that probably it shouldn't take more than that period of that time.

Q Alright, sir,--

A We have no definite knowledge as to what period of time--

Q (Interrupting) Would you say, then, or presume it would take thirty days?

A Yes, sir.

Q Alright, sir, the fact is, was that not a basic reason why you didn't come in and ask for a hearing for this special treatment, by exception at that time?

A Yes, sir.

Q Because you thought this build-up test would be completed in a short time?

A In a relatively short period of time.

Q Alright, sir, in view of that, then, could you tell me why in such cases, you waited from six months to over a year before

you came in to ask for an exception, weren't your suspicions aroused?

A It would seem to be so, but there again, we would probably have liked to get in sooner, but, as I stated previously, we did not foresee that it would take such a period of time. When it did become apparent that that period of time was necessary, that it was going to approach the length of time that it did, we were trying to wait until we got all these wells completed and pumping all at the same time, instead of having to have a half dozen small applications.

Q And that is the only reason you waited so you could have them all at one time?

A To my knowledge, that is about the only reason, yes.

MR. BUELL: That is all.

A I don't make the decisions as to when we make applications, there may be reasons present that I am not aware of.

BY MR. MANKIN:

Q Mr. Rainey, as we have brought up previously, these tests that were started anywhere from six months to a year and a half ago, and some of these would be completed as much as six months to a year, has any of this information on all nineteen tests been submitted to the Commission previously any of the test information?

A No, sir, not to my knowledge.

Q Well, do you have any knowledge or any opinions as to when such information might become available?

A No, sir, as we stated in our previous case, our Reservoir Section in Houston is making evaluations on that, so far as I know, and the length of time necessary to complete those evaluations, I do not know; as it has been presented, or stated

in other cases, I personally would see no objection to furnishing the information on a confidential basis; but, again, the question has not been taken up with management. I do not know what their impression would be.

Q We would like to make this request, since all these tests have been completed anywhere from six months to a year, that such information on this be submitted to the Commission, in a confidential manner, and would be treated as such.

A Okay.

MR. MANKIN: Are there any further questions of this witness? Mr. Utz.

BY MR. UTZ:

Q Mr. Rainey, referring to your Exhibit "A" in this case,--

A Yes, sir.

Q I happen to notice that Mudge No. 2 does not have a deliverability test, with an indication, "Well caved in, no results from test," do you know whether or not that situation has been remedied or not?

A The Mudge No. 2, you mean the Mudge No. 5?

Q No, it's a transfer well.

A Oh,--

Q The third well listed at the bottom of your Exhibit No. "8".

A No, sir, I do not know.

MR. COOLEY: What exhibit?

MR. UTZ: Exhibit No. "8", Mudge No. 5.

A It is my advice, that that condition has not been corrected, but, I don't know of my own knowledge.

Q It has not been corrected. Well, was the well not capable of producing any substantial amount of gas?

A That is correct.

Q And there would be no percentage to transferring allowable to that?

A As I pointed out, or I intended to point out, the exhibits merely list the same basic leases, which might be transfer wells, we are not trying to indicate that El Paso wants the well to be transferred.

Q But, you may or may not request transfer of this well?

A Yes, sir, and as I pointed out, if the well caved in, it is incapable of producing.

MR. UTZ: That is all.

MR. MANKIN: Are there any further questions of the witness? Mr. Daniel, would you like to introduce those exhibits, I don't remember--

MR. DANIEL: "1" through "38" be accepted in evidence.

MR. MANKIN: Are there objections to entering Exhibits "1" through "38" in this case? If not, they are so entered. If there are no further questions of the witness, the witness may be excused. Are there any statements to be made in this case?

(Exhibits "1" through "38" were received in evidence.)

MR. BUELL: May it please the Commission, my name is Guy Buell, and I represent Pan American Corporation. Usually, Pan American is in complete favor, in accord with the collection of useful and beneficial and necessary reservoir data; however, certainly, Pan American strongly feels that where the gathering of such data through tests will result in the necessity for requests of special

treatment through non-cancellation of underproduction, reinstatement of underproduction or transfer of allowables, certainly, those tests should not be initiated or started until after due notice of hearing before this Commission so that the Commission, in it's order approving it, can set up a procedure for receiving periodic reports on the gathering of data. In this case before the Commission here today, it is completely retroactive, the tests were completed upon all the wells in question. The applicant here is asking for complete retroactive special treatment through the facilities just mentioned. Now, completely aside from the question of diversity of ownership which has been brought up, Pan American opposes the granting of their request on the basis of undesirable precedence, the retroactive relief it would set up, and certainly it doesn't take a greater imagination than mine to see the possible abuse that it would be subjected to in the future, and when I say this, I am certainly not casting any reflection on the sincerity of the applicant here today, but, it is a question that if the Commission would allow this, it would allow abuse in the future.

MR. MANKIN: Any further statements to be made in this case?

MR. DANIEL: I think the Commission will go along with us in saying that the rules of the Commission allows the protections of correlative rights of the ownership on gas and oil leases, certainly, with respect to the wells involved here, and I take up in particular the request for reinstatement of allowables. The interest ownership of the owners, the royalty and entire ownership in these wells had certain rights to the gas in place, the right to produce it, to capture it and produce it. The rules, as written by the Commission

anticipate that gas can be produced in a period subsequent to the time in which the allowable be granted. Now, in this case, El Paso, sincerely feels it ran into unforeseen difficulties in the taking of maximum pressure-build up tests with regard to these wells; that it did so in good faith, and it is asking that we have the allowables reinstated which had been cancelled. And we make this proposition that such a reinstatement would not be depriving third parties-- when I mention third parties, I mean parties other than the operator in the entire well leases, would not be deprived of their correlative rights if the gas has not been taken from the ground, and on top of that we would state that the granting of such a reinstatement, on the contrary, would protect and secure the correlative rights of the parties interested, the parties owning the royalty, and the operators, that allow them under the rules, as set up by the Commission, to take their fair share of gas in the pools, and we feel we could do it without waste. We feel that by the Commission granting this order, it would merely be to an extent interpreting and carrying out the intentions of the original order in these cases. We submit to the Commission that beneficial information has been obtained, that the fact we didn't come in just right on the dot and ask for an extension of time in which to conduct these maximum pressure build-up tests is somewhat incidental to these things, but as far as we are concerned, it is a question of the six months, to twelve months time that it took to gather our information. We feel by allowing us to do this, no waste would be created, and the correlative rights of the parties would not be violated; on the contrary, the correlative rights of the parties in these wells would be protected, as it was the intention of the rules and regulations of the Commission to do. Thank you.

MR. MANKIN: Are there any further statements to be made in this case? If there is nothing further, we will take it under advisement, and the hearing is adjourned.

MR. COOLEY: Just one moment, it is understood that this case cannot be considered until the briefs mentioned are submitted.

MR. MANKIN: This case is adjourned.

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R E P O R T E R ' S C E R T I F I C A T E

STATE OF NEW MEXICO)
)
COUNTY OF BERNALILLO) ss

I, ROBERT V. MAES, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission Examiner was reported by me in stenotype and reduced to typewritten transcript, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS My Hand and Seal, this, the 13th day of July, 1957, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

Robert V. Maes
Notary Public

My Commission Expires:
February 7, 1961

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 1272
heard by me on June 25, 1957.
Walter H. Hantman, Examiner
New Mexico Oil Conservation Commission