

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
FARMINGTON, NEW MEXICO

CASE NO. 1306

SEPTEMBER 11, 1957

DEARNLEY - MEIER & ASSOCIATES
INCORPORATED
GENERAL LAW REPORTERS
ALBUQUERQUE - SANTE FE
3-6691 2-2211

BEFORE THE
OIL CONSERVATION COMMISSION
FARMINGTON, NEW MEXICO

IN THE MATTER OF:)

Application of Phillips Petroleum Company)
for an order approving the Hospah Unit)
Agreement in the Bisti-Lower Gallup Oil)
Pool, San Juan County, New Mexico. Applicant,)
in the above-styled cause, seeks an order)
approving the establishment of the Hospah)
Unit in the Bisti-Lower Gallup Oil Pool con-)
sisting of 480 acres of State of New Mexico)
acorage which comprises the S/2, S/2 NW/4,)
W/2 NE/4 of Section 36, Township 26 North, Range CASE 1306
13 West, San Juan County, New Mexico. Said)
unit is necessary to allow the applicant to)
participate in the pilot liquefied petroleum)
gas and dry natural gas injection project)
authorized by Order R-1027.)

BEFORE: Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

MR. NUTTER: The next case is Case 1306.

MR. UTZ: Case 1306: Application of Phillips Petroleum
Company for an order approving the Hospah Unit Agreement in the
Bisti-Lower Gallup Oil Pool, San Juan County, New Mexico.

MR. KELLAHIN: Jason W. Kellahin, Kellahin and Fox, Santa
Fe, New Mexico, appearing in behalf of Phillips Petroleum Company.
The Applicant has two witnesses, Mr. Lewis and Mr. Norton, I would
like to have sworn at this time.

MR. NUTTER: Will the witness stand and raise your right
hands.

(Witnesses sworn.)

MR. KELLAHIN: I would like to call Mr. Lewis as the first witness, please.

E. F. LEWIS

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

MR. KELLAHIN: If the Commission please, in connection with this application, I would like to specifically call the Examiner's attention to Order Number R-1027 approving a pilot program for liquefied petroleum or dry natural gas in the Bisti-Lower Gallup Pool -- this case being related to and connected with the case when that Order 1027 was entered.

Q Would you state your name, please?

A E. F. Lewis.

Q By whom are you employed?

A Phillips Petroleum Company.

Q Your position is what?

A Reservoir Engineer with that Company.

Q You've never testified before the New Mexico Oil and Gas Conservation Commission as an expert, have you?

A No, sir.

Q Mr. Lewis, what educational qualifications do you have for your position as a Reservoir Engineer?

A I have an Engineering Degree from Oklahoma State College.

Q And when did you secure that degree?

A In Nineteen Thirty-nine.

Q And since that date what has your employment been?

A Twelve years of employment with Phillips Petroleum Company in the capacity of an engineer.

Q And how long have you worked in the capacity of an Oil Engineer?

A Ten of those twelve years.

Q And all of that time was with Phillips Petroleum Company?

A Yes, sir.

MR. KELLAHIN: Are the witness' qualifications acceptable?

MR. NUTTER: They are. You are acquainted with the Bisti-Lower Gallup Oil Pool in San Juan County?

A Yes.

MR. NUTTER: They are.

Q (By Mr. Kellahin) Are you acquainted with the unit agreement under consideration in this hearing?

A Yes, I am.

Q Have you prepared a plat showing the area covered by this action?

A Yes, sir, I have.

Q I'd like to have the plat marked as Exhibit Number One.

MR. NUTTER: It shall be so marked.

(Whereupon the document was marked Exhibit Number One.)

Q (By Mr. Kellahin) Now, referring to what has been marked for identification Exhibit One, Mr. Lewis, does that correctly depict the area covered by the Unit agreement under consideration?

A Yes, it does.

Q Would you briefly describe that unit and give me a geographical description?

A Well, the south half of Section Thirty-six, south half of the northwest quarter of Section Thirty-six, west half of the Northeast quarter of Section Thirty-six, all in Township Twenty-six north Thirteen west.

Q Now, penciled in on that Exhibit is another area. Would you state what that shows?

A The penciled in area is the area of the so-called pilot injection HPG, high pressure gas injection program.

Q Is that the order called Order R-1027?

A Yes, it is.

Q Where is the injection well located?

A Approximately five feet south and east out of the corner of Township Twenty-six North and Twenty-five North.

Q Now, referring to the plat, does that show the lease ownership?

A The plat shows the lease ownership of the acreage involved in this unit agreement. It does not show lease ownership of the remainder of the pilot injection area.

Q And what is the basic land ownership of the area?

A All of the lands involved in the unit agreement is State owned.

Q And would you state what the lease ownership within the

unit area is?

A This is division of ownership you have referred to?

Q Yes, sir, the work unit agreement interest ownership?

A Work unit agreement interest ownership in the unit will be provided under terms of the agreement. Terms of the agreement, in summarizing, Phillips Petroleum Company will have an interest of eighty-three point thirty-three percent, El Paso Natural Gas Products Company will have twelve point five per cent, Brookhaven will have four point one seven per cent. Those figures have been rounded off to about six decimal places.

Q Does that represent all the work unit agreement ownership in the area?

A Yes.

Q Do you know of any overriding royalties existing?

A There is an overriding royalty attached to that tract identified on the plat as tract number six. Those tracts will be changed in the unit agreement and we will submit a revised plat showing the corrected plat numbers. That would be the south quarter quarter of the southeast quarter of Section Thirty-six.

Q Will any portion of the land be communitized for the purpose of forming a drilling unit?

A Yes, sir. The west half of the southeast quarter of Section Thirty-six and the south half of the northwest quarter of Section Thirty-six have been -- are subject now to communitization agreement.

Q In connection with this unit agreement, does it cover your producing formations in the Bisti-Lower Gallup Pool?

A No, sir. It covers only that portion of the producing formation.

Q Is that the reason this is a pilot program, for the purpose of testing the gas injection program?

A Yes, sir, that's correct. We merely want to implement this pilot injection program.

Q Does Exhibit One show all the wells located on the unit?

A Yes, sir, it does.

Q Are all the lands in the unit -- may all the lands in the unit reasonably be presumed to be productive?

A Yes, sir.

Q From the Bisti formation?

A Yes, sir, they will.

Q Is the unit agreement in a form which has heretofore been approved by the State Land Commission?

A Yes. The Land Commission has reviewed the contract as to form and has approved it as to form.

MR. KELLAHIN: That's all the questions I have.

MR. NUTTER: Does anybody have a question of the witness?

MR. UTZ: I have.

MR. NUTTER: Mr. Utz.

CROSS-EXAMINATION

BY MR. UTZ:

Q Mr. Lewis, I believe you stated the south half of the northwest quarter of Section Thirty-six and the west half of the southeast quarter were being communitized?

A Will be communitized.

Q Will be communitized, and the eighty acres dedicated to the one well on the eighty?

A Yes, sir.

Q Why was this communitized?

A The purpose of the communitization was to permit the development of the field to eighty acre spacing, which was our intention at the time the agreement was executed.

Q You are aware of the fact the spacing now is forty acres under statewide rules?

A Yes, sir.

Q I presume you are anticipating eighty acre spacing?

A Not as such. I don't believe it was our intention to, by agreement between El Paso and ourselves, to develop until the order was issued on the eighty acre spacing; we didn't anticipate -- that was our intention at the time, to drill on eighties if it was the will of the Commission that it be.

Q And what would be your plan if the spacing remained forty acres?

A With respect to this communitization or unit agreement?

Q With respect to the drilling of additional wells or communitization, either.

A I see that it would have no bearing on the unit agreement.

or the communitization. It doesn't prohibit the drilling of any further well on this tract or these tracts.

Q The owners of the off-forty would share in the production of the forty acres allowable, is that so?

A Yes, sir.

MR. UTZ: That's all.

MR. KELLAHIN: If the Examiner please, I overlooked some questions.

MR. NUTTER: Yes.

REDIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Lewis, in connection with the operation of this unit, what will be the affect on your method of operation under this gas injection program?

A By that, do you mean how do we propose to conduct our operations under this unit as a means of furthering the injection program?

Q That is correct.

A Well, it is our intention to produce all of the oil allocated to these tracts from the one well within the pilot injection area; the reason being that the present allocations to these wells is so low that production in the unit area, the pilot injection area, would be so restricted that we couldn't evaluate the injection program in a reasonable length of time. That, being very brief, is the whole nub of this situation. We have to have

sufficient production capacity from the pilot injection or pilot area wells to adequately test this process.

Q How long do you think it will take to accomplish that, Mr. Lewis?

A Well, I don't wish to contradict what may have been entered in a hearing with respect to the pilot area, but we anticipate a maximum of two years will be required to evaluate this thing, and very probably less than that.

Q And in the event the prorationing of oil production was instituted in this type of pool, would it be necessary to transfer allowable to properly conduct the test?

A I believe so.

Q Would you ask that that be taken into consideration in connection with any proration hearing involving this pool?

A Yes, sir, I think that would be desirable, certainly.

MR. KELLAHIN: That's all I have.

MR. NUTTER: Mr. Lewis, the primary purpose of this unit agreement is to transfer -- is to provide for the transfer of the allowables from all of the wells within the unit area to the one well located in the southeast quarter of the southeast quarter of Section Thirty-six?

A Yes, sir, that's correct.

Q That is under the present system under which there is no allocation of oil by the Oil Conservation Commission to high wells?

A Yes, sir.

MR. KELLAHIN: I would like to point out under State law the common purchaser is required to take ratably from the wells within the pool, and it would be necessary to have at least some recognition of this program in order to protect the purchaser as well as the producer in regard to transferring production, although there is no proration at this time.

MR. NUTTER: In the event there would be proration in the Bisti Pool, do you think the scope of this unit agreement and this hearing is sufficient to allow the transfer of the allowables to one well?

MR. KELLAHIN: It is set out in the unit agreement attached as an exhibit to the applications.

MR. NUTTER: What is the purpose, Mr. Lewis, of including the west half of the northeast quarter of Section Thirty-six in the unit area?

A We consider it to be proof, essentially proven, as to the ability to produce. We see no reason for excluding it from the unit agreement.

Q Would you in effect be transferring allowable from that eighty acres to the Number One Well?

A No, sir. Under the present system, that tract has no allocation and, presumably, it would have no allowable under the allowable set up until such time a well were drilled on that tract.

Q Do you know whether Phillips Petroleum Company contemplates drilling a well on that eighty acres?

A I have no knowledge of their plans as to that at the present time.

Q It seems that at the present time you have more wells than you need in Section thirty-six. You want to produce one well and you have a total of five wells, is that correct?

A Yes, sir.

Q So, in all likelihood, because you have more wells than you need you probably won't drill another one?

A I don't know that you could say that we have more than we need in that unit area now. I don't believe I quite understand what you mean.

Q You have five wells, but you want to produce one?

A That's right, but we have to have the fact of a well in a tract in order to have it receive allocation or allowable under the allowable ruling.

Q In other words, this assignment of allowables or the assignment of an allocation under the present ratable take system of the purchaser in the pool provides for transfer of allowable only from an eighty acre unit that has a well on it?

A On their division for the transfer of allocation, but you must have a well on a tract in order to receive an allocation from the pipeline.

Q Mr. Lewis, is this unit agreement a participating type of unit agreement? In other words, will participating areas be set up, and will the west half of the northeast quarter of

Section Thirty-six be in that participating area?

A Yes, it is. It is not a participating type. All of the tracts in the unit area will participate in the area.

Q And that tract will get credit for some of the oil production in the southeast quarter of the southeast quarter of the Section?

A Yes, sir.

MR. NUTTER: Any other questions of the witness?

Q (By Mr. Kellahin) Mr. Lewis, will further development of the area be dependent upon the progress and the experience realized as a result of the gas injection program?

A It's quite probable it will have some affect on the future development.

MR. NUTTER: Any other questions of the witness? If not, he may be excused.

(Witness excused.)

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

ED NORTON

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A Ed Norton.

Q By whom are you employed?

A El Paso Natural Gas Products Company.

Q What is your position?

A Lineman in the line department.

Q In connection with your position as lineman in the line department for El Paso Natural Gas Products Company, are you familiar with the Hospan Unit Agreement?

A I am.

Q Have you had anything to do with that agreement?

A I have.

Q Now, do you know what the present situation is as to the execution of that agreement?

A The unit agreement at the present time has been executed by the El Paso Natural Gas Products Company, and we have been notified by Brookhaven Oil Company that they have approved the form of the agreement and that they will execute it when we forward the unit agreement to them.

Q In connection with Mr. Lewis' testimony, he mentioned certain overriding royalties. Do you know what the status of that is?

A Verbally they have agreed to the executing of the unit agreement, also.

Q Who holds that?

A John Burroughs and his wife, Jean Burroughs.

Q And he has agreed to executing the agreement?

A Yes, sir.

Q Then, upon the execution of these, all parties owning

interest within the unit area will execute the agreement?

A Yes, sir.

Q At that time, would you be willing to furnish the Commission with a photostatic copy showing that the agreement has been duly executed?

A We will.

MR. KELLAHIN: That's all I have.

A I might say this unit agreement has been executed by the Phillips Petroleum Company, also.

MR. NUTTER: So that upon the execution by Brookhaven and by the overriding royalty interests, one hundred percent of the working interest, ownership and overriding royalties will be executed?

A Yes, sir.

Q You say that you didn't, but I think the statement was made, that the unit agreement has been submitted to the Commissioner of Public Lands of the State of New Mexico?

A It's my understanding that it has been.

MR. KELLAHIN: Mr. Lewis testified to that.

MR. NUTTER: And preliminary approval as to form of the unit agreement has been given?

MR. KELLAHIN: That's right.

MR. NUTTER: Any questions of the witness? If not, the witness may be excused.

(Witness excused.)

MR. NUTTER: Does anyone have anything further they would like to offer in Case 1306?

MR. KELLAHIN: If the Examiner please, we would like to offer in evidence Exhibit One, and, in that connection ask permission to file a corrected plat, the numbers appearing on the various plats in there to coincide with the present agreement; and we would like to file a plat showing the correct numbers.

MR. NUTTER: I think you said the plat mentioned the southeast quarter of Section Thirty-six. The correct number on that tract number six will be amended to be tract number five on the corrected exhibit?

MR. KELLAHIN: Attached to the unit agreement is Exhibit "A" which correctly describes the tracts by number.

MR. NUTTER: Are you offering this?

MR. KELLAHIN: Yes.

MR. NUTTER: Without objection, Phillips Petroleum Exhibit One, Case 1306, will be received in evidence.

(Whereupon the document was received in evidence as Exhibit Number One.)

MR. NUTTER: Does anyone have anything further in this case? If not, we will take the case under advisement.

REPORTER'S CERTIFICATE

I, J. CALVIN BEVELL, do hereby certify that the foregoing and attached Transcript of Proceedings, pages numbered 2 through 16 were reported by me in Stenotype at the time and place aforesaid; that the same was reduced to typewritten transcript by me and contains a true and correct record of said proceedings, to the best of my knowledge, skill and ability.

I FURTHER CERTIFY that I am not employed by or related to any attorney or party of interest in this matter; and further, that I have no financial interest in the outcome thereof.

DATED this 18th day of September, 1957, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

J. Calvin Bevell
J. CALVIN BEVELL, COURT REPORTER

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 1306, heard by me on 9-11, 1957.

Harold J. Turner
Examiner
Mexico Oil Conservation Commission