

BEFORE THE
OIL CONSERVATION COMMISSION
MABRY HALL
Santa Fe, New Mexico
September 21, 1960

IN THE MATTER OF:

Application of Gulf Oil Corporation for a 160-acre non-standard gas proration unit and for an order force-pooling the mineral interests therein. Applicant, in the above-styled cause, seeks an order force-pooling all mineral interests within the vertical limits of the Tubb Gas Pool in a 160-acre non-standard gas proration unit consisting of the W/2 E/2 of Section 14, Township 21 South, Range 37 East, Lea County, New Mexico, including the following non-consenting interest owners: J. M. Newton, Ronald J. Byers, Robert E. Byers, and Constance E. Byers. Said unit is to be dedicated to the Naomi Keenum Well No. 2, located 660 feet from the South line and 1980 feet from the East line of said Section 14.

Case No. 2083

BEFORE:

Daniel Nutter

TRANSCRIPT OF HEARING

MR. NUTTER: The hearing will come to order, please. The first case this afternoon will be Case No. 2083.

MR. PAYNE: Application of Gulf Oil Corporation for a 160-acre non-standard gas proration unit and for an order force-pooling the mineral interests therein.

MR. KASTLER: If the examiner, please, my name is Bill Kastler and I am entering an appearance for Gulf Oil Corporation in this case and the next succeeding four cases. Our witness in this case, 2083, is Mr. John H. Hoover.

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(Whereupon witness is sworn.)

JOHN H. HOOVER

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

DIRECT EXAMINATION

BY MR. KASTLER:

Q Will you please state your name, where you are employed and by whom and what your present position is.

A John Hoover. I am employed by Gulf Oil Corporation, Roswell, New Mexico. Petroleum Engineer.

Q Are you familiar with Gulf's application in Case 2083?

A Yes, sir, I am.

Q Have you previously appeared before the Oil Conservation Commission and been qualified as an expert witness?

A Yes, sir.

Q Would you please briefly describe what is involved in Gulf's application in Case 2083.

A Gulf is asking for an exception to rule 5A of the special rules and regulations for the Tubb Gas Pool as set forth in order R-16704 establishment of a non-standard 160 gas proration unit consisting of the W/2 E/2 of Section 14, Township 21 South, Range 37 East, Lea County, New Mexico and the pooling of interests therein of the gas rights within the vertical limits of the Tubb Gas Pool.



Q Have you prepared a plat for introduction into this case as an exhibit?

A Yes, sir, I have and have labeled this Exhibit 1.

Q Referring now to Exhibit No. 1, would you identify the proposed unit boundry, the leases that make up that boundry and the well to produce it. Will you propose to describe the non-standard units.

A Yes, sir. On Exhibit 1 we have shown the proposed 160 non-standard gas proration in the Tubb Gas Pool as outlined in red and described as the W/2 E/2 of Section 14, Township 21 South, Range 37 East, Lea County, New Mexico. Included in this proposed 160 unit is Gulf's Naomi Keenum lease described as the W/2 South East Quarter and Shell Oil Company's J. R. Smith lease described as the W/2 Northeast Quarter of this Section 14. Also shown on this plat, circled in red, is Gulf's Naomi Keenum No. 2, which will be the unit well for this proposed unit. This well is located 1980 feet from the east line and 660 feet from the south line of this Section 14 which originally was completed in the Drinkard Oil Pool in March of 1953. It was re-completed in the Tubb Gas Pool in December of 1957 and dually completed in the Terry Blinebry Oil Tubb Gas in May of 1958. On the potential test, the well flowed 1858 MCF with a tubing pressure of 651 pounds. The shut-in pressure was 1931 pounds in October of 1959. The shut-in pressure was still 1764 pounds. The average allowable for 160-acres in

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the Tubb Gas Pool for the total year 1959 was 323 MCF per day. The maximum allowable for any period during that year 1959 was 520 MCF a day. Therefore, the well is capable of producing well in excess of a 160-acre allowable. We are now producing on an 80-acre non-standard unit covering our Naomi Keenum which was approved by NSP 408 dated January 12, 1958. This 80-acre unit covers the W/2 Southeast Quarter of Section 14. We have contacted Permian Basin Pipeline Company as purchaser of the gas from the Naomi Keenum No. 2 and they advise that the well is at the end of September almost approximately 1487 MCF over produced and that the well will be in balance on November 1, 1960. Also shown on this plat are the off-setting Tubb Gas Units. To the west of our proposed 160 non-standard unit, there are 2 standard 160-acre units. These are all outlined in green and we have the unit well circled in green. To the southwest of our proposed unit is a standard 160 Tubb Unit, directly south, is a 120-acre unit. To the southeast is a 40-acre unit. Directly to the east is a 160-acre non-standard unit covering the east half of the east half of Section 14. This unit is identical in shape to the one that we are asking here today. The well is located identically and this was approved by order R-1203 dated May 6, 1958.

Q Has Gulf entered into a communitization agreement with the working interest owner, Shell Oil Company, in the west half northeast quarter of Section 14?



A Yes, sir. On December 22, 1959, Shell and Gulf entered into a gas pooling agreement covering the pooling of Tubb Gas under the W/2 E/2 of Section 14. Gulf and Shell both contacted their respective royalties and Shell has advised us that all of their royalties have approved.

Q Is there any Tubb Gas production north of Section 14?

A No, sir, not to my knowledge, any Tubb Gas.

Q Mr. Hoover, in your opinion is the entire area of this proposed non-standard 160 unit productive of gas in the Tubb unit?

A Yes, sir, in our opinion it is.

Q How do you justify that?

A Based on our structure maps, in our opinion it is gas productive and also in view of the fact it has been reasonably proved productive to the satisfaction of the Commission due to the fact that the gas units have been assigned as they are now. As they are presently assigned.

Q Do you have any information as to what the production cost would be of drilling a second Tubb Gas Well in the west half of the northeast quarter as an 80-acre unit?

A Yes, sir, to drill a Tubb Well, a single Tubb Well, would cost probably in the neighborhood of \$100,000.00 to dual and an existing well if it was possible, just basing on our cost, would be in the neighborhood of \$20,000.00.

Q Would such an operation be feasible to the operator in your opinion?



A No, sir. In my opinion it, I believe it would result in economic waste in that it would be requiring two wells to 160-acres where it has been established that one well will efficiently drain 160 acres.

Q Isn't it true or is it true that also involved is a restricted allowable and therefore somewhat longer payout.

A Yes, sir paying on 80 acres would be twice as long as on 160.

Q Isn't it true in your opinion the drilling or completing of a second gas well in this area would unnecessarily deplete reservoir energy?

A No, sir. I don't, a second well would not.

Q I mean a well in the west half northeast quarter of Section 14.

A I don't believe I followed your question there.

Q Would it be a waste of reservoir energy to require the drilling of a second well on an 80 acre spacing pattern rather than to give an approval to the present proposed 160 acres?

A No, sir, I don't believe it would be a waste of reservoir energy. I believe it would be a waste of money to require another well.

Q Mr. Hoover, you said that 100 percent of the Shell Oil Company's royalty owners have approved the communitization agreement.

A Yes, sir.



Q Have all of Gulf's royalty owners approved this communication agreement?

A No, sir, they have not.

Q Which royalty owners have not approved?

A We received answers from all of our royalty with the exception of a Mr. R. H. Fulton. However, he has common royalty under Shell's lease as he does under ours and he approved the same gas pooling agreement, signed the consent and ratification we sent to him. He did sign Shell's, he did not return ours, therefore, we consider that he approves the gas pooling.

Q The consent and ratification in this case was the consent and ratification of the entire pooling agreement.

A That is true.

Q Go ahead.

A The royalty under the Naomi Keenum, this approval was Mr. J. M. Newton, Ronald J. Byers, Robert E. Byers and Constance E. Byers. This represents 11 and a quarter percent of the total royalty underlying this proposed 160-acre unit who have objected.

MR. NUTTER: 23 percent of the royalty under your tract?

A Yes, 22½ percent is what it would amount to under our tract.

Q (By Mr. Kastler) Specifically what were the objections of the Byers' people?

A I have letters which I would like to pass out. I would like to pass out the originals of these letters, we have made



verifax copies of and would like to use our verifax copies as evidence and keep our originals for our file.

MR. NUTTER: Okay.

THE WITNESS: We directed a letter to our royalty owners on May the 23rd of 1960 requesting their approval to the gas pooling and on June the 1st we received a letter from Mr. Byers which is -

Q (By Mr. Kastler) May I interrupt to ask you one question, Mr. Hoover, are any of these Byers' people the three people whose names are Byers' royalty owners on the Shell tract?

A Yes, sir, I was going to bring that up later. There are some common royalties.

Q I don't believe you understand my question. Do these Byers' own any royalty in the Shell tract to which 100 percent royalty has been permitted?

A No, sir, they do not.

Q Go ahead.

A The letter from Mr. Byers which is on a letterhead, the Byers' Company, representing Constance, Robert and himself, we have labeled this Exhibit 2.

Q What was the substance?

A It may be noted, and this is their main objections, that everybody benefits except the royalty owners under the west half of the southeast quarter.



Q Which is your Naomi Keenum lease.

A He does say in there that communitizing in the third paragraph, communitizing our interests still leaves us with the same income under the new existing allowable which our correspondence told him that the royalty would not increase or decrease their revenue. The last paragraph in which he goes on to set out additional things that he would sign, I mean additional reasons he would sign if we gave him substantial compensation and in his letter he defines substantial compensation as increasing the royalty from the regular 1/8 to a 1/4. In our letter of June the 8th, we advised him that we thought the royalty would not gain or lose by this situation and that we did not feel it was justified to grant him additional compensation.

MR. NUTTER: Is that your letter of June 22nd?

A No, sir these are just the letters from him, his letter return of June 22nd, 1960, which we have labeled Exhibit 3.

Q (By Mr. Kastler) Mr. Hoover, in your reply to his first letter, Gulf denied his request for an amendment to 1/4 royalty, is that correct?

A We felt it was not justified and in his letter of June 22nd, Exhibit 3, that since Gulf feels, we feel it is not to your advantage to execute the pooling agreement and since Gulf feels that additional compensation is not justified, it is our intent to not execute this instrument. And then on June the 7th, 1960 Gulf



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received a letter from, it was an undated letter, unsigned, however, from Mr. J. M. Newton and we have labeled this Exhibit 4 in which he asks several questions in there about how can you produce more oil and does it put down more wells, increase the allowable and what does the Naomi Keenum royalty owners gain by this merger. In our letter of June the 12th, we answered his questions advising him that the allowable that the well was producing on the 80 acre allowable at the present time and that to double the allowable would be to double the acreage since the Tubb gas was prorated on the basis of acreage. We would not put down more wells and that we felt that the Naomi Keenum royalty owners would not gain or lose by this pooling. And then his letter dated June 20th, '62, which I am sure that is supposed to be '60, however, that is the way he sent it, he makes reference to our letter of the 13th and in this if you will notice that he says, "Now, this merger would give royalty owners 1/2 interest in the Naomi Keenum Gas Well, I suggest that the royalty owners have 80 acres mentioned in the merger by 1/2 interest in the Naomi Keenum Gas Well or go into account that the owners have gas royalty and get all royalty for 10 years and therefore, thereafter are divided 50-50." Our letter of June the 27th was in answer to his letter telling him that the royalty owners did not buy a interest in the gas well under this gas pooling. And answered his other questions. We have not heard from him since so we assume he objects.

Q At least he hasn't signed a consent to his ratification



for a pooling agreement.

A He has not.

Q Mr. Hoover, is Mr. Newton an interested royalty owner in the tract that is under lease with Shell which is the west half northeast quarter of Section 14?

A No, sir, he is not.

Q So then you have substantially 5 royalty owners who have opposed this communitization, is that correct?

A Four.

Q The three being Byers' and the fourth one Mr. Newton.

A Mr. Newton.

MR. NUTTER: One that was silent, the man that signed for Shell.

A Yes, sir. One thing that is pertinent I think is that almost 23 percent of the royalty under our lease, owned royalty under Shell's J. R. Smith lease, so to form this 160 non-standard unit we will benefit approximately 23 percent of our royalty. I believe that covers the testimony that I have.

Q Mr. Hoover, in your opinion would the correlative rights of any royalty owner be adversely affected by the granting of this application?

A No, sir, I don't believe they would.

Q Would this application be in the interest of prevention of waste?

A Yes, sir.



Q Have all of the off-set operators been given notice of this pendency of this hearing?

A Yes, sir.

Q By being sent the copy of the application?

A Plus the people who have objected.

Q What is the gas purchaser, who is the gas purchaser?

A Permian Basin Pipeline Company.

Q You stated that the present status or that is the expected status of this unit well proposed as of October 1 or September 30 will be in an over produced status but that on November 1 the well will be substantially in balance. Are you suggesting that the order be made effective as of November 1?

A Yes, sir I believe that would be the best time.

Q Was Exhibit No. 1 prepared by you or under your direction?

A Yes, sir, it was.

Q Were Exhibits No. 2, 3 and 4 true copies, verifax copies of letters received by Gulf from the adverse royalty owners involved?

A Yes, sir, they were.

MR. KASTLER: I would like to move at this time for introduction into evidence of Exhibits 1 through 4 and this concludes the questions I have on direct testimony.

MR. NUTTER: Gulf's 1 through 4 will be entered. Does anyone have any questions of Mr. Hoover.



CROSS EXAMINATION

BY MR. PAYNE:

Q Mr. Hoover, I believe you testified that no royalty owners correlative rights would be affected by granting of this application. Now, as soon as this well becomes incapable of producing an 160 acres allowable, and yet at the same time capable of producing an 80 acre allowable, isn't it true that the royalty owners in the south half of the proposed unit are going to be getting less than they would where the application were not granted.

A Well, that depends I think on what you refer to the well becoming marginal. If it becomes marginal due to the fact that the reservoir energy is down to the point it will not flow into the pipe line, under these existing high pressure, then if the pipe line does go ahead and put a compressor on it to lower down to where it will go into the pipe line then it could go right on down to 100 pounds or to the point of economic limit.

Q Assuming that 160-acre allowable in here was 1000 MCF and an 80-acre allowable as 500 MCF. Now, at the present time the royalty owners in the south half of the proposed unit would be getting 1/8 of the 500. Now, if you form 160 acre unit, as soon as the well becomes incapable of making 1000 MCF, but it hasn't yet declined where it is not incapable of making 500, the amount of the royalty in the south half are going to be less than you are getting now.

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A It would reach that point.

Q Do you think that after off-set by the fact if the application is not granted the royalty owners in the north half of the proposed unit get nothing even though their acreage is being drained.

A Well, I certainly think it's off set by the fact that the surrounding units are going to be in the same situation.

Q Isn't it true that the north half of your proposed unit that the owners there are presently getting nothing?

A Yes, sir they are presently getting nothing.

Q And yet it's very probable their acreage to a certain extent is being drained.

A Yes, sir.

Q One well will presumably drain 180 acres.

A Yes, sir.

Q It's not possible to form a standard unit which would take in the north half of the proposed unit.

A No, sir, that was explored at one time and Continental was verbally contacted to see about forming a standard unit down in the southeast quarter. For that particular time they said they had plans of covering their entire 160 acres with their own well which is what we would expect to do ourselves so that forming of any kind of units were abandoned at that time.

Q And in any event too late now to form a standard unit in



the northeast quarter of Section 14.

A Yes, sir, it would entail the expense of additional wells.

Q Plus the fact you would then have 280 acre units in the southeast quarter.

A Yes, sir.

Q Because there is already two wells there.

A Yes, sir.

MR. PAYNE: I believe that is all thank you.

MR. NUTTER: Any further questions of Mr. Hoover?

MR. KASTLER: I would like to ask him another question on re-direct. Mr. Hoover, the New Mexico statute pertaining to pooling which is Section 65 314 of the New Mexico Statutes, 1953 annotated says in part: "All orders requiring such pooling shall be upon terms and conditions that are just and reasonable and will afford to the owner of each tract in the pool the opportunity to recover or receive his just and equitable share of oil and gas or both in the pool as above provided so far as may be practicably recovered without waste." In your opinion would the Oil Conservation Commission be warranted in issuing an order on just a just basis and does that basis exist in this case?

A In my opinion.

MR. NUTTER: Did you have any further questions.

MR. KASTLER: No.

CROSS EXAMINATION



BY MR. NUTTER

Q Mr. Hoover, what is the present capacity of this well to produce?

A Mr. Nutter, I don't have a recent test on it. I have a test which I gave the potential of 1,858,000 and at 651 pounds flowing tubing and the shut-in pressure at 1932.

Q When was that test?

A This was in '57.

Q Has the capacity of the well gone up or down?

A In 1958 the shut-in pressure was still 1764 pounds which is well up there. I don't have the figures exactly what the tests were but it's way above the average allowable of 323 MCF a day.

Q 323 MCF allowable for an 80?

A 160 acre unit, that is the average and that takes into account the high and low demand periods.

Q The year around?

A The maximum for '59 for any individual month was 520 MCF a day so we have a well that I would just say off hand that can produce 3 times the maximum there, probably in excess of that.

Q Now, you stated that there weren't any Tubb Gas Units to the north of your proposed unit.

A No, sir, I don't believe there are any Tubb Units in Section 11.

Q Discounting the fact that the Commission has approved units

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comprising of the northwest quarter, of Section 14 and the east half and east half of 14, what evidence is there that the northern section is productive of gas.

A Well, of course our structure maps which are drawn on the basis of the other wells which I don't have, it indicates of which, it indicates it is productive.

Q Are there any Tubb Oil Wells to the north?

A I believe that Continental Nolan No. 2 which is in Section 11 in the southeast of the southwest quarter, I believe that is Tubb Oil. Of course the only yardstick for oil and gas in the Tubb Pool of course the oil well is the exception to the rule, that Tubb Gas is the predominant but the only guiding point is if the well produces 45, below a 45 degree gravity fluid it is classified as an oil well and if it produces above 45 it is classified as a gas well.

Q What does the symbol T designation mean?

A On our map it can be Drinkard or Tubb. In other words, if you notice the off-setting well to that of Shell in the northwest quarter of Section 14 where we have the Tubb Gas circled in green where it's TT, Drinkard or Tubb.

Q Drinkard or Tubb?

A Yes, sir.

Q Well, No. 1 in the southeast of the northwest, is that Drinkard or Tubb, it's just T.



A In the southeast of the northwest?

Q Yes.

A That is Drinkard.

Q How about the well in the southeast of the northeast?

A Southeast of the northeast, that is a Drinkard.

Q Is there a difference to the shape of the T's?

A No, sir, I had to go and look them up. It is confusing but that is the way our maps are designated. I did list the pertinent Tubb Wells surrounding that unit circled in green.

Q Those are the Tubb Gas Wells?

A Yes, sir, being the unit wells for those units outlined in green.

BY MR. PAYNE: What is the gravity of the proposed unit well?

A The last test was 45.2 corrected.

Q Have any of these wells in Section 14 from time to time been reclassified from gas to oil or oil to gas in Section 14 in the Tubb Gas Pool?

A I don't believe so. They are still producing on a 160 acre allowable as to the last proration schedule in September. They have been gas wells as long as I have been checking on them.

Q Do you anticipate that the proposed unit well might sometime have to be reclassified as a Tubb Oil Well?

A No, sir, we have no indication of that. If it does, the unit does not apply since it only pools dry gas and associate



liquid hydrocarbons.

Q Since it would have to be reclassified, what would happen to the money Shell would pay for the unit well, just the risk of the business?

A Yes, sir, that is what it amounts to.

BY MR. NUTTER: Mr. Hoover, you stated that 23 percent of your royalty owners had not agreed or 22½ percent to be exact, then you stated that some of your royalty owners that had agreed to it were also royalty owners in the Shell acreage.

A 23 percent of our royalty also have royalty in Shell's G. R. Smith lease.

Q That is not this same 23 percent.

A I am not saying they have 23 percent in Shell's royalty, no, sir. That is not the same 23 percent of our royalty owners. In fact this 23 percent disapproval have no royalty interests.

Q Are they the only ones that have no royalty interests in Shell's?

A No, 23 percent disapproving then we had 23 percent which have approved that of royalty so that would make it 46 percent so we have had another 54 percent which did approve that of just of royalty under our Naomi Keenum lease.

Q You got 100 percent royalty owners and 77 percent of them have approved and 23 percent have not approved.

A That is right.



Q And of this 77, that has been approved only.

A 23.

Q Only 23 percent of them have royalty in the Shell acreage gas well?

A Yes, sir.

Q 54 owners or royalty under your tract have approved?

A Yes, sir.

MR. NUTTER: Any further questions of Mr. Hoover?

BY MR. KASTLER: Mr. Hoover, in the event Gulf's unit well ceases to be classified as a gas well, does the unit agreement provide for further development of the Tubb Pool before it's exploration?

A I believe this is what you are referring to. Gulf shall use reasonable diligence to the operator in maintaining of the unit well so as to produce and develop a maximum quantity of gas subject to limit. After the unit well is completed - you are not talking about that.

Q Read that.

A It is further provided that after the exploration of said 1 year period should the unit well or wells be reclassified by the New Mexico Oil Conservation or should the pool proration unit cease to produce gas in paying quantities from any cause, this agreement shall not terminate, if within 6 months after the date of any reclassification situation of such production, Gulf shall



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commence operation for the purpose of restoring gas production from the unit. In which event this agreement shall remain in full force and effect during the such operation or diligently prosecuted and so long thereafter as dry gas with or without associated hydrocarbons are produced from said unit in paying quantities.

Q Isn't it possible that if the proposed unit wells should be reclassified that is an adjacent unit well could be developed in the west half northeast quarter of the unit, of 160 units in the north half of the unit.

A Yes, sir, it would be possible.

Q And in such an event, would then the royalty owners in the south half of the unit benefit?

A Yes, sir.

Q Would that develop on the other hand in the west half?

A Yes, sir, they would.

Q Thank you. One other question. Can you imagine any case where a gas well has been developed on the smaller area then is allowed under the pool rules and the operator wants to unitize with another operator who is adjacent to that area so as to make this a below a standard or at least allowable size of a unit. Can you imagine any such unit where that might be proposed where the royalty owner would not have the same complaint as Mr. Byers' or have grounds for the same complaint as Mr. Byers'? What I am



asking you is, isn't it a force-pooling to some extent at the peril at least as a royalty owner in one small tract that contains, isn't it also some kind of peril or depravation or his requirements for the royalty to be pooled.

A I believe you lost me on there.

Q Well, I will try to state it again in some other words. If you take it hypothetically, any small lease that is smaller than the allowed unit for a single proration unit.

A Let's take 40 acres.

Q And let's assume there is a gas well in this pool on this 160 on that 40 acres and suppose in order to make that gas economic the operator of that 40 acres proposes to pool that 40 acres into a standard proration unit of 160 acres. Isn't it true that the royalty owner not having any interest in the remaining 120 acres would also be able to state the same objections in substance as Mr. Byers?

A Yes, sir, that is right.

MR. KASTLER: That is all.

BY MR. PAYNE: Mr. Hoover, if this well was reclassified and you developed the north half of this proposed unit as another Tubb Gas Unit, then you would be back on an 80 acre development which I understood was not economically feasible.

A If I said it was not economically feasible, that is not correct. I did state that to require two wells on 80 acres in a

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160 acre field where the 160 acres is allowed, is an economic waste but development on 80 acres, I would not say is economical.

Q And in fact in Section 23 there is a Tubb Well on a 40 acre unit.

A Yes, sir.

Q So while it might be economical, the well might pay, it would be the drilling of an unnecessary well.

A Yes, sir.

MR. NUTTER: Any further questions of Mr. Hoover?

(No response)

MR. NUTTER: You may be excused. Do you have anything further, Mr. Kastler?

MR. KASTLER: No, sir.

MR. NUTTER: We have two objections from Mr. Newton. Royalty on the south half of the proposed 80 or 160 unit and also from Mr. Ronald J. Byers who objects to the formation of this unit. Both of these statements will be placed in the record in their entirety and they are available at this time if anybody wishes to read them.

MR. KASTLER: Have you received anything from Shell in concurrence?

MR. NUTTER: We have a telegram in which they concur this likewise will be in the record for anybody to read or inspect. Does anyone have anything further for Case 2083?

(No response.)



MR. NUTTER: We will take the case under advisement and
call case 2084.

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WITNESSES

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