

EXAMINER HEARING

Case No.
5400

TRANSCRIPT OF HEARING

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I N D E XPAGEE X H I B I T S

	<u>Marked</u>	<u>Admitted</u>
Applicant's Exhibit No. 1	--	9

MR. STAMETS: We'll call the next case, Case 5400.

MR. CARR: Case 5400. Application of Twinlakes Oil Company for amendment of special pool rules, Chavez County, New Mexico.

MR. STEVENS: Mr. Examiner, I'm Don Stevens of Santa Fe, New Mexico, representing the Applicant, and I have one witness to be sworn, the owner of Applicant, Don G. Stevens.

(Witness sworn.)

DON G. STEVENS

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

MR. STEVENS: First of all I would like to point out that the Applicant in this case, from the time of filing this case, has been dissolved, Twinlakes Oil Company, and its successor is Stevens Oil Company. The ownership of the corporation and the sole proprietorship is the same but it is a different Applicant at this point.

As Witness my name is Donald G. Stevens, Santa Fe, New Mexico, and I am the owner of Stevens Oil Company. I have previously testified as an expert witness before the Commission and I would tender my qualifications to

the Commission.

MR. STAMETS: The Witness' qualifications are acceptable.

MR. STEVENS: Briefly, the Applicant seeks here an amendment to Order No. R-4102, which sets up field rules for the Twin Lake San Andres Field wherein the field is an associated gas reservoir and 160-acre units are set up for gas wells and 40-acre oil units are set up. The rules allow additional oil wells to be drilled on oil prorationing units, keeping the same allowable, and additional gas wells to be drilled on gas proration units with no increase in allowables. The field does not, however, allow oil wells to be drilled on gas proration units, per se. The field has one gas well on a communitized nonstandard 160-acre unit and the unit has an oil productive area in addition to its gas productive area.

To recover this oil we seek permission to drill an oil well on the gas well proration unit or permission to drill oil wells on gas proration units by amending the rules thereof. I tender tentatively Exhibit No. 1 by the Applicant, which is an area plat and a structure map of the Twin Lake San Andres Pool. It encompasses basically Sections 36 of Township 8 South, Range 28 East,

and Section 1 of Township 9 South, Range 28 East in Chavez County. Shown thereon is a datum of the P 1 zone of the San Andres, which is the top of the porosity in the field itself. This, as shown on Exhibit 1, indicates a sharp nosing anticline over the producing portion of the field, probably caused by a deep-seated Devonian anticline which is closed down in the Southwest quarter of Section 1. The displacement between the Devonian and the San Andres is some half section, or thereabouts. The contour map can be drawn to close the field as an anticline rather than have the sharp nosing but is usually shown as a sharp nosing. As you can see in Section 36 of the Northwest quarter of the Southwest quarter there is one gas well producing in the field. The rest of the wells are all San Andres oil wells. Basically it is an oil rim to a gas cap; we only have one gas cap in the field; we don't know the extent of the gas cap. The yellow line shows what is called a gas-oil transition zone. There are about two to three porosity zones in this P 1 zone, and they probably have differential gas-oil contacts. The gas oil ratios vary within the field, not necessarily related to structure, but the highest oil producing well is No. 2 Citgo State in the Southeast, Southwest quarter

of Section 36. It has a gas-oil ratio of about 2700 to 1. It is a diagonal offset to the gas well in the field which makes practically no oil and previously made substantial amounts of gas and makes very little now. Between those two datums of plus 1411 for the 2 Citgo and 1420 for the C.H. State, it is considered to be the transition zone from the oil rim to the gas cap. As you will see on, by looking therein, in the West half of the Northwest quarter you have a gas area, an oil and gas transition zone, and in the East half of the West half, Northwest quarter, most of that would be considered oil productive.

The red outline on the Exhibit shows the non-standard 160-acre proration unit, and the red location mark No. 2 is a proposed drill site pending approval of this Application.

Basically, the purpose of this Application is to allow drilling in the West half of the Northwest quarter for oil, obtain an oil allowable and allow the oil to be produced in an area which ordinarily would not be drained by existing wells. The field, as all P 1 zone in the slaughter zone of the San Andres, is relatively tight. There is considered to be very little drainage between wells. As an example, a well drilled last wpring, the Citgo State

B No. 1, Southwest quarter of the Southeast quarter of Section 36, had a virgin bottomhole pressure of approximately 700 pounds, upon completion, after the offset wells, west offset and south offset, which had been in production some 6 years at the time and had produced some 50 to 60 thousand barrels of oil at the time, so on that basis there isn't very much pressure drainage between wells.

Thus, we considered that the Wells Nos. 4 and 5 would not drain the oil in the West half, Northwest quarter. It is also, we consider, that the lessees, mineral owners, royalty owners in that West half, Northwest corner, would have no method of extracting the oil out from under their leases without granting of this Application. By the Commission's statutory dictates I feel this would prevent waste in that oil would be recovered which otherwise would not be recovered in that otherwise an oil well could not be drilled in this area. We also feel it would protect the correlative rights of the royalty owners in that West half, Northwest corner, and conceivably other areas of the field. We're concerned with this one at this point.

We feel as to the proration that the oil allowable should be limited to the standard 40-acre oil allowable but we also feel that the gas allowable probably should be

the same as the entire 160 acre ordinarily has. However, if there are mechanical or computer problems with allocating a gas allowable, casing a gas allowable to an oil well in the same proration unit as a gas well, then we would have no objection to allow each 40-acre tract within the proration unit to "stand upon its own two feet" as it were, so far as oil and gas production, that is for example, a 40-acre tract might be limited to the usual 2000 to 1 gas-oil ratio times the allowable assigned to a 40-acre oil tract.

I would also like to point out that Rule 4 of the Commission provides that wells, if drilled in a known gas-productive area, should be drilled within 150 feet of the center of 40 as shown on this Exhibit , and I would like to establish that. The 330 location shown there would be drilled in an oil productive area, at least presumptively, and it is conceivable also that another well might be drilled at a 330 location in the Northwest quarter of the Northwest quarter. We're not asking this; I would just like to have it on the record that the reading of the rules, drilling a well on a 330 location would be permissible since it is not in a gas productive area.

Exhibit 1 was prepared by me and I wish to

introduce it into evidence, and I have no further testimony.

MR. STAMETS: Exhibit 1 will be admitted.

(Whereupon, Applicant's Exhibit
1 was admitted into evidence.)

MR. STAMETS: Mr. Stevens, is all of the West
half of the West half of Section 36 the same lease with
the same working interest and royalty interest?

MR. STEVENS: No, it isn't. There are different
State leases there. There are three different State
leases there and they may go to different State bonds,
but they are all State leases.

MR. STAMETS: If you would drill Well No. 2
and get an oil well, is it possible that you could do
one of the two following things: Request a nonstandard
unit consisting of the East half of the Northwest of the
Northwest and the East half of the Southwest of the North-
west and form a nonstandard 40-acre oil proration unit and
reduce the size of your nonstandard gas proration unit by
that same amount, or to drill another oil well in the
Northwest quarter of the Northwest quarter and then
reduce your communitization to an 80 acres in the West
half of the Southwest?

MR. STEVENS: The second alternative would seem

the more feasible to me, presuming another well were drilled, in that (1) the gas well isn't that good a gas well, and (2) you would be able, using your second proposal, to drain the oil in all of the West half. The first proposal I would have a preliminary objection to anyhow in the sense that I don't believe the well No. 2, as shown on Exhibit 1, would drain the East half of the Northwest of the Northwest. I think 40-acre spacing may be even too high. There has been evidence in the slaughter zone that perhaps something should have been drilled on 20 -- I'm not stating that, there has been that contention made in some fields especially in Texas -- therefore, my only objection to that would be that I feel you wouldn't recover oil that might be available there if you didn't split it up as under your first proposal. The second proposal I should think would be quite in order.

I might point out this shows up to be of course in an oil zone in the gas proration unit, but this yellow land here, we don't know where it stops, where the oil stops and the gas begins, and it probably doesn't, per se. It is probably an interfingering porosity zone with slightly different gas oil contacts. On that basis,

your first proposal would perhaps leave undrained even more oil than the second proposal. I have no objection to it at all; it would be very feasible to do so.

We have one problem, and I would like to reserve judgment in the sense that the entire area is communitized for oil and gas, and to reduce the size of the proration unit might require obtaining new communitization agreements. I see no problem in so doing, but there could be some.

MR. STAMETS: If you were forced to break out this 40 acres from you communitized 160, that being the Southwest of the Northwest, would that cause you to lose the Northwest to the Northwest?

MR. STEVENS: An off-the-cuff opinion, yes, it would, in that the Northwest Northwest would not be continuous, and I don't believe the Commission rules allow nonstandard units that aren't in some way continuous.

MR. STAMETS: So what you really are looking for is a simultaneous dedication to provide the time necessary to evaluate these two 40-acre tracts to see what you need to do with it?

MR. STEVENS: Basically I should think that would be it. I stated that I would hate to be tied to a procedure that might be impossible for fulfillment, so far as the

mineral owner is concerned and so far as the lease owners of the other leases under the West half, Northwest quarter are concerned.

MR. STAMETS: If the Well No. 2 were completed as an oil well, would that 40 acres dedicated to it only, would the working interest and royalty interest share differently from that production then they would if we said this production is attributable to the whole 160?

MR. STEVENS: No, sir. It is all communitized for oil and gas, so regardless of where we drill or how we make it, all owners under the entire 160 communitized acreage would share in all production regardless of how we mechanically set up allowables as to oil and gas.

MR. STAMETS: So basically then there would be no difference in the allocation regardless of how we went in this area?

MR. STEVENS: None. To try to state it another way, the rules are very explicit as to allowing oil wells on oil well proration units and gas wells on gas proration units. What we are seeking is merely allowing oil wells on gas proration units to recover the oil that might not otherwise be recovered. We don't seek any additional allowable as a consequence of it or any additional

gas to be produced as a consequence of it, and certainly it is a gas proration unit, but we will be producing gas in association with the oil whether it is with a high gas-oil ratio or a low gas-oil ratio. I would think it would probably be a fairly high gas-oil ratio but the production probably will not be sufficient to incur the penalty.

MR. STAMETS: If your Application should be denied, would would the result be?

MR. STEVENS: Well, we couldn't drill the well. If there are any other alternatives, I frankly haven't considered them. It is conceivable we could go to the mineral owners and the other lease owners to reduce the unit perhaps. Whether this would be feasible or not I don't know.

MR. STAMETS: Then if you did drill the well and you did get gas --

MR. STEVENS: (Interrupting) Then we'd have to put it back together, and of course there is the possibility we may get gas here. This is an interpretation; we think it is a fair one, but we could be wrong. There's a bunch of unanswered questions about that.

MR. STAMETS: If the mechanics of dividing out

the production, allocating the production in this 160-acre unit, would require getting away from the gas proration formula now set out in the special pool rules and going to a system such as we are currently using to allocate casing-head gas to oil wells, wherein the allowable is set out monthly in the Stat Book, and under production is lost and over production is chargeable against future allowables, would you be agreeable to this change, and pool rules?

MR. STEVENS: Definitely.

MR. STAMETS: Such an arrangement would require that the gas well in this case, assuming you do get an oil well, be assigned an acreage factor of 3 in the Twin Lakes Pool.

MR. STEVENS: That would be perfectly agreeable.

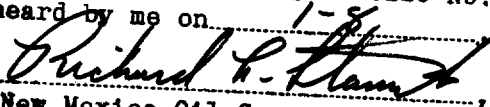
MR. STAMETS: Any other questions of this Witness? He may be excused. Anything further in this Case? We will take the Case under advisement.

If there is nothing further, the Hearing will be adjourned.

STATE OF NEW MEXICO)
) SS.
COUNTY OF SANTA FE)

I, RICHARD L. NYE, Court Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.


RICHARD L. NYE, Court Reporter

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5400, heard by me on 1-8, 1975.
, Examiner
New Mexico Oil Conservation Commission