STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

EXAMINER HEARING

IN THE MATTER OF:

Application of Hal J. Rasmussen Operating, Inc., to amend Division Orders Nos. R-6483, and R-8575, and for special gas metering provisions in Lea County, New Mexico	Cases 9774 9775, 9776

TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

October 4, 1989

A P P E A R A N C E S

FOR THE DIVISION:
ROBERT G. STOVALL
Attorney at Law
Legal Counsel to the Divison
State Land Office Building
Santa Fe, New Mexico

FOR THE APPLICANT:
CAMPBELL & BLACK, P.A.
Attorneys at Law
Suite 1- 110 N. Guadalupe
Santa Fe, New Mexico 87504
BY: WILLIAM F. CARR, ESQ.

FOR DOYLE HARTMAN:
GALLEGOS LAW FIRM
141 East Palace
Santa Fe, New Mexico 87501
BY: JOANNE REUTER, ESQ.

I N D E X

E X H I B I T S

HEARING EXAMINER: This hearing will come to order. I'll call next case No. 9774, which is the application of Hal J. Rasmussen Operating, Inc., to amend Divison Orders Nos. R-6483 and R-8575, and for special gas metering provisions in Lea County, New Mexico.

At this time I'll call for appearances.

MR. CARR: May it please the Examiner, my name is William F. Carr with the law firm of Campbell & Black, P.A., Santa Fe. I represent Hal J. Rasmussen Operating, Inc., and I have one witness.

I also would request that this case be consolidated with the two following cases on the docket, cases 9775 and 9776. They involve the same properties, and the testimony will be substantially overlapping in each of the cases.

HEARING EXAMINER: Are there any objections?

MS. REUTER: Yes. Mr. Examiner, I'm Joanne Reuter from the Gallegos law firm, and I represent Doyle Hartman. I'll have one witness also, Daniel S. Nutter, but we would object to the consolidation of the cases, partly because we object to Case 9775 in the format that it's brought before the examiner, that of an application for multiple nonstandard proration

units, multiple unorthodox well locations, and simultaneous dedication.

It's our position that it's virtually impossible for us to evaluate that application, that it should be brought as individual applications for nonstandard units and unorthodox well locations, and that by consolidating the three cases, it makes it even more complicated.

MR. CARR: Mr. Examiner, I believe this objection was raised in a letter from Mr. Hartman that Miss Reuter has filed with the Division. We resist that. The testimony is basically the same as to each of these, and it will facilitate an efficient hearing, if nothing else, to put them on at one time.

What we are doing, each of these cases is part of one overall plan to efficiently develop a particular portion of the Jalmat Gas Pool, and is all necessary as part of a plan to put in a new gathering system that will enable more efficient production, and it makes sense to do it all at one time.

In addition, and in view of Mr. Hartman's objections, I think before we go forward, we would ask exactly what his ownership interest is in each of the tracts, ask that those be identified, because by identifying those, we might be able to determine

exactly what his standing is for bringing these objections.

Our land work, since the objections were filed, has been rechecked, and we have determined that he is not an offsetting operator or an operator of any tract within any of the sections or any of the units that would be excluded by a nonstandard unit. Not knowing exactly what his interest is, we do question his standing.

We resist any effort to try and hear these individually, to break what is now three cases into, say, 25 cases. Certainly when we look at the metering aspects, the commingling aspect, we object to that, and further request, as a preface to the objection, we would like to have an exact understanding of what Mr. Hartman's ownership is.

HEARING EXAMINER: Miss Reuter?

MS. REUTER: Mr. Hartman is not an offsetting operator. We are fairly sure of that. For me to tell you exactly where he has working interests in offsetting units, which is my understanding of what his interest in this case is, I would need Mr. Nutter to testify to that.

The other problem that we've had is we can't tell just by virtue of the applications that

were filed and by virtue of the notices that Mr. Hartman received on the OCD hearings, exactly what offsetting interests, working interest, he does have.

Partly, that raises my request for continuance, which I have raised in my letter to you previously, that this case be continued until we have more opportunity to evaluate exactly what's going on in this application and possibly do some discovery. And I would renew that request at this time.

It's very difficult to assess an application for nonstandard proration units in unorthodox locations in, I think it's 18 sections. As Mr. Carr has said, the other two applications are related to them.

The notice was not even clear as to what special metering is being sought, and it conflicts with the applications themselves.

Mr. Hartman obviously didn't get notice previous to the docket because he is not an operator on any offsetting units, but it's my understanding that he is an offsetting working interest owner.

The other standing that Mr. Hartman has in this case is that he is a potential producer of the Jalmat Pool, and I'm sure, as the hearing examiner knows, has been for a long time.

These applications appear to have an effect on the allocation of allowables and may possibly have a precedential effect for the setting of allowables and application of the allowable system in different wells in the Jalmat Pool. And as an operator and developer in that pool, he has standing to object to this application.

HEARING EXAMINER: Before we get muddled in any further motions and such, if I may, since these are in the same area, in the Jalmat, and in the same general area as the leases now owned by Hal Rasmussen, I'm going to consolidate these cases. And, Miss Reuter, if you choose, after we hear testimony today, you can renew your request for a continuance, and I'll decide on that motion at that time.

So at this time I'm going to now call cases No. 9775 and 9776, which 9775 is the application of Hal J. Rasmussen Operating, Inc., for nonstandard gas proration units, unorthodox gas wells, simultaneous dedication, and special gas metering provisions, Lea County, New Mexico.

Case No. 9776 is the application of Hal J. Rasmussen Operating, Inc., for surface commingling, Lea County, New Mexico.

I assume, Mr. Carr, that you will be

representing the Applicant in this matter?

MR. CARR: Yes, in all three cases.

HEARING EXAMINER: And, Miss Reuter, the same for you? Will you be representing Doyle Hartman in all of these cases?

MS. REUTER: That's correct, Mr. Hearing Examiner.

HEARING EXAMINER: Are there any other appearances in any or all three of these cases?

Mr. Carr, you have one witness?

MR. CARR: Yes, I do, and, Miss Reuter, you have a witness?

MS. REUTER: One witness.

(Witnesses sworn.)

HEARING EXAMINER: Mr. Carr?

MR. CARR: At this time, I'd call Mr. Stamets.

RICHARD L. STAMETS,

the witness herein, having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARR:

Q. Will you state your full name for the record, please.

A. I'm Richard L. Stamets.

Q. Mr. Stamets, where do you reside?

A. I live in Santa Fe, New Mexico.

Q. By whom are you employed, and in what capacity?

A. I'm a private consultant operating out of Santa Fe. I've been retained by Rasmussen Operating, Inc., in this case to help them with preparation of the case, bringing this case to the Commission and seeing it through to conclusion.

Q. Have you previously testified before the Oil Conservation Division and had your credentials accepted and made a matter of record?

A. Yes, I have.

Q. How were you qualified at that time?

A. Well, as a geologist and conservation consultant, I suspect.

Educational background, I have a Bachelor of Science Degree in geology, Ohio State University, in 1956, and I had 29-1/4 years' employment with the Oil Conservation Division as a geologist, technical support chief, hearing examiner, and, ultimately, director.

Q. Are you familiar with the applications that have been filed in the consolidated cases on behalf of Rasmussen Operating, Inc.?

A. Yes.

Q. Have you made a study of the subject area?

A. Yes.

Q. Are you familiar with what Rasmussen seeks in each of these cases?

A. Yes.

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

HEARING EXAMINER: Are there any objections to Mr. Stamets' qualifications?

MS. REUTER: No objections.

HEARING EXAMINER: Thank you. So qualified.

Q. (BY MR. CARR) Would you so state what Rasmussen Operating, Inc., seeks with these applications?

A. Rasmussen is seeking approval of 16 nonstandard proration units in the Jalmat gas Pool; approval of one standard proration unit in the Jalmat Pool out of previously approved nonstandard units' approval of Jalmat gas well locations within each of the units; simultaneous dedication of the wells on the units in the Jalmat Pool, on the units that they're located on; and special metering authorization for all proration units on Rasmussen State A, Accounts 1, 2,

and 3, which are the subject of these cases.

Q. Mr. Stamets, does Rasmussen also seek amendment of certain Oil Conservation Division orders?

A. Yes. Perhaps "amendment" isn't the exact word, but there is one section which is otherwise unaffected by this application, which is proposed to be subject to the metering authorization.

Q. And that is Section 11 of 22 South, 36 East?

A. That's correct.

Q. Are you also seeking authority for surface commingling?

A. Yes, sir.

Q. When did Mr. Rasmussen or Rasmussen Operating, Inc., acquire its interest in these properties?

A. The properties were assigned to Rasmussen Operating as of 10-1-88. He assumed actual operations as of 11-30 of 88, and since that time he's been systematically evaluating existing wells, looking at decline curves, looking in wells being loaded up, cleaning out wells, acidizing wells, putting wells on the pump.

Q. What problems have been encountered with the Rasmussen properties as to the development and

operation of these properties since their acquisition?

A. When we look at the Jalmat Gas Pool wells, those have been put on pump to get the liquids off of the perforations so that the gas can flow to the surface. And it's been a little tricky to get that balanced out so that the pumps don't gas log but so that the fluid level does not rise high enough above the producing interval to keep the gas from producing.

Also, if these wells are shut in after they've been on production for a while, it may take anywhere from 1 to 60 days to get the production back up to the level that it was before the well was shut in.

They have had some trouble with operating lines in the area. The wells were originally connected to El Paso. El Paso has a 30-pound line, 60- to 90-pound lines operating in the area, and sometimes the pressure in the line was so high that it knocked these wells off, and they had to be shut in.

There have been delays of three to four months in getting wells hooked back up. The pipeline also wanted a rather large amount of money to set a meter run. Of course, there are always low gas prices, gathering line losses, plant losses, that sort

of thing.

Q. What does Rasmussen propose to do to resolve these problems?

A. Rasmussen is in the process right now of putting in its own gathering line, which will be a low pressure system operating 20 to 25 pounds through a compressor. They will currently be selling to Northern's low pressure system in the area. They want to redesignate a number of the proration units in the area so that they can get the allowable to the wells that will be able to produce it.

And, overall, their intention is to reduce production and gathering costs in the area so that they can operate this property more efficiently, keep the wells on, keep them not shut in.

Q. Have you prepared certain exhibits for presentation in this hearing?

A. Yes. I've either prepared them, or they have been prepared at my direction.

Q. Would you refer to what has been marked for identification as Applicant's Exhibit 1. This is a large, general orientation plat that has been put up on the wall, and maybe you should go to the plat, and I'd ask you first to identify the exhibit and review the information on that exhibit.

A. Exhibit No. 1 is the right hand of the two that we have on the wall here. This is a computer-generated map of the area. It shows within the red-dashed outline all of the Rasmussen leases. We're only dealing with two leases here. The State A-983 lease, which is what's currently called the State A, Account 1 and State A, Account 2, and there is the State B-1484 lease, which is currently designated the State A, Account 3.

Q. Mr. Stamets, in that second lease, the B-1484 lease, how much of the acreage involved in this application is actually governed by that particular lease?

A. That's one half-section, the east half of 10 23 36.

Q. And everything else is under one state lease?

A. That's correct.

Q. If you would go ahead, please.

A. Also shown on the map with hachure marks are the proration units as we hope to have after an order is issued in this case. These will include some standard units, 640 acres. Most of them though will be nonstandard units.

In the green solid lines on the east side

of the map are shown Northern Natural's gas lines in the area, plus there's lateral that runs through the center of the map.

In the dashed line, we have Rasmussen's gathering line, which is currently under construction there to be a compressor, located in the northeast of 13-23-36 and the sales connection will be on Northern's line in 18-23-37.

We have shown in various areas here, and it's difficult for the examiner to see, but you'll see them better on some plats later on, but every once in awhile there's a little rectangle in here with a number of little dots, and those are the existing tank batteries in the units.

Let's see if there's anything else. All the wells in the area are shown. We discovered this morning that the computer had failed to put one well on in the south half of Section 3, and we've put that on. That's the gas wells that look like spastic octopi.

In addition on the one that I plan to leave with the examiner, I put red triangles around each of the Jalmat wells that had already been put back on pump and put back on production by Rasmussen.

There are a couple of wells which have

circles around them. Those are wells I have which have been worked over. They've come back up from the deeper Morrison and attempted Jalmat completions in those.

MS. REUTER: I have an objection. Could we identify those wells that you're talking about that have the triangles because they're not marked on our exhibit?

MR. CARR: I don't believe that's an objection. We'll be happy to identify them for you.

HEARING EXAMINER: Why don't we recess until you guys can identify --

MR. NUTTER: Mark and read it into the record?

MR. STOVALL: Which would be easier?

MR. CARR: It makes no difference to us. Whatever would accommodate Miss Reuter.

HEARING EXAMINER: We will go off the record.

(Thereupon, a discussion was held off the record.)

HEARING EXAMINER: Let's go back on the record. This hearing will resume.

Mr. Carr, I believe it was your turn.

Q. (BY MR. CARR) Mr. Stamets, you've been

reviewing the wells on Exhibit No. 1 for Mr. Nutter. Do you have anything further to present in regard to Exhibit No. 1?

A. I would point out that each one of the proration units has a number in a box, and that will correspond to related exhibits later in the testimony.

Q. Would you identify what has been marked as Exhibit 1-A?

A. Exhibit 1-A is an ownership map which is in the examiner's packet of exhibits and in everybody else's. That's submitted just for informational purposes only, and we don't intend to refer to it otherwise.

Q. How current is this map?

A. We called the Midland Mapping Company yesterday, and this was delivered this morning. That's about as current as you can get.

Q. Mr. Stamets, I'd like to direct your attention to the cases that relate to the nonstandard proration units and unorthodox locations and simultaneous dedication of the Jalmat gas units, and I would direct your attention to Exhibit No. 2 which has also been placed on the wall, and I would ask you to identify this and review for the examiner what it shows.

A. Exhibit No. 2 is the same map that we have for Exhibit No. 1. The only difference is that the proration units are colored in as they currently exist, plus within each unit is the order number which authorized that unit.

You'll see some around where there are 160 acres where it says 1953, and that is a unit which was grandfathered in when the spacing was changed from 160 acres to 640 acres.

Q. On this exhibit there are certain units which have not changed; is that not correct?

A. That's correct.

Q. If you'll look at unit 11.

A. These are in the southern portion of the exhibit -- unit 11 in Section 11 is unchanged. Unit 17 in Section 23, and unit 18 in Section 24 are unchanged. We're hopeful to wind up with basically one order here that will have all of our units, all of our nonstandard units, instead of having to rely on the numerous orders that existed before today's hearing.

Q. Do you have anything further to review with Exhibit No. 2?

A. No.

Q. Would you now identify what has been marked

as Applicant's Exhibit No. 3.

A. Yes. Exhibit No. 3 are those pages of the special rules that go with Order R-8170 that apply to the Jalmat Gas Pool.

Q. This is not all of that order; is that correct?

A. That's correct, these are only the special rules.

Q. Would you review just the rules that relate to spacing, well locations, and allowables?

A. Yes. If I could call the examiner's attention to the second page of the exhibit, Rule 2-A-1 sets out the standard 640-acre unit in the Jalmat Gas Pool. Rule 2-B-1 sets out the standard location at 1650 from the outer boundary of the unit for the 640-acre unit.

Rule 4-B-2 is a rule which tends to limit the amount of acreage you may have at various well locations. So, for example, if you've got a 660-foot well out of the corner, under this rule you're not allowed to dedicate more than 160 acres. That's part of the reason we're here today.

The final one I would mention is Rule 5-A, which gives a standard 640-acre unit an acreage factor of four, and that's relatively unusual. Normally, a

standard unit is given an acre factor of one for allowable purposes.

Q. All right, Mr. Stamets, I'd like you now to identify what has been marked Applicant's Exhibit No. 4.

A. Exhibit No. 4 is a series of somewhat larger-scaled plats. They're 16 pages. This would represent all of the units except No. 3 and No. 5, which are the 640 units. We'll be talking about those in a minute.

I'd also like to suggest that the examiner may want to pull out Exhibit No. 7 at this point.

Exhibit No. 7 lists all of the units, again, numerically, sets out what's to be in the unit, their size, and lists the wells which we are seeking to have approved in those units both as to location where necessary and for simultaneous dedication.

Q. Does this Exhibit No. 7 identify those wells which are after proration units are restructured at unorthodox well locations?

A. That's correct. Each of these wells is identified by the initials "NSL" in the far right column.

Q. Those would be at standard locations based on the Jalmat rules set forth in Exhibit 3?

A. That's correct.

Q. Would you review what's shown on Exhibit No. 4.

A. Exhibit No. 4, again, as I said, is basically the same as Exhibit 1, a little bit larger scale, and a little bit easier to see.

Let's just take the first page here. We're looking at unit No. 1 in Section 5 22 36. We see on here all of the wells in that section. You'll see down below the No. 5, the little rectangle with the battery and that battery number. That's Account 2, Battery 2, and a natural tie-in with other exhibits that we have in this case.

The lateral which is to serve this section is shown in the southern portion of the section. And also by the hachures you'll see what's to be dedicated. In this case you'll see that the northeast quarter is not to be dedicated to this unit.

Q. Mr. Stamets, why have certain tracts been excluded, like the northeast quarter?

A. Tracts have been excluded either when Rasmussen was not the operator, or where there were oil wells in the Jalmat Pool which would preclude simultaneous dedication of that acreage.

Q. If we look at each of these plats, and

we're asking for approval of the locations and simultaneous dedication, are we talking about only wells that are currently in existence?

A. Yes.

Q. You're not addressing any new or additional wells to be drilled in the Jalmat Pool?

A. That's correct.

Q. Do you have anything further to review from Exhibit No. 4?

A. No.

Q. Would you now go to what is marked as Rasmussen Exhibit No. 5 and identify that, please.

A. Yes. Exhibit No. 5 is one of the two standard units which we're seeking or which should result from this case.

In this instance, we had a situation where there were formerly three nonstandard units in this section. We're now seeking a standard 640-acre unit, but we do need the hearing today because we'll want simultaneous dedication of the dedicated wells to the units plus the approval of the nonstandard locations, as you'll see on Exhibit 7.

Q. So if we look at Exhibit No. 7, we can see that what we've got are three Jalmat gas wells?

A. That's correct.

Q. And they're the ones that are indicated by the gas well signs?

A. Correct.

Q. And that two of those, because of the change in the boundary and the 640-acre unit, will be at nonstandard locations?

A. That's correct.

Q. And the location of the tank battery is also indicated?

A. That's correct.

Q. And, again, this is just an enlargement of what is set forth on Exhibit No. 1?

A. That's correct.

Q. Let's go now to Exhibit No. 6, and I'd ask you to review that for Mr. Stogner.

A. Exhibit No. 6 is of an existing, approved nonstandard -- I'm sorry -- standard 640-acre unit. All of the wells on there have been approved for location and simultaneous dedication, all of the Jalmat wells. The only reason for bringing this section in today is for the special metering authorization.

Q. Would you now explain to the examiner the status of the ownership under each of the proration units which you have reviewed in Exhibits 4 through 6?

A. All of this property is operated by Hal J. Rasmussen. The working interests are identical throughout all of the property. The royalties are the same. It's all state land, and it's all common school land.

Q. And even the one-half section covered by separate lease as common schools is a beneficiary under that tract?

A. That's correct.

Q. In your opinion, are each of these proration units or proposed units productive of hydrocarbons in the Jalmat Gas Pool?

A. Yes, in my opinion, they are. Each of the units contains acreage which has in the past been dedicated to Jalmat gas wells. I've looked at the production records in the area. I've looked at wells currently producing out in Jalmat, and I believe they're all productive.

Q. Why are you having to seek approval of a number of nonstandard locations if all the wells are currently existing Jalmat wells?

A. Well, with the rededication, wells which may have been approved in existing units probably need to be reapproved in these new units, plus some of them which were okay, say, in a 160, 660 out of the corner

one, that spacing was increased, say, to 320, have become unorthodox locations.

Q. And it's your desire to have all of these matters covered by one particular order; is that it?

A. Yes.

Q. Mr. Rasmussen or Rasmussen Operating also seeks approval of the simultaneous dedication of the Jalmat gas wells on each of these units; is that correct?

A. That's right.

Q. Do you foresee any problem with that?

A. No. The Jalmat Gas Pool is a prorated pool, and this is just standard procedure when you have multiple wells on these Jalmat units is to have them approved for simultaneous dedication.

Q. Is there a precedent for this approach for the simultaneous dedication of Jalmat gas Pools?

A. Probably hundreds of precedents. The vast majority of the units in the Jalmat Pool are nonstandard units. I don't know that -- years ago, I looked and I think I found one 640-acre unit with one well on it, and essentially everything else is a multiple well situation.

Q. Would you refer to what has been marked for identification as Rasmussen Exhibits 8 and 9?

A. Yes. Exhibits 8 and 9 are orders which impact the Section 11 that we spoke of recently. It's the standard unit in which there are no other changes being sought other than special metering authorization.

Q. And these orders approve well locations and simultaneous dedication of the wells in that unit?

A. That's correct.

Q. And the only reason this is included in this case is so that it also is governed by whatever metering procedures are approved?

A. That's correct.

Q. Let's talk about the metering procedures. How does Rasmussen propose that the production from each of these spacing units be metered?

A. I think the easiest way to talk about that is to turn to Exhibit 10. Exhibit 10 is a schematic of a typical tank battery hookup. It's no particular one. It's just what one might be like.

If we look at the left-hand side of the exhibit, ignore the oil well header and all the tanks and everything, let's just take a look at that part which is called "gas well header" and the meter runs and so on.

What we have here is an illustration of

what a unit with five gas wells would look like. We have each well coming to the unit. These units will be located on the gas proration unit itself. The header will be there. Under normal circumstances, one of the wells will be flowing through the test meter every day. The well will be changed every two days sequentially so that in this case, after the 10th day, the first well will go back on test for two days.

The remainder of the wells will be flowing through what's called the field production meter. The daily amount of gas credited to the wells on this system would be the total of the production through the test meter and through the field meter.

Rasmussen has pumpers in the field every day who will take the readings from these meters. They will be looking, if there's a disparity between production, regular production and today's production, they'll go see if perhaps a well is down. So we'll have both daily gauge reports and any well which may be shut down.

Q. Do you have anything further from Exhibit No. 10?

A. The production is going to be allocated back to each one of the wells based upon the data derived from the periodic testing through the test

meter. This is going to be done by computer feeding in the information brought in each day by the pumpers.

Q. In your opinion, will the proposed method of metering assure accurate allocation of production to each well on each proration unit?

A. Yes, it will.

Q. What type of meters does Rasmussen propose to use?

A. The meters are shown on Exhibits 11 and 12. Basically, what we are talking about there is a standard 3-inch or 4-inch meter run with Barton tier recorder. These meters will meet appropriate AGA temperature specifications and will be temperature compensated. While you're looking at Exhibit 11 and 12, you can see on the second page of each that the price of the meters is shown there from these two suppliers.

Q. What economic benefits will be derived from the proposed metering plan?

A. We think, for example, about our five well illustration here, instead of having to buy five meters, Rasmussen Operating will only have to buy two meters. So the minimum costs that are here are $2,370; so you can see that in this case the savings will be something between $6,000 and $7,000 for this

installation.

Q. I'd like to direct your attention now to the surface commingling portion of this case. Initially, could you identify the pools for which Rasmussen seeks authority to surface commingle?

A. Yes. Referring back to Exhibit 1, when one looks to the area up in the north, if you go to the east side of the exhibit, in that Section 11 you have Arrowhead production, Eunice South production, and Jalmat oil and Jalmat gas production. The sections to the west are only south units, Jalmat oil, and Jalmat gas.

To the south we're looking at Langlie-Mattix Oil, Jalmat oil, and Jalmat gas.

Q. And the location of the batteries to be utilized are identified on Exhibit 1, and 4 through 6?

A. That's correct. When I speak of Jalmat gas -- let's take a quick look back at Exhibit 10 because I think we can see more clearly there than anywhere else what we're talking about.

In this instance, all of the gas wells will be flowing through the gas well header and will not be going into the oil system. But the liquids, the produced water and hydrocarbons which may come from these Jalmat gas wells, will be going through the oil

header into the tank battery.

Q. Mr. Stamets, you've indicated that the ownership is common for all of this production; is that correct?

A. That is correct.

Q. Have you reviewed this proposal with the State Land Office?

A. Yes, we have approached them with this proposal. Rasmussen Operating intends to work with the land office to supply them all the information they need to get approval of the land office for this proposal.

Q. Are the liquid hydrocarbons which Rasmussen proposes to commingle compatible?

A. Yes, I believe they are. I've reviewed the commingling section of the Division's monthly statistical report, and I have found numerous instances where these same pools are commingled. I found some orders showing that these horizons have been authorized to be commingled.

I have not made an exhibit of that. I have that data, and I would be happy to share it with the examiner, if he chose.

MR. CARR: Mr. Examiner, would you like a list of those orders which approve commingling of

these pools in the area?

HEARING EXAMINER: How many are we talking about?

Q. (BY MR. CARR) How many are we talking about?

A. I think they're something on the order of three or four orders and three pages out of the commingling section of the monthly staff.

HEARING EXAMINER: If we're talking three or four orders, then no problem. We would ask that you submit that exhibit to this hearing.

MR. CARR: And we'll also submit copies to Miss Reuter at that time.

Q. Mr. Stamets, will the value of the commingled production be equal to some of the values of the production from each of the individual zones?

A. Yes, at least, and there's a good possibility that it will be somewhat improved. The Jalmat gravities are a little bit lower, and the volumes are a little bit less. We expect to see perhaps that the higher gravity oil from the other horizons will pull the Jalmat up. The producer may actually get a few more dollars or a few more cents out of this production.

Q. Mr. Stamets, would you identify what has

been identified as Rasmussen or Applicant's Exhibit 13.

A. Yes. Exhibit 13 is a set, 22 pages long, which gives some detail on each one of the batteries. The batteries are identified in the lower right-hand portion of each page of the exhibit. The account number and battery number corresponds exactly to those shown on Exhibit 1 and to the individual plats.

If we look at the first page of this, what we are seeing here is the actual layout of this battery. In the upper left-hand corner of the exhibit are the wells which flow to this battery. And they're identified -- the word "field" perhaps should be "pool" because that's what we're really looking at.

The initials "ES" stand for Eunice South. "J" stands for Jalmat. And then you can see to the right of that whether it's a Jalmat oil well or Jalmat gas. "LM," I believe, is Langlie-Mattix on later exhibits, and "AH" is Arrowhead on some later exhibits.

The type of well then is shown in the next column, and the current status producing temporarily then is shown in the final column.

This same procedure is repeated throughout the exhibit.

Q. Mr. Stamets, would you summarize the economic benefits that will result from the Rasmussen proposal?

A. With the reorientation of the nonstandard units, we expect that the Rasmussen wells will be allowed to produce and not have to be shut in and not suffer the loss in production, even though it may be temporary -- the loss in production that results from the wells being shut in and having to pump the fluid off of there.

We expect the savings from the lack of having to set as many meters in this area. Ultimately, we'll expect some savings from the commingling. As these Jalmat wells are brought on and not having to set a separate tank battery for relatively small volumes of production, there will be a savings of several thousand dollars for each battery that does not have to have been set.

Q. In your opinion, will approval of these consolidated applications result in increased recovery of hydrocarbons from each of the proration units subject to these applications, thereby preventing waste?

A. I believe so. I think the economic savings translates into a longer economic life for each one of

the wells, and the longer the economic life, the more the ultimate recovery, and the greater the prevention of waste.

Q. Will granting the application impair the correlative rights of any other interest in the area?

A. No, I don't believe so. In fact, their correlative rights may be somewhat enhanced, assuming that the increased production from these Jalmat wells may serve to bring up the allowables in the Jalmat Pool, and each of the owners in the Jalmat Pools with nonmarginal wells will have an opportunity to share in those higher allowables.

Q. Will granting the application afford Rasmussen an opportunity to produce its just and fair reserves out of the pools that are the subject of these applications?

A. Yes.

Q. Will approval of the application be in the best interest of the conservation, the prevention of waste, and the protection of correlative rights?

A. Yes.

Q. Would you identify what has been marked as Applicant's Exhibit 14.

A. Exhibit 14 is the affidavit now required by the Division relative to notice given in this case.

Q. What is the status of Rasmussen's current plans for development of this area?

A. As I said at the beginning, from the beginning, they've evaluated it. They've begun work. Pipe is actually going in the ground today for the gathering system. The workovers continue. I would say it's an active area.

Q. Were Exhibits 1 through 14 either prepared by you or prepared under your direction and supervision?

A. They were.

Q. Can you testify as to their accuracy?

A. I believe they are accurate.

MR. CARR: At this time, Mr. Stogner, I move the admission of Rasmussen Exhibits 1 through 14.

HEARING EXAMINER: Are there any objections?

MS. REUTER: No objections.

HEARING EXAMINER: Exhibits 1 through 14 will be admitted into evidence at this time.

Q. (BY MR. CARR) Mr. Stamets, do you have anything further to add to your presentation?

A. I have a listing here that the examiner might like of all the previous orders which I was able to find which apply to these same leases, and I'd be

happy to share that with him or anybody else who would like a copy.

MR. CARR: Mr. Stogner, it might be wise to mark this as an exhibit since it's a typed list with a large number of orders.

HEARING EXAMINER: I concur, and I would like you to list that as an exhibit.

MR. CARR: This will be listed as Applicant's Exhibit No. 15.

HEARING EXAMINER: Do you have several copies?

MR. CARR: Yes, I do. I'll show them to Ms. Reuter now.

MS. REUTER: Thank you.

MR. CARR: I would move the admission of Rasmussen Exhibit No. 15.

HEARING EXAMINER: Are there any objections?

MS. REUTER: No objections.

HEARING EXAMINER: Exhibit No. 15 will be admitted into evidence.

MR. CARR: That concludes my direct examination of Mr. Stamets.

HEARING EXAMINER: Thank you, Mr. Carr. Miss Reuter, your witness.

MS. REUTER: Mr. Examiner, do you want me to renew my Motion for Continuance now or after I examine Mr. Stamets?

HEARING EXAMINER: I think it would be wise to make it after you cross-examine Mr. Stamets.

MS. REUTER: In that case, can I have two minutes to speak with Mr. Nutter?

HEARING EXAMINER: You may.

(Thereupon, a discussion was held off the record.)

HEARING EXAMINER: Hearing will come to order. Where were we?

MS. REUTER: I was about to begin my cross-examination of Mr. Stamets.

HEARING EXAMINER: Please do.

MS. REUTER: Thank you, Mr. Examiner.

CROSS-EXAMINATION

BY MS. REUTER:

Q. Mr. Stamets, did you state earlier that the gathering system was already being built by Rasmussen before this application was filed?

A. That's correct.

Q. Have any well tests been performed on any of the wells for which you're seeking unorthodox locations to show their product?

A. Well tests, as far as I'm aware, there have been no tests other than just simply the measurement of their production after they've gone on line.

Q. So you have not conducted any kind of an examination of the productivity of the wells for which these unorthodox locations are being sought?

A. I've looked at the available production reports on them to assure myself that wells with large volumes weren't being requested to be commingled.

Q. What is your definition of "large volumes" when you make that statement?

A. Anything approaching a top allowable, and these are mostly way, way below that, very marginal wells.

Q. How far below?

A. Oh, just a few barrels a day, 1, 10, something like that. I'd have to look at the production reports again to verify that, but I was not the least bit concerned with the size of the production.

Q. Are you talking about oil or gas wells?

A. I was talking about the liquids production from all of the wells, whether they were oil or gas.

Q. What about the gas wells' productivity, have you conducted any examination of the gas

production on these wells?

A. No. Just to confirm that there were gas wells and that the gas liquid ratios were such that, indeed, they were gas wells and shouldn't be classified as oil.

Q. Do you have any understanding of when the TA gas wells were disconnected?

A. No, I have not looked at all those individual files to see how long they have been shut in or disconnected, and I couldn't tell you.

Q. Are any of them still connected, do you know?

A. I could only say that the wells that are producing are obviously connected at this point.

Q. But you don't know whether those were the TA wells or not?

A. No. And since some of the wells were without meter runs, obviously, some of them were disconnected, but I couldn't give you any specific numbers or indication of which wells.

Q. Which were those wells without meter runs?

A. Presumably, the pipeline took the meter run home with them.

Q. Have you done any examination of whether drainage will occur or whether there will be any other

effects on offsetting units by virtue of that application?

A. I haven't felt that was necessary since none of the proration units will receive any more than their share of the allowable for the pool in accordance with the proration formula set out by the Oil Conservation Division.

Q. Is the redesignation of these units intended to put the acreage where the production is? Am I correct in understanding that's --

A. That's the idea, yes.

Q. Is there any other purpose in redesignating these units?

A. Not to my knowledge, no.

Q. Before you identified the three units that are not going to be changed in Exhibit No. 7 in your application, am I correct that that leaves 15 units that are going to be changed?

A. Let's see. What do you have there, 18 total? And one of those is unchanged; so that reduces it to 17. Three from 17, that would be 14.

Q. Which is the other one other than the three that are not being changed?

A. The one would be unit No. 5 in 11 22 36.

Q. Do you have any knowledge of any precedent

for a multiple redesignation such as this on this scale of 15 units in one application?

A. I don't know about this scale. The record is full of multiple redesignations. In looking through this list of orders that we've given you, many of those are redesignating the same units.

As I recall, I'd oftentimes see three or four of the units at one time being reoriented.

Q. Do you know if there's any precedent though for 15 of them being redesignated at one time?

A. I don't know if there's any precedent for 15 or 8 or 200.

Q. Can you say, in your experience, has the practice of approving multiple proration units maintained consistency over time, or is that an old practice that may have stopped at some earlier date?

A. Well, it was certainly still going on a couple of years ago, two-and-a-half years ago, when I was here. In my contacts with members of the staff, in the data that I have received from the agency, I don't recall seeing any memoranda which would indicate that this is a practice which is frowned upon at this time.

Q. Can you tell me when Williams Partnership acquired ownership in this case?

A. No, I can't tell you when that happened. I believe some of the properties are probably fairly recent.

Q. Do you know how long Rasmussen Operating has been contemplating this redesignation and common metering application?

A. They first contacted me probably two months ago.

Q. Do you know if he's contemplating any other similar types of applications?

A. I am unaware of it if he is. This pretty well takes care of this set of leases.

Q. Do you know how long Mr. Rasmussen has been working on this case, even though he first only contacted you two months ago?

A. I have not questioned him on that.

Q. If you would turn to Exhibit 10, when you were testifying as to this exhibit --

A. Let me see if I can find Exhibit 10. I must have shuffled mine in.

MR. CARR: Here's 10.

THE WITNESS: Thank you, Mr. Carr. Okay.

Q. (BY MS. REUTER) I believe you testified that the gas wells would flow through a separate production meter?

A. The gas well gas, yes, that's correct.

Q. And if you would look at Exhibit 13 --

A. Exhibit 13, okay.

Q. We have some confusion looking at these exhibits, and what I'd like to ask you to do is go through each of these and explain to me which meter the gas well gas is going through, which meter the oil well gas is going through, and which headers apply to the gas wells because it doesn't seem like they're indicated --

A. Excuse me. It's easier to do this if we back up and take another look at 10. If we look in what will be to you the lower left-hand corner of the exhibit, we see what is the gas well portion of the application that we have here today.

And there will be one of these headers at every proration unit. The remainder of the exhibit is what we're looking at then when we're looking at Exhibit 13, pages 1 through 22; so that you do not see the gas well header, the gas meters, or the gas sales point on these exhibits.

Q. Can you explain to me then, if you look at Battery No. 8, you have three gas well leases?

A. I'm sorry. Which --

Q. Battery No. 8?

A. Which account?
Q. Account 2.
A. All right. And your question is again?
Q. You have three gas wells listed in the lower left-hand corner?
A. That is correct.
Q. And you have an eight well header shown up above. Does that mean that only those oil wells and not the three gas wells listed in the lower right-hand corner feed through that header?
A. Well, it's the intention that the header at each of these facilities be sufficient to handle the liquids which are flowing in.

I see a large number of TA wells there. I'm not certain if that's the reason for the discrepancy between the eight well header and a listing of more than eight wells. But let me assure you, when these things are completed and all the wells are flowing, there will be a header that will accommodate each of the wells that is producing into that tank battery.
Q. But those headers won't service gas well gas or the gas wells that are listed on the exhibits?
A. That is correct. That facility will be located on the proration unit, which may or may not be

at this tank battery, and it may be at the tank battery, but it's not shown anywhere on Exhibit 13.

Q. If you could look at battery No. 1, State A, Account 1, I believe it comes after battery A, I have similar difficulty here. You have four gas wells listed, one oil well listed, and a five-well header. Are the gas wells feeding into that five-well header?

A. In what respect?

Q. I'm not sure which five wells are going to be accommodated by that header.

A. Okay. Let me try and make this clear. Apparently, I did not do that on the first time around with the discussion of Exhibit 10.

We show four gas wells here, each one of them Jalmat. The liquids production from those wells are what will be flowing into the 500-barrel storage tank or into this facility. Of course, the water that will be produced won't go into the storage tank, but the condensate and the oil from the one Jalmat oil well all go into the 500-barrel tank.

The gas from these four wells will be through test field and sales meters at a location which may be at this battery, it may be somewhere else, but it's totally separate from the facility you see here.

Q. If you would look at battery No. 3, State A, Account 1, and I believe that is --

A. State A-1, Battery 3?

Q. Yes. It's two pages after battery 1. State A, Account 1, Battery No. 3.

A. Let me back up here. Okay.

Q. On the lower left-hand portion of that exhibit, you see a meter run. Is that not a gas meter run?

A. It is.

Q. Could you explain to me why that appears on this exhibit?

A. For the sale of casinghead gas.

Q. In other words, there won't be any gas well gas running through there, just casinghead gas?

A. That's correct. The dry gas goes through separate metering.

Q. Will each well have a separator on it?

A. Will each well have a separator?

Q. Yes.

A. The separators will be located at the facilities that we see here on Exhibit 13.

Q. What about gas separators?

A. Gas separators.

Q. Will there be one on each well?

A. No, there will not be a separator on each well.

Q. Could you tell me where on Exhibit 10 the separators would appear, and approximately how many separators there would be?

A. On Exhibit 10, there is no separator, but if it would make Mr. Nutter happy, I'm certain that one could be drawn in. This is just for illustration purposes, and it's not a real facility.

Q. Where would you draw it in if you were going to draw it in to make Mr. Nutter happy?

A. If I was going to make Mr. Nutter happy, I would draw this in somewhere between the production and the 500-barrel storage tank and before the gas sales line. You see the gas sales line coming off the heater treater there; so I would say the meter would be downstream of that.

Q. What about on the gas wells? I believe Mr. Nutter is wondering about on the gas well diagram where there would be separators if you install them?

A. There won't be any at the individual wells. The liquids from that well are going to be coming in through the oil header -- quote, oil header -- and be separated as to water and condensate, and the condensate will be stored, and the water will be

disposed of.

Q. We're at a loss as to where it's separated and how it's separated; so maybe if you could explain that first.

A. I presume your question is how are the liquids in the gas well separated from the gas in the gas wells?

Q. Yes.

A. They're separated at the well by pumping the liquids off through tubing down to the oil production unit, the commingled battery, and the gas goes to the header from the well.

MR. NUTTER: That gas has never been separated then?

MR. CARR: I would object to a question from Mr. Nutter. If Mr. Nutter wants to participate in the case, he should do so through his attorney.

Q. (BY MS. REUTER) Other than the liquids being pumped off at the well, the liquids are not otherwise separated from that gas?

A. That's correct.

Q. Would that mean that wet liquids are going through the meters?

THE WITNESS: We're going to have to have a conference, Mr. Carr.

MR. CARR: Could we go off the record for a minute?

HEARING EXAMINER: Let's take a five-minute recess.

(Thereupon, a recess was taken.)

HEARING EXAMINER: This hearing will come to order. Miss Reuter?

THE WITNESS: If I could go ahead and finish answering Miss Reuter's question, I wanted to make certain that there was not something on the gathering lines which I was not aware of, and there is not. The wells are producing as I said they were, and they don't have any separation equipment on them.

Q. (BY MS. REUTER) So there's no separation of liquids from the gas after the liquids are pumped off the gas wells? Is that an accurate statement?

A. Separation is at the well, and there's no separation beyond that.

Q. When you say there is separation at the well, the only thing that you are referring to is the pumping off of the liquids first?

A. That's correct.

Q. And there is no separation beyond the well?

A. That's correct. You do have separation of the liquids at the tank battery, the water and the

liquids at that point. If you're talking about separation of the gas from any more water or separation of the gas from any more liquids, no.

Q. Is that conducive to accurate gas metering, in your opinion?

A. Apparently, it's been accurate enough for El Paso for many, many years. As I understand it, that's been standard procedure out there.

Q. In your opinion, is that accurate gas metering?

A. I don't have anything at this point which would lead me to believe that there is any inaccuracy in that measurement at this point.

Q. Have you ever examined any information or studied whether that is accurate metering?

A. I know that metering when you've got a lot of liquids is not too accurate. However, I've also seen orifices that have weep holes in them. So I also know that people do meter wet gas.

MS. REUTER: I have nothing further.

HEARING EXAMINER: Mr. Carr, any redirect?

MR. CARR: No redirect, Mr. Stogner.

DIRECT EXAMINATION

BY HEARING EXAMINER:

Q. Mr. Stamets, I have verified in my head,

these questions we've had the last few times, we're only referring to the Jalmat gas wells?

A. My understanding is we were only talking about Jalmat gas wells, yes.

Q. All of the schematics on Exhibit No. 13, do they also reappear on Exhibit No. 1 and 2 and/or?

A. Yes. But it's a stylized identification on those. All you'll see is a rectangle with three big tanks and three little tanks or maybe a couple small tanks.

Q. But they are all there?

A. That's right. And Exhibit 13 is a representation of what is at that tank battery at this time and the wells which are or will go to that battery.

Q. Because when I look at State A, Account 1, Battery No. 2 --

A. Let me back up to that, please. Okay.

Q. That only shows Langlie-Mattix wells. Does that particular battery show up on these maps?

A. Yes. It should be there. We can look for it. But, as I said, each one of these should be on Exhibit 1.

MR. STOVALL: May I interject something else while we're along that? You also have -- and

I've forgotten the exhibit number; I think this is Exhibit 4? It will also be on that; is that correct?

THE WITNESS: Right. 4, 5 and 6, which are all the plats of the individual units.

MR. STOVALL: And what this plat shows and Exhibits 1 and 2, is the location of the battery, the schematic of which appears in Exhibit -- whatever this is, Exhibit 14?

THE WITNESS: Exhibit 13. And the answer to your question is yes.

DIRECT EXAMINATION

-Continued-

BY HEARING EXAMINER:

Q. On Exhibit No. 1, there are some holes within -- what do you call the heavy dotted red line that outlines Mr. Rasmussen's property -- is that correct? And these holes I'm talking about are not within proration units as shown in the colored slash marks?

A. That's correct. If we look at what's been identified as unit 8, and I think what you're referring to as a whole would be the southeast quarter of the northwest quarter of section 9 23 36?

Q. Yes.

A. That would be the location of the Jalmat

oil well, and that acreage could not be dedicated to a Jalmat gas well.

Q. But that well would show up on one of the schematics in Exhibit No. 13?

A. Yes. I would suspect that's going to be Account 1, Battery 16.

Q. Let's dig that out and see.

A. And, of course, it could be Account 1, Battery 5, too. Both of those are in the immediate vicinity.

Q. That well that you referred to in the hole --

A. No. 115, would be Account 1, No. 115.

MR. STOVALL: Battery 5, it appears.

THE WITNESS: Battery 5? That makes sense. That's just to the east of the well.

Q. (BY HEARING EXAMINER) And what's that well number?

A. 115.

Q. That does show up on Battery No. 5. So all the wells within the red area would show up on these exhibits?

A. The intent is that Exhibit 13 is a representation of every existing well, whether that well is producing, temporarily abandoned, shut in.

They're all supposed to be there.

Q. Let's take a look at Account 1, Battery 5 schematic.

A. Okay.

Q. And, for instance, No. 115 has some casinghead gas?

A. Yes.

Q. How would its amount, periodic test on the well header be determined?

A. The same way with any well flowing into an oil tank battery, just periodic well tests.

MR. STOVALL: You're referring to a GOR test, Mr. Stamets?

THE WITNESS: That's, in essence, what it would have to be. That's the only way of determining how much gas would be produced per barrel of liquid, and use that then to allocate back and come up with a formula of allocation to the individual wells.

Q. (BY HEARING EXAMINER) Mr. Stamets, have you talked to Mr. Jerry Sexton down in our Hobbs district office about this proposal, or has Mr. Rasmussen, to your knowledge, spoken to Mr. Jerry Sexton?

A. I've spoken to the Hobbs office a couple of times. Oh, probably two months or six weeks ago, I

talked to Evelyn downstairs about this application.

And then during the recently concluded Oil and Gas Association, I spoke with Mr. Sexton about it to determine if he had any reservations about any part of the application, and he told me that there were none.

HEARING EXAMINER: I have no further questions of this witness.

Are there any questions from the audience? If so, would you please stand and identify yourself and your affiliation?

MS. HOWARD: I'm Susanne Howard with the State Land Office, Oil and Gas Division. My question is, are the GOR's going to be measured once and then that number used, or are they going to be updated as the wells produce?

THE WITNESS: Some of these wells will be brought back on production, obviously, the temporarily abandoned wells, and they will be tested at that time.

MS. HOWARD: Are the GOR's tested once or are they going to be continuously testing GOR's?

THE WITNESS: Since we're taking questions from the audience, perhaps we should take an answer from the audience.

MR. STOVALL: Mr. Stamets, I think we can concur or have him sworn.

MR. CARR: If it's all right, with your permission, if Mr. Stamets could have a brief recess to confer with a representative from Rasmussen, we can provide that information. If not, we would have to provide that to the Land Office following the hearing. Either one would be fine with us.

HEARING EXAMINER: Let's recess.

MR. CARR: This recess needs to be about 30 seconds.

(Thereupon, a recess was taken.)

HEARING EXAMINER: Should we go back on the record now?

THE WITNESS: The answer to the question is that at this time, the GOR's will be taken on an annual basis, and even if testing were not required on an annual basis, that would be the intent.

HEARING EXAMINER: Are there any other questions of this witness? If not, he may be excused.

Miss Reuter?

MS. REUTER: Mr. Examiner, I gather that it's time for me to renew my Motion to Continue, and I will renew my Motion to Continue.

I think at the close of the Applicant's case, it's clear that this application is very complex. Mr. Rasmussen has had months to prepare. We've had three or four days. We have a great many unanswered questions. There has not been any examination of the effects on offsetting interest owners on the prorationing rearrangement.

I would add that the application was at least a little bit misleading to us. I should say more than a little bit misleading to us. In case 9775, if you look at Exhibit 7, which showed the proposed nonstandard Jalmat gas proration units, at the bottom of Exhibit 7, it says, "Applicant seeks only special metering authority for Section 11 wells," and when we looked at that, we thought that meant special metering authority was only being requested for that one unit in Section 11, despite the fact that the notice said otherwise, and also because the application of 9774 also dealt with the application for special metering authority.

We think this application -- the three applications and the three cases have far-reaching effects on application of the allowables in New Mexico, particularly with special unit metering provisions in such a broad area in 18 sections. We're

not accusing Mr. Rasmussen or anyone else of unfair dealing or improper practices, but this broad of an application can set a longstanding precedent that leaves open potential for abuse.

We feel that a continuance is really necessary for us to be able to examine the applications a little bit better for a more technical approach to this, and perhaps -- not perhaps but definitely do some discovery in this case. As you can see, we have many questions still unanswered about the proposal. Thank you.

MR. CARR: Before you rule on the request for continuance, there are two things that have not been stated by Mr. Hartman and his counsel. The obvious one is for how long.

The second one is what does Mr. Hartman own. That's a fundamental question, and early in the proceeding Miss Reuter indicated that Mr. Nutter could come and identify that for us.

My first request would be Mr. Nutter be permitted to testify and respond to that question and then at that time address the request for continuance.

On the chance that you're going to rule on it now, I do have several other things I think need to

be said in response to a request for continuance.

Mr. Hartman is an operator in the Jalmat Pool and has become a party of record, and he has a right to go de novo. If additional time is needed to prepare, then they must certainly have that time, and they have a right to have this entire matter heard anew before the full Commission.

I submit to you that what would result from a continuance is nothing that would move this matter one step closer to final resolution. It would only result in unnecessary delay.

The other thing that still hangs out there is a question of standing. Mr. Hartman is an operator in the pool and has an interest that will be affected because increased production may increase the allowables in the pool, and that does affect him. But as to a nonstandard unit, an unorthodox well location, the one question out there is what standard does he have to object if he doesn't offset. And that question remains unanswered, and until that's answered, I doubt they have standing to ask for the continuance.

We have presented a full case. There may be unanswered questions, but it's not because answers have not been given. It's because questions have not

been asked by Mr. Hartman.

And they state they need additional time. That's certainly available to them from the time that runs from when this case is taken under advisement until they need it, and, if after further study, a de novo hearing is deemed necessary.

They say there's confusion. I submit to you the confusion is cited to you not because there's confusion, but because they're looking for a reason for continuance. If you look at the application itself, and certainly you must read an application of the text and not just an exhibit, it says, "Applicant Rasmussen seeks approval for special metering provisions for Jalmat gas production from the wells on the proration units identified on Exhibit A hereto to permit it to meter the total production from each proration unit and allocate this production to the wells located thereon based upon periodic metering of production," and it goes on.

I don't think there's confusion as to what we're seeking. I think there is concern that because Mr. Hartman isn't an operator, he would like to have a lot more time to engage in discovery, if any is permissible under the rules of the Division, and they're looking for something they can cite as

confusion.

We submit we have made a full presentation. We're entitled to an order. Notice has been given that is proper and complete. That is a matter of record. Time is available if they need it. And that all they're seeking is unnecessary delay, and we very vigorously resist the continuance.

If a continuance is granted, we think the only thing that is a going result from it is, it is going to take longer for Mr. Rasmussen to improve the producing capabilities of these properties, and the continuance itself is tantamount to waste.

MS. REUTER: May I reply?

HEARING EXAMINER: Yes.

MS. REUTER: I'll be brief. I'd like to point out, the testimony showed a new gathering system is already being built in that area. And to allow it to go forward while we wait for a hearing de novo is probably just as tantamount to waste as any continuance in this case would ever be.

I would also add, Mr. Carr has basically conceded that Mr. Hartman has standing as an operator in the Jalmat Pool. And because of the rededication of acreage that's proposed here, it does affect the allocation of the allowables in the pool in that this

is a manner in which an operator can avoid having a cap put on his well by the allowable system, and it has ramifications for the operation of the allowable system as a whole.

I would not ask for more than a 30-day extension of time to continue this hearing before the hearing examiner.

I've always been of the impression, as an administrative practice, that's the whole point of having a hearing examiner: so you could have the issues completely fleshed out and resolved at the hearing examiner level to save time of a de novo hearing. And I can't say what would happen if we necessarily had more time to examine this application, but it's entirely possible that a de novo hearing would not be held.

HEARING EXAMINER: Mr. Carr?

MR. CARR: One response. I have not in any way conceded that Mr. Hartman has standing. I have conceded that he is a party of record, and those are different things.

If there is waste by putting in a gathering line, it isn't the waste of oil. It's the waste of Mr. Rasmussen's money, and that's outside your jurisdiction. If there are benefits that come from an

increased allowable, he will share. But there's nothing to suggest that anything that would happen would do anything to curtail allowables or the opportunity that any other operator has to produce his share.

If 30 days is what's needed to prepare, it will be at least that long before the matter could be heard before the Commission.

We request the continuance be denied, the case taken under advisement, a hearing be ordered, and prior to the next hearing, Mr. Hartman be directed to tell us what he owns.

MR. STOVALL: Mr. Carr, let me ask you, are you stating that you do not believe that Mr. Hartman is an operator in the pool?

MR. CARR: No, I think he's an operator in the pool, but I think before you can object to an unorthodox location, if you have a section in 12 of 23 south 37 east, you really don't have standing to object to an unorthodox location in 8 of 22 36, and we don't know that.

That's not standing for those questions, Mr. Stovall. He has standing as it affects an allowable as an operator, but he would be only a party of record when it comes to locations and proration

units. That's what I'm saying. Those are different concepts.

MS. REUTER: If I could just interject one last thing, because of the late notice in this application that we received -- and I'm not saying that it's Mr. Carr's or his client's fault -- we have not had time to ascertain and prepare evidence on exactly which offsetting units Mr. Hartman has working interests on. And I would say that's an additional reason to grant our request for a continuance. Rather than go on, I think it appropriate to let us know.

HEARING EXAMINER: Mr. Carr, I believe you were going to say something?

MR. CARR: The only thing I would ask is that if you decide to continue the case, we at least be afforded an opportunity to hear from Ms. Reuter's witness. She's already, on the record, stated that Mr. Nutter could advise us as to the ownership.

MS. REUTER: What I had just stated, that was the impression I was under, and we are not prepared to do that, after having discussed it with Mr. Nutter. He may address other issues of standing, but I misspoke. He is not prepared. He does not have knowledge of what Mr. Hartman's interests are.

MR. CARR: We are being opposed for three

or four days' notice, and that's so you can find out what you own so you know how your interest is going to be affected, and I think a continuance is no more than a request to authorize waste because it delays the authorization of the property.

HEARING EXAMINER: We're going to take another recess.

(Thereupon, a recess was taken.)

HEARING EXAMINER: Let's go back on the record. The evidence presented showed that the mailing notice was adequate, and that Mr. Hartman was not a party to this. We have 21 days of published notice, which has been shown to be adequate, and you did not have three or four days' notice. You did have 21. Notice was therefore adequate.

So I'm going to overrule your motion at this time, Miss Reuter, and if you would like to put Mr. Nutter on the stand at this time, you may.

MS. REUTER: I would like to call Mr. Nutter to the stand at this time.

DAN NUTTER,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MS. REUTER:

Q. Could you please state your name for the record.
A. My name is Dan Nutter.
Q. What is your occupation, Mr. Nutter?
A. I'm a consulting engineer.
Q. By whom are you employed and in what capacity?
A. I'm retained in this case by Mr. Doyle Hartman.
Q. Have you testified before the OCD before in your capacity as a petroleum engineer?
A. Yes, I have.
Q. Have you been qualified as an expert witness before the OCD as a petroleum engineer?
A. I have.
Q. Are you familiar with the application of Hal J. Rasmussen in these three consolidated cases?
A. I am, to a certain extent.
Q. When you say "to a certain extent," what do you mean?
A. Well, I was confused by the application.
Q. Have you read the materials that have been filed?
A. Yes, I have.
Q. You've been present through the testimony

of Mr. Stamets, Rasmussen Operating's witness?

A. Yes, I have.

Q. Have you an opinion on whether Rasmussen's application is in the best interest of conservation, prevention of waste, and the protection of correlative rights?

A. I don't believe that they are, in the long run.

MS. REUTER: Mr. Examiner, I tender the testimony of Mr. Nutter as expert testimony.

HEARING EXAMINER: Are there any objections?

MR. CARR: We have no objection to the testimony. We want to cross-examine him.

HEARING EXAMINER: Mr. Nutter is so qualified to testify.

Q. (BY MS. REUTER) Mr. Nutter, can you tell me what Mr. Hartman's interests in these applications are?

A. Mr. Hartman is an interest owner in the Jalmat Gas Pool and also in some of the oil pools that have been mentioned in this hearing today. And he feels that the overall effect of the application could very well lead to detrimental effects on other operators in the pool, not so much the redesignation

of acreage. That is a common thing and is recognized by the operators in the Jalmat Gas Pool as being effective and a good way in which to put the acreage dedication where the production is. There's nothing wrong with that.

However, what he objects to in principle on that is the omnibus filing of an application for proration units covering some 19 sections, I believe, here, all in one fell swoop, and without having the opportunity to really go into these units and see what the effect of the redesignation of acreage is.

We don't know the productivity of these wells at nonstandard locations. We don't know how long it's been if we were temporarily abandoned. We don't know what the status of their productivity was at the time of temporary abandonment.

Maybe they're still producing. We haven't had time to analyze this because there just were too many of them filed in one application and all placed on one docket. Normally you see maybe one, two, or three applications.

I point to page No. 4 of your docket today, Mr. Examiner. Case 9759 at the top of the page is the application of Nearburg for a nonstandard gas proration unit with the unit described, the well

described, and the nonstandard location of the well specified there.

This gives anybody that offsets Nearburg an opportunity to make a study and see if they want to oppose it or not. But when we get a docket that has 19 sections on it with an exhibit attached to it -- so we had to come in and get a copy of the application to find out just what was going on.

We got a copy of the application and found a very misleading statement at the bottom of the exhibit which is attached to the application, and I myself must take a certain amount of the blame here. Hartman was very upset when he saw the docket for the proposal that these nonstandard and standard proration units distributed through 19 sections would all be allowed to commingle their production and allocate the gas production to the gas units on the basis of well tests. He was very upset.

I assured him, that is not what the applicant is seeking in this case. I said, "If you'll refer to Exhibit A at the bottom, there's an asterisk there identifying the standard unit in Section 11, saying that they seek only the special metering for those wells in Section 11."

At that point, Hartman was much less

opposed to the proposal of the metering. He says, "Now, that's a bad precedent just in itself because there's five wells on that unit."

I said, "Well, it's only five, but maybe it's not as bad as if they were asking for the same thing on all 19 sections."

But I come to the hearing today, and I was utterly shocked when I heard the initial testimony here to indicate that the application was for all of the proration units on the exhibit.

Q. Mr. Nutter, is Mr. Hartman, to your knowledge, an operator of wells in the Jalmat Pool?

A. Yes, he is. He's got wells in the Jalmat Pool at the present time. He's an old operator in the pools, recently disposed of many of his wells, but he's got a new drilling program underway.

If you refer to Applicant's Exhibit 1-A, right over near Section 18 of 22 37, immediately east of this area is his Christmas lease, A.L. Christmas lease. We had a hearing just two weeks ago today for the nonstandard unit and the nonstandard well location there. So we're on the map as far as having standing in the pool.

Furthermore, even if we didn't have any well on this map, we've got standing in the pool

because there are other wells. And I think anything that affects an allowable or reservoir information, if you're a party to the pool, you've got standing in the pool.

Of course, there is an obvious possibility for a lack of reliable reservoir information. We all know that the best way to get adequate reservoir information on production and gas oil ratios is to have a single meter on a single well. Where you're commingling a group of wells, it's at the discretion of the person that's filing the tests and taking the tests to determine just how much production of oil or gas comes from each individual well on that test.

Q. Mr. Nutter, I'd like to go through these applications with you one at a time. Okay?

A. Okay.

Q. And you've stated that Mr. Hartman is an operator.

Going back to the nonstandard proration unit application and the unorthodox well application, do you think an application for this many wells is appropriate?

A. Not all at once, no. I think it should be separated out.

Q. Can you explain to me why, and, if so, how

the redistribution of acreage would affect allowables for different wells?

A. Allowable is assigned to acreage. It's not assigned to wells. So the redistribution of acreage is a common thing to assign the maximum acreage to the maximum capacity of the well.

There's nothing wrong with that. Hartman doesn't oppose that at all. What he opposes is having to look at too many of them all at once and not knowing which ones are productive, particularly if they're located at nonstandard locations.

Q. Mr. Nutter, wouldn't an application for redistributing the acreage on this magnitude be tantamount to a modification of the allowable system?

A. Well, the reassignment of one well's acreage has an effect on the total allowable because it affects the amount of production that's going to come from that well.

When you multiply it by the number of proration -- I don't even know how many prorationing units there are here, but there's 19 sections of prorationing units. When you multiply the effect that one would have by 19 sections with X number of proration units, it's 19 sections and X times that amount of impact that it has on the total allowable

system.

Q. Do you think this application for unorthodox location and nonstandard proration units has any precedential effects?

A. When you consider this magnitude, it does. I can remember cases where TP came in when they originally had these proration units in here, and periodically TP would redesignate the acreage assignments, but they would come in for maybe two or three sections at a time. They didn't come in with 19 sections at a time, which is much easier to handle.

Q. Do you have any other problems with the nonstandard proration unit and unorthodox location aspect of these consolidated cases?

A. No, except the time that we've had to study them, and we haven't had the time to study them. I notice Mr. Stamets testified that he himself had been working on this for two months. Even if we started work the day that it was advertised in the newspaper, which was only about -- I think the notice came out a week, two weeks ago last Friday -- no, last Thursday. I saw it in the paper when it came out, and I thought, There's a boner in the newspaper.

Even if we had started studying at that time, we wouldn't have had sufficient time to make a

thorough study of this that it should merit.

Q. In your opinion, is approval of this application in the best interest of conservation, prevention of waste, and protection of correlative rights?

A. No, not overall.

Q. Turning to the case numbered 9774, which seeks the single meter on the one unit, I believe Section 11, can you tell me what problems you see with that application?

A. Well, not knowing the productivity of the gas wells, it's got five gas wells on the unit. The plat identifies four of them. I don't know where the fifth well is. And three of the four that I can see are too close to the outer boundary of the proration unit. Without knowing the productivity, I don't know if they're going to produce all the gas out of one well, produce it equally out of the four wells or five wells that are on there, or just how they would produce it.

I think we need to know something of the productivity of wells or anticipated productivity when these things come for hearing.

Q. Mr. Nutter, looking at the single unit metering aspect of this application, can you tell me

how long single well metering has been practiced in the Jalmat Pool?

A. The original Commission rules established in 1950 or maybe even before then required that individual gas wells should be metered separately. The Jalmat Pool rules, which were established in 1954, which Order No. R-520 specified individual gas wells shall be metered. It's in the general rules. It's always been the practice in New Mexico to meter gas wells individually.

Q. What is the purpose of individual gas line metering?

A. For two things: to be sure that the production that's attributed to the well came from that well, and to develop reservoir information. If you know how much production came from a well, and you know what the pressures are that are being taken periodically on the well, you can see what the reserves are under that tract. It's for the overall good of all of the operators in the pool to have that information.

When you have one operator that's going to have it all going through a lot of little dotted lines here and allocated back somewhere, you have no way of really knowing for sure that it's been accurate.

If the gas metering company, or if the pipeline has metered that production, you have a more reliable form of metering that you can base your reservoir information on.

Q. What is the overall effect of the loss of that information?

A. Well, lack of good reservoir knowledge means that you won't get as much reserves out of the reservoir. If you've got good reservoir knowledge, you can develop the reservoir more adequately and produce it to a greater extent.

Q. Does unit metering as opposed to single well metering have any effect on the operation of the allowable system?

A. It could have.

Q. In what way could it have?

A. Because production could be attributed to the wrong wells and allowables could be misdirected.

Q. What overall effect would that have on other operators in the pool?

A. If any well is producing more than its allocated share, which is possible when you have all this commingling, it could damage the reservoir. It can take more allowable than its share per acre than it's entitled to. It could not only violate the

correlative rights of the offset operators, but affect the whole allowable system throughout the entire 3508 pool.

Q. How would the allocation of production be misdirected?

A. Either accidentally or intentionally.

Q. From the application and testimony that you've heard today, do you think that such accidents might occur through the metering system that's proposed by Rasmussen?

A. It could well occur. I don't know.

Q. What would the effect of the lack of separation other than pumping of liquids off of the wells at the wellhead have on this?

A. I don't think that's adequate for a lot of these wells in the Jalmat Pool. I think you have to pass your liquids through a heater treater a lot of times. You'll get additional gas off at that point. You'll get more adequate separation of the liquids from the gas.

According to these charts, this gas that you pass through a heater treater would just go in with the oil well gas. It would never be attributed back to the gas well that produced it, and that well would actually be overproducing its allowable, so to

speak.

Q. Does unit metering on this scale have the potential of giving any unfair advantage to one operator as opposed to other operators?

A. An operator that was inclined to mischief would certainly have an advantage over other operators. I don't even want to suggest that Rasmussen would do that, but any operator subject to mischief would.

Q. Mr. Nutter, could approval of this application have precedential effect?

A. Absolutely.

Q. And what would the potential for mischief be if this application had precedential effect?

A. The next application might be for 38 sections at a time instead of 19. And there I know you'd find somebody with mischief in 38 sections.

Q. Do you have any other observations about the single unit metering aspect of this application?

A. Well, it was my understanding to install a meter, it costs about $2,000. I think the exhibit we had was $2,377 for a meter run. It seems to me, for the ultimate information that can be obtained, the reliability of production data, that the $2,000 investment is a cheap investment to obtain that

reservoir data.

Q. In your opinion, Mr. Nutter, is the approval of this aspect of the application in the interest of conservation, prevention of waste, and protection of correlative rights?

A. Not the overall effect.

Q. Looking now at the portion of the applications that seeks surface commingling of gas well and casinghead gas, can you tell me how that might affect the application of the allowable system in the Jalmat Pool?

A. Well, as I mentioned earlier, if these liquids haven't been passed through a separator before going through the meter, and the liquids are simply passed on to the heater treater along with the liquids from the oil wells, any gas that came off from those liquids is not attributed back to that gas well because there's no means of doing that.

Furthermore, the measurement of wet gas streams through meters is not efficient. You'll have slugs of gas come through there that will blow the needle right off that chart. That type of metering is not an efficient method of metering gas.

Q. Does the commingling portion of the application have any ramifications for compliance with

gas well and casinghead well allowables on the part of an operator?

A. Again, if I were mischievous and operating one of these, I could really have an adverse effect, but I'm not mischievous, and I don't think Rasmussen is either.

Q. Could it happen accidentally?

A. It could happen accidentally, yes.

Q. Do you think this case would have a precedential effect in encouraging other operators to seek this sort of an application?

A. If they see an opportunity to save $2,000 on a well that cost half a million dollars, I guess they might want to try that.

Q. Do you have any other observations with regard to the surface commingling portion of this application?

A. No. No, Hartman doesn't object to the commingling of the oil wells with the oil wells. It's the gas wells with the oil wells that he sees some potential endangerment.

Q. Is your understanding that there's a danger of commingling of gas well gas with oil well gas under this portion of the application?

A. Yes, there could be.

Q. Do you have any further testimony?

A. No.

Q. Do you care to summarize your objections to these three applications for the hearing examiner?

A. Well, I think that it can lead to two things. It can certainly lead to the violation of correlative rights by the wholesale commingling of large amounts of gas and attributing it to the wrong well either by intent or accident, thereby affecting correlative rights.

And certainly I think that in not obtaining adequate reservoir information, it could certainly lead to waste by not making available the best reservoir engineering data that could extend the life of the reservoir and lead to the maximum ultimate recovery from that reservoir.

So I see in two respects that it could violate correlative rights and cause waste.

MS. REUTER: I have nothing further. I pass the witness.

HEARING EXAMINER: Thank you. Mr. Carr?

CROSS-EXAMINATION

BY MR. CARR:

Q. Mr. Nutter, you're employed by Mr. Hartman on a regular basis, are you not?

A. Yes, sir.
Q. Part of your duties include reviewing the dockets and keeping him advised as to items before the OCD?
A. Yes, sir.
Q. You saw the ad in the newspaper. Is that the first time you were aware of these applications?
A. Yes.
Q. Did that come out before you got the docket?
A. Yes.
Q. At that time did you call Mr. Hartman?
A. No, I did not.
Q. You knew this was a sweeping application when you saw the ad, did you not?
A. Yeah, but it didn't occur to me to call Hartman at that time.
Q. When did you contact Mr. Hartman about this matter?
A. He contacted me first about ten days ago. When the docket came out is when he contacted me. He wasn't aware of it until the docket came out.
Q. Does he independently get the docket?
A. Apparently, he's on the mailing list to receive the docket.

Q. You discussed the application with Mr. Hartman at that time?

A. Yes, I did.

Q. Did he indicate to you that he had any particular information on any of the properties that were involved in this case?

A. Did he indicate -- no, he didn't mention any of the particular properties, no.

Q. Have you discussed it with him since that time?

A. I talked to him last night.

Q. During any of these conversations, has he indicated to you that he attempted to purchase these properties when the Rasmussen group acquired them?

A. No, he didn't say that.

Q. Has he discussed with you any kind of information he developed concerning the productive capabilities of the land in an effort to purchase these tracts?

A. No, I haven't talked to him about that.

Q. When you started working on this case actually for Mr. Hartman, when would that have been?

A. Oh, just a few days ago.

Q. Wouldn't establishing what he actually owns be the first thing you would want to know before you

got into this?

A. Well, no, because he didn't approach it from an individual offsetting operator. He approached it as a general principle, and we didn't discuss, "Where is your nearest acreage, Hartman?" We didn't discuss that, and so I didn't really know where his nearest acreage is, and I don't know how much acreage he has in the immediate vicinity. I do know we had a hearing on one tract just a mile away from some of this acreage.

Q. And his concern is that his correlative rights --

A. We had a hearing on Section 18 two weeks ago today, which is one mile away from your proration unit in Section 11.

Q. Could you tell me what his concern is? Is it that his correlative rights are being impaired?

A. No, no.

Q. He's not concerned with impairment of correlative rights?

A. No. If there's a misdirection of the allowable in the wells.

He wasn't concerned about the correlative rights immediately. He's concerned about his correlative rights in the pool as a whole because any

time that you have a misdirection of production improperly of the individual wells beyond their share of the allowable, it affects the correlative rights of all operators in the pool.

Q. Isn't it appropriate if you're going to try and act to protect correlative rights, to first try and determine what those rights are?

A. To tell you the truth, Mr. Carr, I'd hate to have to determine what correlative rights are. I know what the Supreme Court said you have to do to protect correlative rights, and nobody has found that to be possible yet; so I don't know how anybody determines exactly what the correlative rights are.

But correlative rights means your fair share, and if one well is taking more than its share, then obviously it's affecting everybody's correlative rights to a degree.

Q. And that would be affected, I think you said, if an allowable was misdirected to a well?

A. Correct.

Q. Aren't allowables directed to units, not to wells?

A. Well, there are wells which may not be capable of making the allowable for the unit, but another well might make more than the allowable for

the unit. And these tests could be altered to show that the production is coming. It's overproducing one well, but it's coming from being attributed to another unit which has no production or very little production.

Q. To a unit on which the well is not located; is that what you're saying?

A. Even to that, yes, and certainly to wells on the unit.

Q. Do you see anything in this application that would, say, let us attribute production from a well on one proration unit to another proration unit?

A. I see nothing here that calls for an independent third party to be metering the production.

Q. Is that what happens on all units, well by well?

A. Most of the time, it's a pipeline measuring the gas coming from the unit. Here it will be Rasmussen measuring the production from each unit. And then far down the line you've got Northern Natural or somebody measuring the total production from all along the units is the way I understand the application.

Q. Does Mr. Hartman prefer in all cases to have a third party monitor the production from all of

his wells?

A. I don't know as he's got any units commingled and going into a single system.

Q. Did he in the past?

A. Not that I'm aware of. He might in the future.

Q. Do you know how many units in the Jalmat Mr. Hartman has operated over the years?

A. I don't know how many units. He had over 100 wells in the Jalmat a year ago.

Q. Are you aware of any standard units that he operated in that time?

A. Standard units?

Q. Standard proration units in the Jalmat Pool?

A. No.

Q. Are you aware of any unit he operated in the pool where there was not simultaneous dedication of wells?

A. Oh, yes.

Q. How many of those?

A. I have no idea.

Q. Those would have been small units, less than, say, 160 acres?

A. No. Some of them are 160.

Q. Any larger than that?
A. With one well, I couldn't say.
Q. Did he operate many wells that were simultaneously dedicated in the Jalmat?
A. Of more than one well to the unit?
Q. Yes.
A. Yes.
Q. Did he operate many units that had wells at unorthodox locations?
A. Yeah, he had some of those.
Q. If you had 30 days, would you be able to get prepared for a hearing, do you think, with this many applications pending before you?
A. I would be a heck of a lot more prepared than I am today.
Q. When you look at any one of these applications, are you here testifying that any one of these nonstandard units or proposals creates waste and impairs correlative rights? Are you testifying you've got to have more time to figure that out?
A. I'm saying the overall effect could impair correlative rights and cause waste.
Q. You could see to that, but you've got to have more time to study it?
A. No. It could do that because you would

have less reliable reservoir information and a possibility of misdirection of allowable.

Q. You just have the possibility. You're not saying it's going to be?

A. I'm not saying it's going to happen.

MR. CARR: That's all I have.

HEARING EXAMINER: Is there any redirect, Miss Reuter?

MS. REUTER: No I have no redirect.

DIRECT EXAMINATION

BY HEARING EXAMINER:

Q. Mr. Nutter, I'm still a little confused here about your confusion. What portion of the application was misstated or incorrect?

A. It's on the exhibit that's attached to the application, "Exhibit A attached." It says, "Proposed nonstandard Jalmat gas proration units and Jalmat gas well locations," and it gives a list of all of these units.

Q. Is that the same exhibit that appears as the Applicant's Exhibit No. 7 today?

A. Yes, it is.

Q. What portion --

A. Except this one says Exhibit A on it, and that's been blanked out on Exhibit 7.

Q. Other than that, that's the only change?
A. As far as I know. I haven't proofread the whole thing, but I think it's the same exhibit.
Q. You said something about the asterisk?
A. Yes. If you'll look at the first page there, Section 11, the (all standard 640 acre unit in approved locations).
Q. And that's the only one that appears?
A. Yes.
Q. Where is that Section 11 located, what township?
A. That Section 11 is up in 22 36. It's No. 5 up there in the upper right, the big 640 pink one.
Q. What case involves that section?
A. That is case No. 9775 -- no, wait a minute. That's case 9774.
Q. So that was a separate case that just is going to amend orders that are already by us with a special metering provision; is that correct?
A. Well, that wasn't the way I read it, certainly.
Q. Would it have been better if I would have maybe wrote 16 separate cases?
A. I think it would have been better if they hadn't filed 16 at the same time.

Q. Well, I'm going to re-ask my question. Should I have written 16 separate cases and made it more clear?

A. I don't know. I really don't know how I would have handled it if I had been doing it, Mr. Stogner.

Q. You were talking about a precedential-setting case having 16 nonstandard proration units in one case, as case No. 9775 is requesting. Are you suggesting this hasn't been done at the Division or just in the Jalmat Pool?

A. I don't recall ever seeing this many unorthodox proration units on one docket except -- now I know up in the San Juan Basin when Al Kendrick was the engineer up there, along some of those on those townships had correction lines along the west side or north sides of the township, and there were little fractional sections he would take before anybody had even started drilling in the area. And he would take and mark those off and try to divide those lots up into near correct size proration units, and he would come in with maybe 20 or 30 of those.

But it was undeveloped acreage that he was just trying to allocate in advance so that people wouldn't have any misunderstanding as to how the

acreage should be developed, and then the Commission would come out with an order saying, "These are the proposed proration units for this fractional section here, half in one section, and a half in another section"; so you would come up with close to 320-acre proration unit.

Maybe it would take five lots to come as close as for his 320, but that's the most I ever saw. And I've never seen an operator come in with many. Maybe they have, but I'm not aware of any that have.

MR. STOVALL: Along those lines, Mr. Nutter, if they had come in with 16 separate applications, docketed them for one hearing, wouldn't it not have been likely that they would consolidate the hearing and hear all 16 of them at one time?

THE WITNESS: They probably would have been consolidated for hearing.

MR. STOVALL: In your mind, what's the difference? What's the impact or significance of the difference?

THE WITNESS: I don't know. I really don't know. It's just too many to study when they've had three months; we've had ten days -- maybe more than three months.

HEARING EXAMINER: Are there any other

questions of this witness?

MR. STOVALL: I would like to follow up a little bit.

DIRECT EXAMINATION

BY MR. STOVALL:

Q. If I understand what you're saying correctly, your biggest concern in terms of Mr. Hartman's interests is potential impact on the allowable; is that correct?

A. And on reservoir engineering data. That I think concerns him more than anything.

Q. When you're saying reservoir engineering data, are you talking about the ability to collect data on individual wells to more properly study the reservoir?

A. Yes, sir.

Q. With respect to the allowable portion, are you aware that should there be some mishappening with respect to the allowable, that you certainly would be welcome to appear at the allowable hearing?

A. It wouldn't be a subject of allowable because you wouldn't be aware of it. You wouldn't be aware that his production is being misdirected.

Q. One of your concerns, following up on what Mr. Carr was saying, because I think I have some

concerns with that is, with respect to you had indicated it would be possible to shift production from a high production well to a low production well; is that correct?

A. Um-hm.

Q. I think he asked you some questions with respect to whether that would be on the same production unit or not?

A. It could be on the same production unit or --

Q. Let me stop you there, if I may, and deal with that part of it. What's the effect of that with respect to allowables?

A. That wouldn't have a direct effect on total pool allowable because the allowable was assigned to that unit.

Q. It doesn't matter whether one or five wells produce out of that well; is that correct?

A. That's right. However, with respect to nonstandard locations, it could be a well at a nonstandard location that's directly offsetting another operator, and that well could be a great well, and they would be producing a lot from it and misdirecting the production or directing it to an interior well on the production unit, and that would

be violating correlative rights.

He would be overproducing the allowable that that unit -- not overproducing the allowable for that unit, but he would be overproducing that unit's share of allowable to be produced by that one individual well and misattributing it to another well.

Q. I think I understand what you said.

A. It's happened. I know it's happened before in other cases.

Q. And you're assuming that that would be the case only if the well had a penalty attached to it or some limitation on production attached to that well because of its nonstandard location; is that correct?

A. Well, or maybe there wasn't any penalty attached to the well because it was believed to be a low productivity well, and it would continue to be shown as a low productivity well. Say, a well right in the very corner of a proration unit, and they came in and said, "This well has low productivity, but I want to get an unorthodox location approved for it as a gas well for this size of the unit."

And they'd say, "Well, you've got another well over here. How much does it make?"

"It makes X amount. This other well makes half an X. But this other well really makes two X's

instead of half an X."

Q. Mr. Nutter, does Mr. Hartman have any acreage offsetting any of those wells that you're aware of?

A. I'm not sure where his offsetting acreage is. I don't think his immediate concern is the effect of these proration units on his correlative rights except overall as pool allowable might be concerned.

MR. STOVALL: I have no further questions.

HEARING EXAMINER: I do have one question that you brought up, Mr. Nutter.

FURTHER EXAMINATION

BY HEARING EXAMINER:

Q. That is, having a separator on each of the gas wells. Do you think it would be beneficial in this case to have a separator on each gas well?

A. A lot of these gas wells are making water, and you might even have to have a heater treater on them.

Q. By putting a separator on it, would it be more of an accurate measurement with their proposed metering proposal?

A. With any proposed metering system, it's more accurate to have that gas separated. It's much more accurate.

HEARING EXAMINER: Are there any other questions of Mr. Nutter? If not, he may be excused.

Mr. Carr, do you wish to recall your witness?

MR. CARR: No, Mr. Stogner. If you want to recall my witness for questions, I'd be glad to have you do that. If not, I'd be prepared to make a brief closing and ask the case be taken under advisement.

HEARING EXAMINER: I believe we're ready for closing statements. Miss Reuter, I'll allow you to go first, and, Mr. Carr, you will proceed second.

MS. REUTER: I will be brief. I believe we've fleshed out the issues here quite thoroughly. Our basic problem with this application, as you know, is we have not had time to study the ramifications of it.

I think, in a nutshell, what you could say Mr. Hartman's problem with it is, is that by using unit metering, nonstandard proration units, and commingling on such a large-scale basis, 16 units, you can effectively alter the application of the allowable system to you as an operator.

You can see that allowables apply to more productive wells. And the problem with doing that is that's not really the approach that should be taken if

allowables need to be increased or need to be adjusted so that the producer or the operator can produce. The way to approach it is to change and modify the allowable system.

The specifics of this application on unorthodox locations, that sort of thing I think is, as Mr. Nutter testified, we can't really tell how you can misdirect allocation of allowables in particular wells until we have more of an opportunity to look at it. But that potential is certainly there.

And without ever, ever impugning Rasmussen Operating or indicating that they might do something like that, you're dealing with a large number of sections, and it can be used as a precedent for other operators to come in and do the same thing, and potential for abuse is fairly substantial.

No one has indicated, not Mr. Nutter or Mr. Stamets, that anyone has ever approved this many nonstandard proration units or single-unit metering applications in one shot, in one fell swoop. Maybe three or four but never this many in the Jalmat. Just by doing that, I think you're setting a precedent; that it isn't an appropriate thing to do. Coming in, all your proration units to be rearranged, revised, starting a metering, and everything is hunky-dory, and

you can avoid an allowable system in that fashion.

I would also point out as to the single unit metering, the only justification for that was the economics of not having to meter individual wells as opposed to one on the unit.

In balance, against the possibilities of abuse, the possible precedential effect, the possible inaccuracies, it doesn't seem to me sufficient economic justification for that much of a deviation of a standard practice on such a large scale.

In short, this application does, I think, amount to a sort of mini-readjustment of the allowable system rather than looking at it as a whole, and we would request that the application be denied or continued until we have more time.

I have nothing further.

HEARING EXAMINER: Thank you, Miss Reuter.

MR. STOVALL: Is that a new motion to continue, Miss Reuter?

MS. REUTER: Certainly, it's a new motion to continue.

MR. CARR: If there's a new motion to continue, I would ask that you consider my previous response to the motion.

HEARING EXAMINER: Mr. Carr?

MR. CARR: May it please the Examiner, Mr. Rasmussen has a substantial interest in the Jalmat Pool. He's got plans to implement certain procedures to improve the producing capabilities of these properties. And he stands before you with three cases instead of 16. If we needed 16, I can assure you, I would have filed 16.

Notice was given as required by the rules of the Divison. Mr. Nutter indicates he read it in the newspaper. And even though he said he couldn't have been fully ready by this time, he didn't call Mr. Hartman. This came back from Midland after the fact of some discussions they had, and they're here taking a position that is an expression of general concern without even telling us what their property interest is.

We submit to you that what we're attempting to implement in this pool, nonstandard proration units, simultaneous dedication, unorthodox well locations, a new way of metering, surface commingling, are things for which there is precedent, much of the precedent from Mr. Hartman in his own operations in this very pool.

They come in here, and they're not really complaining about the nonstandard units, and they

don't know what they own. So their complaints are maybe about the unorthodox well locations. They're not complaining about simultaneous dedication. They want to complain about metering and recommend certain things that I guess if we want to go to absurd lengths to improve the efficiency of metering throughout New Mexico, we could require every well had a separator and a heater treater and a meter, test it every day, and do whatever they think is appropriate.

But what we've come with is a plan that's reasonable and appropriate. It will save money. By saving money, it will result in longer economic life for these wells and greater economic benefit. It's not a dollars and cents question alone. It's a waste question, and it's a sound argument to present to you for consideration.

They had problems about impact on data, and maybe this is having an effect on the allowable. They don't have a problem with us, but they think it's a bad precedent that it may be an attempt to readjust the allowable. Any time anybody makes a unit out there more efficient, it has a tendency to readjust the allowable. It tends to push it wide open. Everybody should benefit from that.

We believe we've come before you with

proper applications. We've given proper notice to everyone we're required to give notice to under the rules. We have come before you, presented our case, answered every question asked, with the help of a recess or two, but the only questions that aren't answered are really the questions that haven't been asked.

We appreciate the general concern that Mr. Hartman has that he may be able to present a different and more detailed case if he has 30 additional days, but after he reviews this, and whatever you decide, he will have at least 30 days before he has an absolute right to have the whole matter heard anew.

We submit to you, the case is ready to be taken under advisement. It should be taken under advisement. And when you do that, you will move the whole administrative process forward, and we will be closer to the day when the questions concerning each and every one of these units is finally resolved.

We ask you, therefore, to take the cases under advisement and enter whatever order you deem appropriate based upon the record before you today.

HEARING EXAMINER: Thank you, Mr. Carr. For the record, any motion that might have been made is overruled.

Is there anything further in either or all of cases Nos. 9774, 9775, or 9776 at this time?

These cases will be taken under advisement.

CERTIFICATE OF REPORTER

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

I, Deborah O'Bine, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I caused my notes to be transcribed under my personal supervision; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL November 1, 1989.

Deborah O'Bine

DEBORAH O'BINE
CSR No. 127

My commission expires: August 10, 1990

heard by me on 4 October 1989.

Michael E. Stogner, Examiner
Oil Conservation Division