

1 STATE OF NEW MEXICO  
2 ENERGY AND MINERALS DEPARTMENT  
3 OIL CONSERVATION DIVISION  
4 STATE LAND OFFICE BLDG.  
5 SANTA FE, NEW MEXICO

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7  
8 11 July 1984

9 EXAMINER HEARING

10 IN THE MATTER OF

11 Application of Merrion Oil & Gas Corporation for retroactive allow- CASE  
12 able, Rio Arriba County, New 8261  
13 Mexico.

14 BEFORE: Richard L. Stamets, Examiner

15 TRANSCRIPT OF HEARING

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17 A P P E A R A N C E S

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20 For the Oil Conservation  
21 Division:

22 For the Applicant: William F. Carr  
23 Attorney at Law  
24 CAMPBELL & BLACK P.A.  
25 P. O. Box 2208  
Santa Fe, New Mexico 87501

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I N D E X

DANIEL S. NUTTER

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E X H I B I T S

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3 MR. STAMETS: We'll call next  
4 Case 8251, application of Merrion Oil & Gas Corporation for  
5 retroactive allowable, Rio Arriba County, New Mexico.

6 MR. CARR: May it please the  
7 Examiner, my name is William F. Carr with the law firm Camp-  
8 bell and Black, P. A., of Santa Fe, appearing on behalf of  
9 Merrion Oil & Gas Corporation.

10 I have one witness who needs to  
11 be sworn.

12 MR. STAMETS: Any other appear-  
13 ances in this case?

14 (Witness sworn.)

15 DANIEL S. NUTTER,  
16 being called as a witness and being duly sworn upon his  
17 oath, testified as follows, to-wit:

18 DIRECT EXAMINATION

19 BY MR. CARR:

20 Q I'd like to ask you to state your name.

21 A My name is Dan Nutter.

22 Q Where do you reside?

23 A In Santa Fe, New Mexico.

24 Q By whom are you employed?

25 A I'm a consulting engineer employed in

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this case by Merrion Oil & Gas Corporation.

Q Have you previously testified before the Commission or one of its examiners and had your credentials as an engineer accepted and made a matter of record?

A I have.

Q Are you familiar with the application in this case and the subject well?

A Yes, I am.

MR. CARR: Are the witness' qualifications acceptable?

MR. STAMETS: They are.

Q Mr. Nutter, would you briefly state what Merrion Oil & Gas Corporation seeks with this application?

A Merrion Oil & Gas Corporation is seeking the assignment of a retroactive gas allowable to its East Lindrith Well No. 5 in the South Blanco Pictured Cliffs Pool, Rio Arriba County, New Mexico, from the date, the effective date of a regular allowable which was assigned to the well in -- on July 18th of 1983, until the present -- let me back up -- from date of first production on June 2nd of 1982 until the effective date of a regular allowable assignment on June -- July the 18th of 1983.

Q Mr. Nutter, have you prepared certain exhibits for introduction in this case?

A Yes, I have.

Q Would you please refer to what has been marked as Merrion Exhibit Number One, and using this exhibit

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provide Mr. Stamets with a history of this well?

A Yes. Exhibit Number One is a chronological history of certain events that occurred in the life of the well.

I don't know the exact spud date on the well; however, the drilling of it was completed May the 22nd of 1980.

Now, the well was not actually cased and perforated and completed until December the 3rd of 1981. This was a period of a year and a half from the date the drilling was completed.

However, if the Examiner will recall, this well was involved in a long series of compulsory pooling hearings of Merrion Oil & Gas Corporation versus Mr. and Mrs. Brown, and until all the problems were resolved concerning the forced pooling of the Brown case, Merrion Oil & Gas chose not to try to complete the well and perforate it.

So the well sat there after being drilled for a year and a half. Finally Order No. R-6366 was entered resolving the forced pooling problems. The rig was moved in and the well was completed ready to produce on December 3rd of 1981.

A one point back pressure test was taken on December the 8th of 1981 and it qualified for connection to a gas pipeline, so a deal was made with El Paso to connect the well but no connection was made until June the 2nd of 1982.

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2 Thus we see that more than two years has  
3 elapsed between the time that the drilling on the well was  
4 completed and it was put into the pipeline.

5 The well commenced producing in June of  
6 1982 and continued producing until it was shut in for over-  
7 production, which was in June of 1983.

8 Q Would you now refer to your Exhibit Num-  
9 ber Two and review the production data contained thereon?

10 A Yes. As you'll note from Exhibit Number  
11 Two, the first production was in June of 1982 for a total of  
12 6641 Mcf of gas for that month.

13 The well was carried in the proration  
14 schedule with an NC, indicating a new connection.

15 A deliverability test could have been  
16 scheduled for the well as late as September of 1982 and  
17 still by virtue of a deliverability test can be back-dated  
18 for allowable purposes for ninety days, so effective in Sep-  
19 tember you could have taken the deliverability test, had it  
20 back dated back to June the 2nd of 1982, and had a full al-  
21 lowable assigned to the well; however, through some mix-up a  
22 deliverability test was not scheduled until September -- un-  
23 til December of 1982.

24 In December of 1982 a deliverability test  
25 was commenced; however, the test had to be aborted in the  
middle of the test because we've checked the pumper's logs  
on the test and found that in January the snowdrifts were  
too deep to get to the well, so that test was aborted.

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2 Another test was then scheduled for March  
3 of 1983 and there was something wrong with the charts on  
4 that test and no volumes could be reported. So another  
5 chance to qualify the well for an allowable was lost.

6 Subsequent to that there was not another  
7 test scheduled until October -- it was either scheduled to  
8 start in September or start in October, I don't know, but  
9 the test was completed in October of 1983.

10 So that was the first deliverability test  
11 that was completed on the well.

12 When the deliverability test was reported  
13 to the Oil Conservation Division in Aztec on October the  
14 17th of 1983, an allowable was assigned retroactively for  
15 ninety days from the date the test was received, which  
16 brought the allowable back to July 17th of 1983.

17 That will, you will notice, be the first  
18 allowable that's assigned there on Exhibit Number Two, which  
19 was 385 Mcf for the month of July.

20 Subsequent to that the well has received  
21 an allowable, the minimum allowable in that pool, of 1000  
22 for five months; however the minimum allowable for the pool  
23 is 250 Mcf per day now, and it is classified for the first  
24 time in May of 1984 as a nonmarginal well.

25 So that we can see even though the deliv-  
erability test was taken way back in July -- or the allow-  
able was assigned way back in July of 1983, it doesn't carry  
any classification actually until the May schedule of 1984.

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2 So there's been nothing at any time to  
3 indicate that the well was in a badly overproduced condition  
4 until the May schedule came out. The May schedule showed  
5 that the well had an overproduced status of 17,368 Mcf.

6 Now, if we take this 17,368 Mcf which was  
7 the status of the well at the end of May of 1984, and we  
8 divide that by the twelve month average for the allowables  
9 in the preceding twelve full months, which would be August  
10 through May of 1984, we find that the well is 15.3 times  
11 overproduced the twelve month average allowable for that  
12 twelve month period.

13 However, these allowables included those  
14 high allowables back in '83 and the early part of '84 when  
15 they were, even the minimum allowables were four times what  
16 a present day minimum allowable is for the pool, being 1000  
17 versus the present day 250 Mcf for a monthly minimum allow-  
18 able.

19 So if we only take the last four months  
20 which we have an allowable for, which would be April, May,  
21 June and July of 1984, we find that the average allowable  
22 there comes out that the overproduction is 25.3 times the  
23 last four months average allowable, which would mean in or-  
24 der to get back in balance if allowables continued at the  
25 rate they are for the last four months, if allowables con-  
tinued at that rate, it would be over two years before this  
well could get back in balance being completely shut in.

We feel that this is a definite hardship,

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an economic hardship on the operator.

First of all there was a delay of two and a half years from the time the well was completed -- there was a delay of two years from the time the well was completed in mid-1980 until mid-1982 before it could be put on production.

Then it qualified for a year's production and it will have to now be shut-in. It's been shut-in for a year now, and it will have to be shut-in, then, for another two years.

So we find that if the well has -- two years from now will be 1986, so we'll find that the well in a six year period from 1980 until 1986 had one year of production. Doesn't seem right that a well would have to be penalized that much for having one year of production at a time when allowables were fairly high and then be faced with such a low market demand period of time in which to make it up.

Q Mr. Nutter, what does the NC symbol mean in terms of the status?

A The NC in the proration schedule means a new connection and it doesn't denote what's going on with that well. It could be that there's no test that's been reported. It could be that a test has been filed, a legitimate test that's being processed by the Division offices. Sometimes I've seen those take more than a year.

Q Is --

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2           A           Before you find out what the status of  
3 your well is, because it will carry an NC on it but it won't  
4 carry any status. It won't indicate that the well is in any  
5 danger of being overproduced.

6           Q           Would the NC status have alerted anyone  
7 to this particular problem at Merrion Oil & Gas?

8           A           No, no flag was raised as far as they  
9 were concerned. They had such a voluminous case file to  
10 start with with all of the forced pooling proceedings and  
11 the tests and the retests and the aborted tests, and things  
12 like this, that it just got -- the well actually got lost in  
13 the shuffle.

14          Q           Was there anything in the reporting from  
15 El Paso that should have signaled to them this problem?

16          A           There was -- at one time El Paso was re-  
17 porting a code 88, I believe it is, on the well, or it was  
18 reporting a code 11 on the well on the production reports  
19 there that come to the operator, and that meant that there  
20 was a problem with market demand on the well.

21                    If it had carried the proper code, which  
22 would have been a code 88, it would have shown that a regu-  
23 latory form was missing.

24                    So that was another thing, it kept coming  
25 in with this code 11 rather than a code 88 on the reports  
that go to the operator and the operator wasn't aware, the  
well having gotten lost in the shuffle, there was no flag  
from El Paso, either, to indicate that the well was in

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trouble insofar as form filing was concerned.

Q           When the proper test was finally taken, was this taken at the earliest possible time or was it in the normal course of --

A           Well, the tests were scheduled different times and tests were broken. The time when they could have tested sooner was after the test that was started in March of 1983 and aborted.

          There was no further testing done then for -- until October of September.

Q           Could that October test have been conducted at an earlier date?

A           It might have been but if the operator had been aware of a problem he would have scheduled it sooner, but he wasn't really aware of a problem at that time.

Q           Mr. Nutter, you're familiar with prorationing in New Mexico, are you not?

A           Yes.

Q           If an earlier test had been filed, tested and filed in a timely fashion, this problem simply would not have occurred, would it?

A           No, because the allowable is always, under normal procedures, the allowable, assuming the other forms are filed, a notice of connection and a C-104 requesting an allowable, then the only thing that hinges is receiving deliverability test and the date of the receipt of

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2 the deliverability test is backed up ninety days for the ef-  
3 fective date of an allowable.

4 And the District Office did do that.  
5 They backed up -- the test was received October 17th. They  
6 backed up ninety days from that and assigned the allowable  
7 effective July.

8 Q If that test had been filed at an earlier  
9 date, the well would have produced the same volumes but now  
10 would not be overproduced.

11 A The well would have produced the same  
12 volumes.

13 Q And would it be overproduced today?

14 A No.

15 Q If this application is granted, what im-  
16 pact will it have on correlative rights?

17 A It won't have any impact on correlative  
18 rights to grant the application -- on anyone else's correla-  
19 tive rights.

20 Q What would --

21 A It will have -- it will have a favorable  
22 impact on the correlative rights of the operator because he  
23 has had the well completed in the pool. Through a negligent  
24 error, a comedy of errors and whole series of broken gas  
25 well deliverability tests, end up with no allowable for a  
period of time when the well was producing and got into this  
overproduced status.

Q Will granting the application cause

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waste?

A No, it won't. It won't cause any waste at all.

Q Were Exhibits One and Two prepared by you or have you reviewed them and can you testify as to their accuracy?

A I can testify to the accuracy except for the Item 5 on Exhibit One. It says the date of the first deliverability test was January 26th of 1983. Broke test, rescheduled in October. There was another one scheduled in between that broken test in January and the one that was scheduled in October.

That's the only incorrect thing that's on that.

Q And did you prepare Exhibit Number Two?

A Yes.

MR. CARR: At this time we would offer Merrion Exhibits One and Two into evidence.

MR. STAMETS: These exhibits will be admitted.

MR. CARR: I have nothing further of Mr. Nutter on direct.

#### CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Nutter, you mentioned early in your testimony that there was something that happened that caused

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2 the operator not to take that test before January 26th. Was  
3 there some particular thing you had in mind, or speaking  
4 generally?

5 A First test? No, there wasn't any parti-  
6 cular -- anything in particular there.

7 Q As far as you are aware the failure to  
8 commence this test before January 26th, 1983 was just from  
9 the fact that the operator has overlooked the necessity of  
10 doing that.

11 A Right.

12 Q And if that January 26th test had been  
13 completed, we would have had the results perhaps in Feb-  
14 ruary.

15 A See, actually he was three months late  
16 taking that test because that test was started in December.

17 Q It was begun in December?

18 A Yes, and he could have taken the test as  
19 late as September, so he actually was three months late  
20 starting that test.

21 So he was -- he erred in starting the  
22 first test by a three month period, a ninety day period.

23 MR. STAMETS: Any other ques-  
24 tions?

25 MR. CARR: No questions.

MR. STAMETS: He may be ex-  
cused.

Does anyone have anything fur-

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ther they wish to add in this case?

MR. CARR: Nothing further.

MR. STAMETS: The case will be taken under advisement.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY  
that the foregoing Transcript of Hearing before the Oil Con-  
servation Division was reported by me; that the said tran-  
script is a full, true, and correct record of the hearing,  
prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 8261  
heard by me on 7/21 19 84.  
Richard A. Hamel, Examiner  
Oil Conservation Division