

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

3 December 1986

EXAMINER HEARING

IN THE MATTER OF:

Cases in which no testimony was given
on this docket.

CASE

9026

9027

9028

9029

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

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MR. STOGNER: I call next Case
Number 9026.

MR. TAYLOR: The application of
Oklahoma Oil Company for three nonstandard gas proration
units, San Juan County, New Mexico.

MR. STOGNER: This case was
heard on November 5th, 1986, and was readvertised for to-
day's hearing due to an advertisement error.

Are there any additional testi-
mony or appearances at this time?

This case will then be taken
under advisement.

(Hearing concluded.)

MR. STOGNER: Call next Case
Number 9027.

MR. TAYLOR: Application of P-
R-O Management, Incorporated for three nonstandared gas pro-
ration units, San Juan County, New Mexico.

MR. STOGNER: This case was al-
so heard on November 5th, 1986, due to an advertisement er-
ror; however, we're going to continue this until the January
7th, 1987, Examiner's Hearing due to another advertisement

1 error in the Farmington Daily Times.

2

3

(Hearing concluded.)

4

5

MR. STOGNER: Call next Case

6

Number 9028.

7

MR. TAYLOR: The application of

8

Oklahoma Oil Company for a nonstandard gas proration unit,

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San Juan County, New Mexico.

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MR. STOGNER: This case was

11

heard on November 5th, 1986, and had the same fate as the

12

other ones in the Farmington Daily Times and is readvertised

13

to today's hearing.

14

Call for any additional appear-

15

ances or testimony?

16

This case will be taken under

17

advisement.

18

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(Hearing concluded.)

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MR. STOGNER: Call next Case

22

Number 9029.

23

MR. TAYLOR: Application of P-

24

R-O Management, Incorporated, for a nonstandard gas prora-

25

tion unit, San Juan County, New Mexico.

1 MR. STOGNER: This case was
2 also heard on the November 5th, 1986, hearing.

3 Due to an advertisement error
4 it's been readvertised for today.

5 We'll call for any additional
6 testimony and/or appearances -- yeah, any appearances?

7 There being none, this case
8 will be take under advisement.

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10 (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 the foregoing Transcript of Hearing before the Oil
Conservation Division (Commission) was reported by me; that
the said transcript 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 correct and true copy of the transcript of the
hearing held before me on 2 December 1986 at
8, 9026, 9027, 9028, 9029
Michael H. Hogue Executive
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

5 November 1986

EXAMINER HEARING

IN THE MATTER OF:

Application of Oklahoma Oil Company CASE
for three non-standard gas proration 9026
units, San Juan County, New Mexico.

Application of P-R-O Management, Inc. CASE
for three non-standard gas proration 9027
units, San Juan County, New Mexico.

Application of Oklahoma Oil Company CASE
for a non-standard gas proration unit, 9028
San Juan County, New Mexico.

Application of P-R-O Management, Inc. CASE
for a non-standard gas proration unit, 9029
San Juan County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: Jeff Taylor
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I N D E X

CASE 9026

DANIEL S. NUTTER

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Exhibit Two, Plat 9

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I N D E X CONT'D

CASE 9028

Direct Examination by Mr. Ives 22

Exhibit One, Plat 22

Exhibit Two, Plat 22

Exhibit Four, Kendrick Ex. 23

CASE 9029

Direct Examination by Mr. Ives 25

Exhibit One, Plat 25

Exhibit Two, Plat 26

Exhibit Four, Kendrick Ex. 27

1 MR. SPOGNER: We'll call next
2 Case Number 9026.

3 MR. TAYLOR: Application of Ok-
4 lahoma Oil Company for three non-standard gas proration
5 units, San Juan County, New Mexico.

6 MR. STOGNER: Call for appear-
7 ances.

8 MR. IVES: Peter Ives with the
9 law firm Campbell and Black on behalf of Oklahoma Oil Com-
10 pany.

11 As an initial matter, to try
12 and expedite consideration here and in light of the fact
13 that I will also be appearing in 9027, 9028, and 9029, all
14 of which have matters of fact which are be raised or to be
15 considered in each of those applications, I would ask that
16 those applications be consolidated for purposes of the pre-
17 sentation of testimony.

18 Additionally, I will have one
19 witness in each of those cases, who is in fact the same per-
20 son, so that might expedite things.

21 MR. STOGNER: Thank you, sir,
22 seeing as there's nobody else in the room I will assume that
23 there is no opposition to this, so we will call Case Number
24 9027.

25 MR. TAYLOR: Application of P-

1 R-O Management, Incorporated, for three non-standard gas
2 proration units, San Juan County, New Mexico.

3 MR. STOGNER: We'll also call
4 Case Number 9028.

5 MR. TAYLOR: Application of Ok-
6 lahoma Oil Company for non-standard gas proration unit, San
7 Juan County, New Mexico.

8 MR. STOGNER: And we will call
9 Case Number 9029.

10 MR. TAYLOR: Application of P-
11 R-O Management, Incorporated, for non-standard gas proration
12 unit, San Juan County, New Mexico.

13 MR. STOGNER: Let the record
14 show that Mr. Ives will be appearing in each one of these
15 cases with the witness and all four of these cases will be
16 consolidated for purposes of testimony today.

17 Mr. Ives?

18 MR. IVES: Thank you. I have
19 one witness who I would request be sworn at this time.

20 MR. STOGNER: Let the record
21 also show that this is Mr. Dan Nutter, is that correct?

22 MR. NUTTER: Yes.

23 MR. IVES: Yes.

24 MR. STOGNER: Okay, Mr. Nutter
25 was previously sworn in the two previous cases.

1 MR. IVES: Mr. Examiner, would
2 you like me to qualify Mr. Nutter again or may I simply,
3 based on our earlier cases here today, move his -- move his
4 admittance before this tribunal for purposes of these con-
5 solidated cases as an expert petroleum engineer?

6 MR. STOGGER: Based on his pre-
7 vious cases, the record will reflect that Mr. Nutter is
8 qualified.

9
10 DANIEL S. NUTTER,
11 having been previously sworn and remaining under oath, tes-
12 tified as follows, to-wit:

13
14 DIRECT EXAMINATION

15 BY MR. IVES:

16 Q Mr. Nutter, are you familiar with the ap-
17 plications 9026, 9027, 9028, and 9029, which are currently
18 before this tribunal?

19 A Yes, I am.

20 Q And are you familiar with the areas that
21 those applications concern and the matters at issue in those
22 applications?

23 A I am.

24 Q If I could ask you, please, to state what
25 is sought in application 9026.

1 A Yes, sir, just one second.

2 MR. IVES: As an initial matter
3 and for purposes of the record I would indicate that on the
4 docket in Case 9026 well number 1), which is Federal Well
5 No. 1-E, should be part of and appear as number 1) under
6 Case Number 9027, and similarly, number 1), which is Federal
7 Well No. 1 under Case Number 9027 should appear as number 1)
8 within Case Number 9026, but we will present our testimony
9 with regard to each of those as if they had been properly
10 advertised on the docket, understanding that they will be
11 readvertised to correct that error.

12 MR. STOGNER: Thank you, Mr.
13 Ives.

14 Due to an error in the Divi-
15 sion's advertisement Case Numbers 9026 and 9027 will be re-
16 advertised for the Examiner's Hearing scheduled for December
17 3rd, 1986; however, we will go ahead with the testimony to-
18 day.

19 MR. IVES: The final point of
20 clarity, we will introduce our exhibits as if the advertise-
21 ment had been proper so that our exhibits in connection with
22 Case 9026 will involve Federal Well No. 1 as opposed to Fed-
23 eral Well No. 1-E.

24 MR. STOGNER: Thank you.

25 Q I believe I had asked you, Mr. Nutter,

1 what was sought in application -- in the application in Case
2 Number 9026.

3 A Case Number 9026 is the application of
4 Oklahoma Oil Company for three non-standard gas proration
5 units in the Basin Dakota Gas Pool of San Juan County, New
6 Mexico.

7 They're seeking to divide a -- a present
8 320-acre standard gas proration unit upon which there was an
9 original well and an infill well drilled and completed, and
10 they're seeking to divide that 320-acre unit into two units
11 of 160 acres each on three, in three different locations in
12 Section -- in Case Number 9026.

13 The first one would be on the application
14 of Oklahoma Oil Company to create a 160-acre non-standard
15 unit comprising the northeast quarter of Section 19, Township
16 27 North, Range 11 West, to be dedicated to Oklahoma's Fed-
17 eral Well No. 1, which is located in Unit G of Section 19.

18 The second non-standard unit sought in
19 this case --

20 Q Mr. Nutter, let me just stop you and ask
21 have you brought any exhibits with you to present in this
22 application?

23 A Yes, and that non-standard proration unit
24 is shown on Exhibit One in Case Number 9026. The non-stand-
25 ard unit being sought by Oklahoma is outlined in solid red

1 and the 160 acres that would be left out of this particular
2 -- of this particular case is shown to be indicated by a
3 dashed red line. The solid red and the dashed line together
4 mark the -- mark the present 320-acre unit.

5 Q And if you could identify Exhibit Two and
6 describe what that shows.

7 A Exhibit Two is the second non-standard
8 proration unit being sought to Oklahoma Oil Company in this
9 case.

10 Here the east half of Section 5, Township
11 30 North, Range 13 West has been drilled and dedicated to
12 Oklahoma's Knight Well No. 9 and to the Knight --

13 Q Excuse me, is that Knight Well No. 9 --

14 A Knight Well No. 1, I'm sorry, and to the
15 Knight Well No. 1-E.

16 Knight 1 is located in Unit A of Section
17 5. Knight 1-E is located in Unit I of Section 5.

18 Oklahoma proposes to split this existing
19 320-acre unit into two 160-acre units and would dedicate the
20 northeast quarter of Section 5 to its Well No. -- it's
21 Knight Well No. 1.

22 The remaining in the presently defined
23 unit would be dedicated in another case to P-R-O Manage-
24 ment's Well No. 1-E.

25 Q And if you could please identify what has

1 been marked as Exhibit Three and explain what that shows.

2 A Exhibit Three is the third non-standard
3 proration unit being requested by Oklahoma Oil in this
4 particular case, currently dedicated to Oklahoma's Johnson
5 Well No. 1 in Unit letter M of Section 21, Township 31
6 North, Range 13 West, and its Johnson Well No. 1-E in Unit
7 letter P of Section 21, is the 320-acre unit comprising the
8 south half of Section 21.

9 Oklahoma proposes to split this 320-acre
10 unit into two 160's, dedicate the southwest quarter of
11 Section 21 to its Johnson Well No. 1, and in another case
12 the southeast quarter would be dedicated to P-R-O
13 Management's Well No. -- Johnson Well No. 1-E.

14 Q Let me ask you, Mr. Nutter, will there be
15 any split of ownership which has not been approved by the
16 interest owners in the wells referenced on Exhibits One,
17 Two, and Three with regards to which you've just testified?

18 A No, there won't be any split ownership
19 other than approved by the operators. We'll have
20 correspondence on that later.

21 Q Let me ask you now, if you would, to
22 identify Exhibit Four and explain what that shows.

23 A Okay, Exhibit Four is a copy of an
24 exhibit which was presented by Mr. A. R. Kendrick in a case
25 that was heard before this Division's Examiner Catanach. I
believe it was in August of 1986.

1 If you take a standard 320-acre unit in
2 the prorated gas pools of northwest New Mexico where deliv-
3 erability is a factor and where infill drilling has been ap-
4 proved, that would be Basin-Dakota and Blanco-Mesaverde, if
5 you take a standard 320-acre unit, you calculate the allow-
6 able based on the formula, which is in the Blanco-Mesaverde
7 75 percent deliverability, a 25 percent acreage times
8 deliverability, and when they change the formula of the re-
9 servoir to accommodate the infill drilling, the formula was
10 calculated as shown on Exhibit Four under Allowable A at the
11 top portion in Section A, where you have two tracts, and the
12 allowable for these two tracts, assuming that the deliver-
13 ability of one well is 81 and the deliverability of the
14 other well is 1000, and the acreage is one, you'll see that
15 that acreage factor of one goes into both sides of that for-
16 mula.

17 You have acreage factor times F-1 plus
18 acreage factor times D-1 plus D-2, so you add the two
19 deliverabilities in that portion of the formula times the F-
20 2 factor for the pool, and then in the calculation just be-
21 low that you see you have the one times 3469 plus one times
22 81 plus 1000 times the 24, which is the F-2 or the deliver-
23 ability factor, and the unit allowable for those two wells
24 under the conditions that are stated here and the allowable
25 factors, the F factors for July of 1986, the allowable for

1 that unit with two wells on it comes out to be 30,069 for
2 the month.

3 Now the way the formula has been prev-
4 iously applied in the case of one 320-acre unit that's being
5 split into two 160's, the acreage factor of the first unit
6 would be .5. The deliverability is 80; same conditions as
7 we had before on the deliverability.

8 The acreage factor for the other unit is
9 given as .5 and the deliverability is 1000, the same as we
10 had for the two wells on the unit. And then when you calcu-
11 late the allowable you put the .5 into the lefthand side of
12 the formula, as well as into the right side of the formula,
13 and you calculate the allowable B-1 for the smaller unit,
14 the smaller deliverability unit, to be 2744. The allowable
15 for the unit with the 1000 deliverability is calculated to
16 be 14,038. So the sum of the two allowables, by splitting
17 the 320 into two 160's, the sum of the 160-acre allowables
18 is 16,782.

19 So allowable A minus allowable B makes a
20 difference of 13,287 Mcf less, which would be assigned to
21 the two nonstandard proration units than had formerly been
22 assigned to the same acreage and the same wells when they
23 were in a 320-acre unit.

24 This is obviously wrong. So it's been
25 determined that the acreage factor should not applied to the

1 righthand side of the formula where the deliverability is
2 and they've gone ahead and calculated that in Section C of
3 this page -- Exhibit Number Four, where if you leave the --
4 if you leave the deliverability -- leave the acreage factor
5 out, Allowable C-1, you leave it out of the righthand side
6 of the formula, you put it in on the lefthand side, so you
7 have .5 times the 3469, which is the acreage allowable, plus
8 81, which is the deliverability of the well, times the
9 deliverability factor for the pool, and leave out the ac-
10 reage factor, you get an allowable for that non-standard
11 proration unit of 3,728.

12 Now do the same thing to the other non-
13 standard proration unit, where you used the .5 acreage fac-
14 tor times the acreage factor allowable plus no acreage fac-
15 tor in the righthand side of the formula but just the 1000
16 times the deliverability factor 2 for the pool, and you come
17 up with 26,341 Mcf for that well.

18 So the sum of those two is given there as
19 top allowable -- total allowable C, which is 30,069, and
20 you're right back where you were when you had the original
21 allowable assigned to the two wells on the 320-acre unit.

22 So it's obvious that that acreage factor
23 needs to be dropped out of the righthand side of the
24 allowable formula when you're separating a 320-acre unit
25 into two 160-acre units.

1 Now, this --

2 Q What we're seeking here, in essence, is
3 allowable rates on the non-standard units which would allow
4 a total allowable equivalent to the 320 in the (unclear).
5 In essence what we're suggesting is that when a unit has had
6 short acreage in the past the acreage factor in the second
7 portion of the formula, as testified to by Mr. Nutter, has
8 in effect penalized the unit allowable and that in connec-
9 tion with the case earlier referred to by Mr. Nutter in
10 which this exhibit was initially introduced before this tri-
11 bunal, the ruling in that particular case was to allow this
12 correction to the allowable formula allowing for the two
13 160's to have a total allowable equivalent to that of a 320.

14 A I might add --

15 Q Mr. Nutter, let me ask, in your opinion
16 will the dedicated acreage be effectively drained if the ap-
17 plication is granted?

18 A Yes, I believe it will. The wells are
19 currently draining each quarter section, so presumably they
20 would continue to drain the quarter sections.

21 Q And in your opinion will the dedicated
22 acreage be economically developed if the application is
23 granted?

24 A Yes, it would.

25 Q I would also ask, in your opinion will

1 the granting of this application preserve conservation, pro-
2 tect correlative rights, and prevent waste?

3 A It will protect correlative rights pro-
4 viding that the units are assigned -- that the acreage fac-
5 tor in the righthand side of the formula is deleted from the
6 -- acreage factor is deleted from the righthand side of the
7 formula.

8 Otherwise it would violate the operator's
9 correlative rights and in no event would it impair anyone
10 else's correlative rights, also.

11 MR. IVES: I would move the ad-
12 mission of Exhibits One, Two, Three and Four into evidence
13 in this case at this time and I have no further questions of
14 the witness.

15 MR. STOGNER: Exhibits One
16 through Four in Case Number 9026 will be taken under -- I'm
17 sorry, will be admitted into evidence.

18
19 CROSS EXAMINATION

20 BY MR. STOGNER:

21 Q Mr. Nutter, on Exhibit Number Four this
22 particular policy or rule is covered under Order Number R-
23 8170, which is the prorated gas pool rules, is that correct?

24 A Yeah, these formulas, this is worked out
25 under the formulas set out in the -- in 8170 for those par-

1 ticular pools. This exhibit is for the Blanco-Mesaverde but
2 you could calculate a similar one for the Basin-Dakota, the
3 deliverability and the acreage factors are different than
4 they are for Blanco-Mesaverde, but the calculation would be
5 identical.

6 Q Okay. I have nothing further of Mr. Nut-
7 ter in this particular case, Mr. Ives.

8 MR. IVES: Yes, I just have a
9 couple of follow-ups.

10

11

REDIRECT EXAMINATION

12 BY MR. IVES:

13 Q Mr. Nutter, have you received any corres-
14 pondence in connection with this application which might be
15 pertinent to the tribunal's consideration of this applica-
16 tion?

17 A Yes, I have correspondence I'll introduce
18 later which applies to all cases here today.

19 MR. IVES: Mr. Examiner, we do
20 have this correspondence which Mr. Nutter has just
21 referenced which is applicable to these consolidated cases
22 and also would point out that Exhibit Four, the demonstra-
23 tive allowable calculations will also be used in all -- con-
24 sideration of all four cases. I wasn't sure exactly how ad-
25 ministratively we would handle that, if you want us to mark

1 it for each case or simply stipulate that it will be entered
2 in -- for consideration in each case.

3 A We can give you an Exhibit Four for each
4 case, if you'd like it. It won't be Exhibit Four, I think
5 it will be Exhibit Three in two of them.

6 Q Yeah.

7 A On in one -- yeah, two of them it will be
8 Exhibit Three. We can give you one for each case file,
9 though, if you want.

10 MR. STOGNER: Why don't we go
11 ahead and keep the exhibits straight and you can go ahead
12 and give me an exhibit for each one.

13 A Okay.

14

15 CASE 9027

16

17 Q Mr. Nutter, in Case 9027, if you could
18 please state what is sought in that application.

19 A Case 9027 is the application of P-R-O
20 Management for approval of three non-standard gas proration
21 units. In each case these are te companion units to the
22 case -- to the units that were described in Case Number
23 9026. The same 320-acre units are being split. Previously
24 we talked about the acreage being dedicated to Oklahoma Oil
25 Company. Now we're talking about the remaining 160 from the

1 previous case being dedicated to P-R-O Management.

2 The --

3 Q Let me ask you, Mr. Nutter, have you
4 brought any exhibits with you today in connection with Case
5 Number 9027?

6 A Yes, I have. Exhibit Number One in Case
7 9027 is P-R-O Management's Exhibit Number One. It shows the
8 northwest quarter of Section 19, Township 27 North, Range 11
9 West, San Juan County, New Mexico, being dedicated to P-R-
10 O's Federal Well No. 1-E located in Unit C of Section 19.

11 Now this was misadvertised. This was ad-
12 vertised as being Oklahoma's well, but it's actually P-R-O
13 Management's well.

14 Case Number 9026, the northeast quarter
15 of Section 19 was advertised as P-R-O's well and unit when,
16 in fact, it should be Oklahoma's, as is shown on the exhi-
17 bits here today, not by -- not as shown on the advertisement
18 and the docket.

19 Q If you could now identify for us Exhibit
20 Number Two in Case 9027 and explain what that shows.

21 A Exhibit Number Two shows the east half of
22 Section 5, Township 30 North, Range 13 West. This is a com-
23 panion case to the previous case in which the northeast
24 quarter of the section was dedicated to Oklahoma Oil Com-
25 pany's Knight Well No. 1.

1 Here in Case Number 9027 the southeast
2 quarter of the section is being dedicated to P-R-O Manage-
3 ment's Well No. -- Knight Well No. 1-E, located in Unit let-
4 ter I of Section 5.

5 Again it's the residual acreage that was
6 left over after dedicating the northeast quarter to Oklahoma
7 Oil Company.

8 Q And if you could now identify Exhibit
9 Number Three and explain what that shows.

10 A Exhibit Number Three is a plat showing
11 the south half of Section 21, Township 31 North, Range 13
12 West. This presently is a 320-acre unit. The previous case
13 dedicated the southwest quarter of Section 21 to Oklahoma's
14 Johnson Well No. 1. The residual acreage, being the south-
15 east quarter of Section 21, we propose now would be dedi-
16 cated to P-R-O Management's Johnson Well No. 1-E, located in
17 Unit P of Section 21.

18 Q Mr. Nutter, let me ask you, will there be
19 any split of ownership in the 320 unit which are being
20 sought to be split into 160-acre units which has not been
21 approved by the interest owners in those tracts?

22 A No. We'll have correspondence later that
23 shows all ownership is the same.

24 Q If I could ask you to identify Exhibit
25 Number Four and explain what that is.

1 A Exhibit Number Four is the copy of the
2 allowable calculations from the hearing presented by Mr.
3 Kendrick in August and I won't go into all the detail of the
4 discussion of how the allowables are calculated and should
5 be calculated.

6 Q So you have nothing to add to your ear-
7 lier testimony.

8 A I have nothing to add. The testimony in
9 Case Number 9026 -- or 27 would be applicable to this case
10 -- 9026 would be applicable to 9027.

11 Q I would point out that the same request
12 would be made with regards to the calculation of the allow-
13 able in Case Number 9027 as was sought in Case Number 9026
14 in connection with Exhibit Four.

15 Mr. Nutter, in your opinion will the de-
16 dicated acreage be effectively drained in this application
17 is granted?

18 A Yes, it would be.

19 Q I would also ask if in your opinion the
20 dedicated acreage will be economically developed if the ap-
21 plication is granted?

22 A Yes, it will be. The wells are presently
23 dedicated to the lands. There would be nothing except draw-
24 ing a line between the two quarter sections.

25 Q And will the granting of this application

1 preserve conservation, protect correlative rights, and pre-
2 vent waste?

3 A It will prevent waste inasmuch as it will
4 permit the wells to be continued to be operated much in the
5 same manner as they are presently operated.

6 It will protect correlative rights of
7 other operators because there would be no change in the
8 total allowable assigned to the wells, and it will protect
9 the correlative rights of the operators of the proposed pro-
10 ration units if the allowables are calculated by deleting
11 the acreage factor from the righthand side of the allowable
12 formula.

13 MR. IVES: Mr. Examiner, I
14 would point out that we will introduce later correspondence
15 in connection with this case, which has been earlier
16 referred to but which relates to all four of the
17 consolidated cases, and we'll hold off till those are done.

18 And at this point in time we'd
19 move the Exhibits One through Four into evidence in this
20 matter.

21 MR. STOGNER: Exhibits one
22 through Four in Case Number 9027 will be admitted into
23 evidence.

24 I have no questions for Mr.
25 Nutter.

CASE 9028

Q Turning to Case 9028, Mr. Nutter, if you could please state what is sought in that application.

A Case Number 9028 is the application of Oklahome Oil Company for two non-standard proration units, one in the Blanco-Mesaverde Pool and One in the Basin-Dakota Gas Pool.

Exhibit Number One in the case shows the south half of Section 11, Township 31 North, Range 13 West, San Juan County, New Mexico. It shows that the south half of Section 11 is a Blanco-Mesaverde gas unit dedicated to Oklahoma's Nickles Well No. 1, located in Unit K of Section 11, and to the Nickles Well No. 1-M, located in Unit O of Section 11. Each of these wells is a dual completion, however, so this Exhibit Number One shows the dedication of the 320-acre unit at the present time to those two wells in the Blanco-Mesaverde Pool.

Q Mr. Nutter, is --

A Exhibit Number Two is the same exhibit but it's labeled Basin-Dakota Pool, so you see that the same acreage and the same wells are dedicated in the Basin-Dakota Gas Pool as in the previous exhibit.

In this case Oklahoma proposes to separate the 320-acre unit into two 160-acre units and its appli-

1 cation is for approval of a 160-acre unit comprising the
2 southwest quarter of Section 11 to be dedicated to the
3 Nickles Well No. 1 in the Blanco-Mesaverde Pool and a 160-
4 acre unit to be -- comprising the southwest quarter of Sec-
5 tion 11 to be dedicated to the Nickles Well No. 1 in the
6 Basin-Dakota Gas Pool.

7 Q Mr. Nutter, if I could ask you to ident-
8 ify Exhibit Three and explain what that shows, if you have
9 anything to add to your prior testimony with regards to that
10 exhibit.

11 A Exhibit Three would be a copy of the al-
12 lowable calculations for the Blanco-Mesaverde Gas Pool,
13 which was submitted at the August hearing in a similar case
14 for the calculation of allowable deleting the acreage factor
15 from the righthand side of the formula.

16 Q And is that exhibit identical to Exhibit
17 Number Four in Case Number 9026 and Exhibit Number Four in
18 Case Number 9027?

19 A Yes, it is.

20 MR. IVES: And I would point
21 out again for the record that the same relief is sought in
22 connection with the allowables in Case Number 9028 as has
23 been sought in Case Number 9026 and 9027.

24 A And as I mentioned before, that exhibit
25 is labeled at the top Allowable Calculations Blanco-Mesa-

1 verde Pool, but it would be -- the application of the for-
2 mula would be identical for the Basin-Dakota except that the
3 acreage factors in the two pools are different and the
4 deliverability factors in the formula in the two pools are
5 different.

6 Q Mr. Nutter, let me ask you, will there be
7 any split of ownership which has not been approved by the
8 interest owners here if this application is granted?

9 A No, there's no split of ownership and
10 that will be covered by later correspondence.

11 Q Let me ask, in your opinion will the de-
12 dicated acreage be effectively drained if hte application is
13 granted?

14 A Yes, it will. It's currently being
15 drained by the two wells on the 320-acre unit and the re-de-
16 dication of the acreage would have no effect on the drainage
17 principals applied to the two wells.

18 Q And in your opinion will the dedicated
19 acreage be economically developed if the application is
20 granted?

21 A Yes, it would be.

22 Q And finally, in your opinion will gran-
23 ting the application preserve conservation, protect correla-
24 tive rights, and prevent waste?

25 A It will not impair correlative rights in-

1 asmuch as the allowables to be assigned would be identical
2 to the allowables presently assigned.

3 It would protect the correlative rights
4 -- it would impair the correlative rights of the operators
5 of these proposed units unless the acreage factor is deleted
6 from the righthand side of the formula and it will not cause
7 waste.

8 Q Let me ask, is there anything else you
9 have which might be of importance to the hearing examiner in
10 connection with this case?

11 A No, there is not.

12 MR. IVES: Mr. Examiner, I
13 would move the Exhibits One, Two, and Three in Case Number
14 9028 into evidence at this time.

15 MR. STOGNER: Exhibits Numbers
16 One, Two, and Three in Case Number 9028 will be admitted in-
17 to evidence at this time.

18 I have no questions for Mr.
19 Nutter in this matter.

20

21 CASE 9029

22

23 Q Mr. Nutter, drawing your attention now to
24 Case Number 9029, could you please state what is sought in
25 that application?

1 A Case Number 9029 is a companion case to
2 Case Number 9028. In the previous case the southwest quar-
3 ter of Section 11, Township 31 North, Range 12 West was
4 being severed out of the 320-acre proration unit and dedi-
5 cated to the Oklahoma Oil Company Nickles Well No. 1, a dual
6 completion in the Blanco-Mesaverde and the Basin-Dakota Gas
7 Pools.

8 This particular case is for the dedica-
9 tion of the residual acreage from the 320-acre unit, being
10 the southeast quarter of Section 11, and would be dedicated
11 -- it would comprise a 160-acre unit in the southeast quar-
12 ter to be dedicated to the P-R-O Management Nickles Well No.
13 1-M, located in Unit O of Section 11.

14 Q And has your testimony just given been in
15 relationship to Exhibit One in Case 9029?

16 A Yes, it is, in the Blanco-Mesaverde Pool.

17 Q And if you could identify Exhibit Number
18 Two and explain what that shows.

19 A Exhibit Number Two is identical to Exhi-
20 bit Number One except that it is labeled Basin-Dakota Gas
21 Pool for the lower part of the dual completion of these two
22 wells.

23 Q Let me ask, will there be any split of
24 ownership which has not been approved by the interest owners
25 in connection with this application?

1 A No, there will not be. That will be
2 covered in later correspondence.

3 Q And if I could ask you now to turn to Ex-
4 hibit Three and identify that and if you have any additional
5 testimony in connection with that, please present that now.

6 A Exhibit Three is the allowable calcula-
7 tions previously entered to the Commission in a hearing in
8 August of 1986. It's the allowable calculations showing
9 that it's necessary to delete the acreage factor from the
10 righthand side of the formula when splitting a 320-acre unit
11 in the Blanco-Mesaverde Pool into two 160-acre units.

12 The principal, although this exhibit says
13 Blanco-Mesaverde, the principal would apply equally well to
14 the Basin-Dakota Pool.

15 Q And is this Exhibit Number Three in Case
16 9029 the same as Exhibit Four in Case Number 9026, Exhibit
17 Four in Case Number 9028, and Exhibit Four in Case Number
18 9028.

19 A The middle one is 9027.

20 Q Oh, you're right.

21 A Yes, it is. It's the same as the pre-
22 vious enumerated cases.

23 MR. IVES: And I would simply
24 note for the record that the same relief in connection with
25 this exhibit would be sought in this case with regards to

1 the allowables in connection with this non-standard unit.

2 Q Mr. Nutter, in your opinion will the de-
3 dicated acreage be effective drained if this application is
4 granted?

5 A The dedicated acreage is presently being
6 drained and changing the proration units would in no way af-
7 fect the drainage of the lands.

8 Q In your opinion will the dedicated ac-
9 reage be economically developed if the application is gran-
10 ted?

11 A Yes, it will be.

12 Q Finally, in your opinion will granting
13 this application preserve conservation, protect correlative
14 rights, and prevent waste?

15 A It will prevent waste. it will be in the
16 interest of conservation, and it will not impair correla-
17 tive rights of offset operators.

18 It will protect the correlative rights of
19 the applicants in these -- in this case if the acreage fac-
20 tor is deleted from the righthand side of the formula.

21 MR. IVES: At this point in
22 time I would move Exhibits One, Two, and Three in Case Num-
23 ber 9029 into evidence.

24 MR. STOGNER: Exhibits One,
25 Two, and Three will be admitted into evidence in Case Number

1 9029.

2 I have no further questions of
3 Mr. Nutter at this time.

4 MR. IVES: I have -- would like
5 ot now review that correspondence we've been referring to,
6 which would be applicable to each of the cases that have
7 been consolidated here today.

8 Q Mr. Nutter, could you please identify
9 what correspondence you have and to what that relates?

10 Mr. Nutter, if you could, please identify
11 the first piece of correspondence which you have before you.

12 A The first piece of correspondence is from
13 P-R-O Management, Inc. It's signed by Mr. Thomas R. Laver-
14 ty, and it's addressed to me.

15 I will read the letter into the record.
16 I asked Mr. Lavery specifically if there was any diversion
17 or diversity of royalty interests in these proration units
18 that would be affected if they were split.

19 He replies to me: Dear Mr. Nutter: The
20 Division orders for payment of royalty and overriding royal-
21 ty interests for the wells in the attached tabulation have
22 been reviewed. In all cases the royalty and overriding roy-
23 alty interest in the original well are found to be
24 identically the same in the infill wells.

25 Overriding royalty interests have been

1 carved out of the working interest in the infill wells but
2 these interests are in addition to and do not change or mod-
3 ify and of the pre-existing royalties.

4 Q And what is the date on that correspon-
5 dence?

6 A That letter was dated October 20, 1986.

7 Q And would you as a matter of course have
8 kept a copy of this letter in your correspondence?

9 A Yes, I would.

10 Q And if you could move to the next piece
11 of correspondence and identify that and explain its
12 relevance.

13 A That is a letter from the Cimarron Cor-
14 poration. It's signed by Wheeler M. Sears. It's dated Oc-
15 tober the 15th, 1986, and addressed to Mr. Thomas R. Laverty
16 of P-R-O Management, Inc., in Dallas, Texas, and reads as
17 follows:

18 Dear Mr. Laverty: Oklahoma Oil Company
19 as operator of record for certain wells listed on the at-
20 tached tabulation approves the recommended change from 320-
21 acre proration units to 160-acre nin-standard proration
22 units as shown on the attached tabulation for the subject
23 well.

24 Oklahoma Oil Company also approves the
25 recommended -- recommendation for an allowable based on full

1 deliverability plus one-half acreage.

2 Q And if you could, please describe the at-
3 tached tabulation to that letter.

4 A The attached tabulation is a tabulation
5 of ten wells which have been covered in Cases Numbers 9026
6 through 9029 at the hearing today.

7 Q And what is the date of that letter?

8 A The date of that letter was October 15th,
9 1986, and it's signed by -- it's signed by Wheeler M. Sears,
10 who is president of Cimarron Corporation, which is the
11 parent company of Oklahoma Oil Company.

12 Q And would you as a matter of course have
13 kept a copy of this record -- of this letter as part of the
14 record in this case?

15 A Yes, I would.

16 Q Turning now to the next piece of
17 correspondence, if you could please identify that and
18 explain its relevance.

19 A This is a letter from Leonard Steel,
20 dated October 15th, 1986 to Mr. Thomas Laverty of P-R-O
21 Management and it reads as follows:

22 Dear Mr. Laverty: Leonard Steel and
23 Chemical Trust of Florida, NA, as close successor, personal
24 representative of the estate of Captain Michael Hall,
25 Deceased, as a potential successor to Oklahoma Oil Company

1 as operator of record for the original wells listed on the
2 attached tabulation, approve the recommended change from
3 320-acre proration units to 160-acre non-standard proration
4 units, as shown on the attached tabulation for the subject
5 wells.

6 Leonard Steel and Chemical Trust of
7 Florida, NA, as co-successor, personal representative of the
8 Estate of Captain Michael Hall, deceased, approves the
9 recommendation for an allowable based on full well deliver-
10 ability plus one-half acreage.

11 Q And who is that signed by?

12 A That is signed by Leonard Steel.

13 Q And are there any other signatures on
14 that letter?

15 A Well, it was signed for Leonard Steel by
16 Lawrence Greenberg, Vice President of Chemical Trust Com-
17 pany.

18 Q And if you could, please, describe the
19 attached tabulation to that letter.

20 A The attached tabulation lists the ten
21 wells that have been the subject of the hearing today in
22 Cases 9026 through 9029.

23 Q And as -- would you have kept a copy of
24 this letter in your record on this matter as a matter of
25 course?

1 A Yes, I have.

2 Q Thank you. Do you have any other corres-
3 pondence or papers which might be relevant to this proceed-
4 ing?

5 A Yes. The examiner in noting the exhibits
6 that have been presented here today of the plats showing the
7 proration units notes that all of the offsetting operators
8 to these proration units have been identified on those exhi-
9 bits.

10 We have here the receipts for certified
11 mail and the return postcards.

12 There is one postcard that is not here.
13 The letter to Union Texas was sent by certified mail, return
14 receipt requested, to the address that I had available for
15 Union Texas in Farmington, New Mexico, which was Post Office
16 Box 1290.

17 The post office box is not in current
18 use. Union Texas' current address is a route number or box
19 number out on Highway 64.

20 The post office very efficiently noted on
21 the envelope that the address was wrong, that they were cor-
22 recting the address, and they returned the letter to me. So
23 I put the letter unsealed back in another envelope and
24 mailed it to Union Texas to the box number on Route 64, and
25 I called Mr. Bill Cooper, who is the District Manager up

1 there, and asked him if he had received the letter that I
2 sent to him and he said he had. It was on his desk at that
3 time. I said, do you have objections to our proposal in
4 these cases? He said, no. I said would you retrun the
5 green card to me, as it was still stuck on the back of the
6 envelope, and he said he would but I haven't received it
7 yet. So Mr. -- Union Texas' card is not included in this
8 bundle; however, the receipt for mailing the card to them
9 is, and I'd like to offer those along with the correspon-
10 dence and it would be applicable to all cases.

11 MR. IVES: That presents all
12 the testimony and presentation that I have, Mr. Examiner.

13 I would want to note simply for
14 the record, as I don't believe I did before, that I was ap-
15 pearing also on behalf of P-R-O Management, Inc., in those
16 applications and cases which involve it as opposed to Okla-
17 homa Oil.

18 MR. STOGNER: The record will
19 so show.

20 The correspondence, along with
21 the return receipts, will be made a part of the record in
22 these cases.

23 With respect to the request of
24 the allowable, Cases 9026 and 9027 are going to be readver-
25 tised for December 3rd, 1986, if they need to be readver-

1 tised to take into account this, they will be done so.

2 For Cases Number 9028 and 9029,
3 I want to leave the record open until Friday at 5:00 o'clock
4 to check with my superior and see if this needs to be read-
5 vertised, at which time you will be notified.

6 If not, they will be taken un-
7 der advisement at that time, and you will also be notified
8 of that.

9 Are there any questions concer-
10 ning that matter?

11 MR. NUTTER: In the event that
12 these cases have to be readvertised, will it be necessary
13 for us to appear at the next hearing?

14 MR. STOGNER: Since the allow-
15 able information was covered today, I do not believe so, but
16 in the event that there was some opposition, you might need
17 to appear at that time, but as far as any additional testi-
18 mony on either -- on any of these cases, it will not be ne-
19 cessary at this time.

20 If there is nothing further in
21 these cases, I will hereby adjourn the hearing today.

22

23 (Hearing concluded.)

24

25

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true, and correct record of this portion 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 correct record of the proceedings in the hearing of Case No. _____, heard by me on _____ 19____.

_____, Examiner
Oil Conservation Division