

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

CASE 540: Application of El Paso Natural Gas Company
for approval of San Juan 27-5 Unit Agree-
ment embracing 23,043.99 acres of land,
more or less, in Rio Arriba County, as de-
scribed:

NEW MEXICO PRINCIPAL MERIDIAN

Township 27 North, Range 5 West
Sects. 1-36, incl.: All

TRANSCRIPT OF HEARING

May 19, 1953

Date

BEFORE: Honorable Ed. L. Mechem, Governor
Honorable E. S. Walker, Land Commissioner
Honorable R. R. Spurrer, Director, OCC

STATE OF NEW MEXICO)

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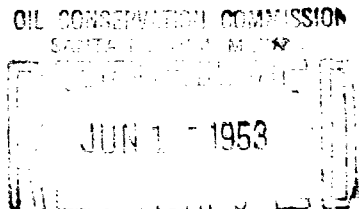
COUNTY OF BERNALILLO)

I HEREBY CERTIFY That the within transcript of
proceedings before the Oil Conservation Commission is
a true record of the same to the best of my knowledge,
skill, and ability.

DONE at Albuquerque, N. M., this 29th day of
May 1953.

My Comm. Ex.:
August 4, 1956

E. E. Greeson
Notary - Reporter



COMMISSIONER SPURRIER: We will move on to
Case 540.

(Mr. Graham reads the call of the case.)

MR. KELLAHIN: If the Commission please, Jason
Kellahin, representing the El Paso Natural Gas Company.

This is an application for approval of a unit
agreement in the San Juan Basin area. The unit agree-
ment is in the usual form which has been heretofore ap-
proved by this Commission, by the United States Depart-
ment of the Interior, and the State Land Commissioner,
and the agreement embraces federal, state and patented
lands. The agreement has been filed with the office
of the State Land Commissioner and the state fees have
been paid.

I would like to call Mr. Foster Morrell as a
witness.

_____o_____

FOSTER MORRELL,

having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Will you state your name, please?

A Foster Morrell.

Q Mr. Morrell, by whom are you employed in this case?

A I am representing El Paso Natural Gas Company.

Q Have you testified before this Commission before in your capacity as an expert?

A I have.

MR. KELLAHIN: Will the Commission accept the qualifications of the witness?

COMMISSIONER SPURRIER: It will.

Q Mr. Morrell, are you familiar with the unit agreement which is now before the Commission in Case No. 540?

A I am.

Q Would you state to the Commission what lands are embraced by that agreement?

A The San Juan 27-5 unit area embraces all of Township 27 North, Range 5 West, Rio Arriba County, New Mexico.

Q And how many acres does that cover?

A It embraces a total of 23,043.99 acres.

Q Has that agreement been filed with the State Land Commissioner?

A It has.

Q And have the fees thereto been paid?

A They have.

Q Is the unit agreement substantially the same form that has heretofore been approved by this Commission?

A That is correct.

Q And what type unit is it, Mr. Morrell?

A The township form of unit for a drilling block of 320 acres for development of gas to the subsurface to the base of the Mesa Verde. The standard form of agreement for participating areas based on geological evidence for all formations below the base of the Mesa Verde.

Q And could you state to the Commission what percentage of the land involved is federal, state and fee lands?

A Of the total of 23,043.99 acres, 81.6 percent are federal lands; 11.1 percent are state lands; and 7.3 percent are patented lands.

Q And what percentage of the owners of the working interests have signed this unit agreement?

A The working interests who have signed, or signified their intention to do so, total 92 percent of the unit area.

Q And what percentage of those holding federal leases?

A 97 percent.

Q And state leases?

A 100 percent of the state lease working interests.

Q And the fee land?

A On the fee land 67 percent at least. So that there is no one to contact as the individual patentees have not signified intention to join as yet. For the remaining 33 percent, all working interest owners have agreed to commit.

Q Mr. Morrell, do the provisions of this unit agreement, are they such it will tend to promote the conservation of oil and gas and better utilization of reservoir energy?

A There are such.

Q And under the proposed unit operation, will the State of New Mexico receive its fair share of the recoverable oil and gas in place under those lands in the proposed unit area?

A It will.

Q Is the unit agreement otherwise in the best interests of the State of New Mexico in regard to state lands?

A In my opinion it is.

Q And are those holders of rights in state lands satisfied as to the proposed unit agreement?

A They are.

Q Now, in connection with this unit agreement, is there any operating plan, Mr. Morrell?

A Yes; the township form of unit agreement requires a definite obligation to drill a certain number of wells.

Q And how many wells --

A For the San Juan 27-5 unit five Mesa Verde tests are required to be drilled, all spaced on the unit area so as to prove up the reserves within that township.

Q And when does that drilling program start?

A The first well must be commenced within sixty days after the effective date of the agreement.

Q And the wells to be drilled thereafter, when do they start?

A The succeeding wells to be commenced within thirty days after completion of the preceding well.

Q What depth are they to be drilled?

A To the Mesa Verde. And the agreement also requires the unit operator not to drill in excess of 6000 feet.

Q And is that requirement also included in the operating agreement?

A That is correct.

Q I hand you what has been marked as El Paso Exhibit 1 and ask you to state to the Commission what that is.

A El Paso Exhibit 1 is a map showing the various types of lands within the unit area, and the working interest owners therein. Shown in red are the locations, approximate locations, of the Mesa Verde test wells required to be drilled under the unit agreement, and are specifically provided for under the unit operating agreement. They show the wide spacing throughout the township under the obligation wells.

MR. KELLAHIN: I would like to offer El Paso Exhibit 1 in evidence.

Q Mr. Morrell, is it your opinion that the development and operation of the area could be carried on more economically and in the interest of conservation and prevention of waste under the terms of the agreement than otherwise?

A It is my opinion it will.

Q Do you have anything you would care to add to your testimony, Mr. Morrell?

A I might add only that there is already completed within the unit area one well drilled in the southeast quarter of the SE quarter of Section 4, 27 N, 5 W; drilled to a total depth of 7,881 feet, and completed as a productive gas well in the Dakota formation; having an initial production of 4,380,000 cubic feet of gas per day.

The well was completed early in 1952, and has

been shut in due to the lack of pipe line and available market.

Q Do you have anything else, sir?

A No, I believe not.

MR. KELLAHIN: I believe that's all.

1b COMMISSIONER SPURRIER: Does anyone have a question of Mr. Morrell?

MR. WHITE: How about offset operators? Any objections on their part?

A The offset operators are included in the proposed unit areas of the same type and character. That is, township units to the west, north and east. To the south of the unit area is the Jicarrilla Indian Reservation.

MR. WHITE: Have any of the wells been drilled on state land?

A There has only been one well -- You mean within this unit area?

MR. WHITE: Yes.

A There has been only one well drilled.

COMMISSIONER SPURRIER: What is the location again?

A Southeast quarter SE quarter of Section 4, 27 N, 5 W.

MR. WHITE: Any proposed wells to be drilled on

state land?

A No; but they do circle and tend to prove the reserves of the state land.

MR. WHITE: And then I suppose the state lands will share in that in proportion their acreage bears to the other.

A Under the township form of unit the participating area is based on the 320-acre drilling block on which the well is drilled, and as each 320 acres is proven productive, that becomes a participating area.

MR. KELLAHIN: Is that a normal provision in this particular type of unit agreement?

A That is a normal provision in this particular type of unit agreement.

MR. GRAHAM: What are the general geological features of that township, Mr. Morrell?

A It is on a small portion of a monocline. It is a small portion of a structure that is approximately 100 miles long and 60 miles wide, of which this is an area 6 miles by 6 miles, at least.

MR. WHITE: Are you in a position to state why none of the proposed wells will be drilled on state land?

A Wells will be drilled on state land whenever the working interest owners of state land put up the money.

MR. GRAHAM: Otherwise, who pays for all this drill-

ing?

A The working interest owners in the particular drilling block on which the well is located.

MR. GRAHAM: And that is El Paso. Do they control those areas?

A In this particular township the El Paso has none of the state lands. However, all the state lands are being committed to the unit agreement. So those working interest owners should be willing, ready and able to afford the money to drill the wells.

MR. GRAHAM: You figure that the doctrine of development applies to these big units; that the development must go right on?

A As demonstrated by Exhibit 1, you will find that development, the early stages of the development, on the unit area will be much more rapid under this form than under the normal form, because you have a specific requirement for a certain number of wells so spaced to cover the township.

MR. GRAHAM: About a two-mile spacing pattern, more or less.

A From north to south the wells are approximately four miles and east-west approximately four miles.

MR. WHITE: In this working agreement, do you have the working interest of, say, for example, the Malco

Refining Company holding state lands -- is there anything in this agreement to require that particular working interest to drill on state land?

A I'm not certain I understand your question correctly. The working interest owners put up the money on the drilling block. And the drilling blocks are comprised of the east half and west half of a governmental section. So the money put up by the state in this case would only be for the state lands.

Did I answer the question correctly for you, Mr. White?

MR. WHITE: No. I probably didn't make it clear, though.

Have all these working interests joined in this unit?

A That's right.

MR. WHITE: As presently proposed, the five wells drilled will be on federal lands, and the working interest owning the federal land leases will put up the money to drill those wells.

A That is correct.

MR. WHITE: My question is: Is there anything in the agreement, or otherwise, to require the operator working interest on state lands to drill any wells at all within the unit?

A Yes.

MR. WHITE: And when?

A Upon the completion of the drilling program as outlined, that is the obligation wells, the five wells, a plan of further development must be submitted for the approval of the supervisor of the United States Geological Survey and the Commissioner of Public Lands and the Oil Conservation Commission. That program or plan of development will provide for the normal development for each succeeding year.

I might go one step further there, Mr. White, and answer your question that it would be impossible to determine what the drilling program will be until after the completion of the five wells. In case you got some dry holes, you might not want to drill on that portion of the unit later.

MR. GRAHAM: The holder of the state leases would be subject to the terms of his lease and to the implied covenants, I presume.

A That is correct, except that the lease would be subject to extension upon approval under the unit agreement, so far as his royalty returns and rentals and so forth and delay drilling rentals.

MR. GRAHAM: If they get on that half section.

A If he gets on the half section with production,

then he is part of the participating area.

MR. GRAHAM: Would the state get all of that out from under that land, or would it be built into a larger participating area?

A Each half section drilling block becoming a participating area can join into a group. So that if you have one drilling block, that is one hundred percent; and if you get two, it is fifty percent of the two, and so forth.

MR. GRAHAM: It would be reduced.

A That's right.

MR. GRAHAM: And the more you get, the less percentage.

2 A The equivalent would average approximately one hundred percent of your own land.

MR. GRAHAM: Depending on the size of the production under it.

A That is correct.

COMMISSIONER WALKER: Mr. Morrell, assuming this unit agreement is approved, and one or more of the state leases expired, what effect would that have?

A The present understanding that I have is that upon approval of the unit agreement and the commitment of that state land, the state lease is extended for the life of the unit. Now, a unit is for a specific period

of time not to exceed five years, unless discovery is made within that date.

COMMISSIONER WALKER: Let's assume one of these leaseholders had a lease that would expire next year. You enter into this unit agreement and that lease wouldn't expire for the time of the unit agreement, which would be an extra four years.

A That's right.

COMMISSIONER WALKER: Therefore, the state could not sell the lease and it would be costing them money, wouldn't it?

A By the terms of the state statutes it would be extended.

MR. GRAHAM: But the rentals would have to be paid.

A The rentals would have to be paid; that is correct.

COMMISSIONER WALKER: But they would lose the bonus if they could sell it.

A Provided they could sell it.

COMMISSIONER WALKER: I haven't failed to see one sell yet, have you? Lately.

MR. GRAHAM: That unit -- Does the covenant run with the land?

A That is correct; the covenant runs with the land.

MR. GRAHAM: Does that affect the Land Commissioner in the case the land is returned to his charge and he put it up for bid?

MR. KELLAHIN: I think that that calls for a legal conclusion.

A In my opinion, if it is the same as the federal statute, it would only be leased again subject to the unit agreement.

COMMISSIONER SPURRIER: Are there any other questions? If not, the witness may be excused.

(Witness excused.)

MR. KELLAHIN: That completes the presentation of the case. Thank you.

COMMISSIONER SPURRIER: We will take the case under advisement and move on to Case No. 538.

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