

CASE 5703: Application of Cities Service Oil Company for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Tubb Gas Pool and Drinkard Oil Pool production in the wellbore of its State "S" Well No. 2, located in Unit F of Section 15, Township 21 South, Range 37 East, Lea County, New Mexico.

CASE 5692: (Reopened & Readvertised)

Application of Cities Service Oil Company for a dual completion and downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion (conventional) of its Owen "A" Well No. 1 located in Unit P of Section 35, Township 21 South, Range 37 East, Lea County, New Mexico, completing said well in such a manner as to commingle Blinebry and Drinkard oil production and to dually complete said zones with the Wantz-Granite Wash Pool.

CASE 5711: Application of Hanson Oil Corporation for a dual completion and downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion (conventional) of its Max Gutman Well No. 7 located in Unit D of Section 19, Township 22 South, Range 38 East, Lea County, New Mexico, in such a manner as to commingle Blinebry and Tubb Pool oil and gas production and to dually complete said zones with the Drinkard Pool.

Docket No. 20-76

Dockets Nos. 21-76 and 22-76 are tentatively set for hearing on August 4 and August 18, 1976. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - WEDNESDAY - JULY 14, 1976

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

CASE 5712: In the matter of the hearing called by the Oil Conservation Commission upon its own motion to permit all interested parties to appear and show cause why the San Juan 30-4 Unit Area in Townships 30 and 31 North, Range 4 West, Rio Arriba County, New Mexico, should not be contracted by the deletion of all lands not presently within an approved participating area or which cannot be expected to be in such participating area within the reasonably foreseeable future as the result of commercial production being developed thereon.

CASE 5713: In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Agua, Inc., and all other interested parties to appear and show cause why Agua, Inc. should be authorized to resume salt water disposal into the San Andres formation in its SWD Well No. H-35 located in Unit H of Section 35, Township 22 South, Range 37 East, Lea County, New Mexico.

CASE 5714: Application of Agua, Inc. for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks permanent authority to dispose of produced salt water into the San Andres formation through the perforated interval from 4230 feet to 4320 feet below the surface and into the open-hole interval from 4400 feet to 5000 feet in its SWD Well No. C-2 located in Unit C of Section 2, Township 22 South, Range 37 East, Lea County, New Mexico.

Dockets Nos. 21-76 and 22-76 are tentatively set for hearing on August 4 and August 18, 1976. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - JULY 7, 1976
9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

CASE 5704: Application of Gulf Oil Corporation for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Drinkard and Blinbry production in the wellbore of its H. T. Mattern (NCT-B) Well No. 16 located in Unit D of Section 31, Township 21 South, Range 37 East, Lea County, New Mexico. Applicant further seeks an administrative procedure for approval of additional commingling authority on this lease.

CASE 5705: Application of Gulf Oil Corporation for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Drinkard and Blinbry production in the wellbore of its H. T. Mattern (NCT-C) Wells Nos. 5 and 8, located, respectively, in Units I and A of Section 18, Township 21 South, Range 37 East, Lea County, New Mexico. Applicant further seeks an administrative procedure for approval of additional commingling authority on this lease.

CASE 5706: Application of Gulf Oil Corporation for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Drinkard and Blinbry production in the wellbore of its William A. Ramsay (NCT-B) Well No. 6 in Unit H of Section 25, Township 21 South, Range 36 East, Lea County, New Mexico. Applicant further seeks an administrative procedure for approval of additional commingling authority on this lease.

CASE 5707: Application of Harrington Transportation Inc. for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox gas well location of its Llano Inc. Terry Well No. 1, to be drilled at a point 1650 feet from the North line and 1980 feet from the East line of Section 14, Township 18 South, Range 26 East, Atoka-Pennsylvanian Gas Pool, Eddy County, New Mexico.

CASE 5708: Application of Roger C. Hanks for salt water disposal, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Devonian formation through the approximate interval from 10,300 feet to 10,550 feet in his King Disposal Well No. 1 located in Unit C of Section 9, Township 20 South, Range 25 East, Eddy County, New Mexico.

CASE 5709: Application of Tahoe Oil and Cattle Company for an exception to the provisions of Order No. R-3221, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks, as an exception to the provisions of Commission Order No. R-3221, permission to construct and operate an earthen salt water disposal pit in the NW/4 SW/4 of Section 2, Township 20 South, Range 30 East, Eddy County, New Mexico.

CASE 5710: Application of Benson-Montin-Greer Drilling Corporation for two non-standard gas proration units, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the two following described non-standard gas proration units in Township 32 North, Range 13 West, Ute Dome-Dakota Gas Pool, San Juan County, New Mexico:

a 250.64-acre unit comprising the N/2 of Section 30 to be dedicated to applicant's La Plata F-30 Well No. 2, located 900 feet from the North line and 827 feet from the West line of said Section 30;

a 250.80-acre unit comprising the S/2 of Section 30 to be dedicated to applicant's La Plata K-30 Well No. 1 located 1508 feet from the South line and 825 feet from the West line of said Section 30.

CASE 5691: (Readvertised and Reopened)

Application of Hanson Oil Corporation for an unorthodox oil well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 990 feet from the North line and 2600 feet from the West line of Section 25, Township 26 South, Range 31 East, North Mason-Delaware Pool, Eddy County, New Mexico.

CASE 5702: Application of Cities Service Oil Company for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Tubb Gas Pool and Drinkard Oil Pool production in the wellbore of its Brunson "B" Well No. 7 located in Unit N of Section 3, Township 22 South, Range 37 East, Lea County, New Mexico.

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
JULY 14, 1976

COMMISSION
~~EXAMINER~~ HEARING

IN THE MATTER OF:)

)
The hearing called by the Oil Conserva-)
tion Commission upon its own motion to)
permit all interested parties to appear)
and show cause why the San Juan 30-4)
Unit Area in Townships 30 and 31 North,)
Range 4 West, Rio Arriba County, New)
Mexico, should not be contracted by the)
deleted of all lands not presently)
within an approved participating area)
or which cannot be expected to be in)
such participating area within the)
reasonably foreseeable future as the)
result of commercial production being)
developed thereon.)

Case 5712

BEFORE: Joe Ramey, ~~Examiner~~ Secretary *Director*
Phil R. Lucero, *Chairman*
Emery Arnold, *Member*

TRANSCRIPT OF HEARING

BE IT REMEMBERED that on to-wit, the fourteenth
day of July, 1976, this matter came on for hearing before ~~the~~
~~Joe Ramey, Examiner,~~ New Mexico Oil Conservation Commission,
Santa Fe, New Mexico, at the hour of nine o'clock in the
forenoon.

A P P E A R A N C E S

FOR THE COMMISSION:

MR. WILLIAM F. CARR
Legal Counsel for the Commission
State Land Office Building
Santa Fe, New Mexico 87501

FOR CECELIA WIRT SIMMS, a mineral owner:

HINKLE, BONDURANT, COX AND EATON
Attorneys at Law
Hinkle Building
Roswell, New Mexico
By: Mr. Paul Eaton

FOR EL PASO NATURAL GAS, unit operator:

MR. JIM PERMENTER
El Paso Natural Gas Company Building
El Paso, Texas

* * * * *

MR. RAMEY: The hearing will come to order.
Call the first case on the docket.

MR. CARR: Case 5712, in the matter of the
hearing called by the Oil Conservation Commission upon its own
motion to permit all interested parties to appear and show
cause why the San Juan 30-4 Unit Area in Townships 30 and 31
North, Range 4 West, Rio Arriba County, New Mexico, should
not be contracted by the deletion of all lands not presently
within an approved participating area or which cannot be

expected to be in such participating area within the reasonably foreseeable future as the result of commercial production being developed thereon.

MR. RAMEY: Ask for appearances in the case.

MR. CARR: William F. Carr, appearing for the Commission.

MR. RAMEY: You have how many witnesses?

MR. CARR: I have one witness.

MR. EATON: Paul Eaton of the firm of Hinkle, Bondurant, Cox and Eaton, representing Cecelia Wirt Simms, a mineral owner.

MR. RAMEY: Do you have any witnesses, Mr. Eaton?

MR. EATON: No, sir.

MR. PERMENTER: Jim Permenter, representing El Paso Natural Gas, the unit operator.

MR. RAMEY: How do you spell your last name?

MR. PERMENTER: P-e-r-m-e-n-t-e-r.

MR. RAMEY: Just like it sounds?

MR. PERMENTER: (Nodding).

MR. RAMEY: Okay.

MR. CARR: I call Dan Nutter. He needs to be sworn.

DAN NUTTER

was called as a witness, and having been first duly sworn,
testified upon his oath as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARR:

Q. Would you state your name for the record, please?

A. Dan Nutter.

Q. By whom are you employed?

A. New Mexico Oil Conservation Commission.

Q. What position do you hold with the Commission?

A. Chief engineer.

Q. How long have you held this position, Mr. Nutter?

A. Since 1957 or '58. I'm not sure.

Q. Have you previously testified before the
Commission, and are your credentials a matter of record?

A. Yes, sir.

Q. Are you familiar with the subject matter of this
case?

A. Yes, I am.

Q. Mr. Nutter, would you give the Commission a
brief history of the formation of the San Juan 30-4 Unit?

A. Yes, sir. The San Juan 30-4 Unit was brought on
for hearing before the Commission on May 23rd, 1953. Upon

application of El Paso Natural Gas Company. After hearing the case, order number R-324 was entered by the Commission May 26th, 1953, and it was approved by the director -- the acting director of the United States Geological Survey on September 11th, 1953.

Q Will you now summarize for the Commission the development of the unit and the expansion of the unit's participating area?

A Yes. I will summarize the plans of development that were submitted by the operator of the unit over the years. For 1954, for the remainder of 1954, the plan of development made this statement: Unit area embraces twenty-six thousand one hundred and two point twenty-seven acres of which twenty-five thousand six hundred eight point nine are committed. There have been seven wells drilled on the unit, only three of which are commercial, and two are temporarily abandoned.

One of the remaining wells is plugged and abandoned, and one has been determined as noncommercial. El Paso proposes to drill one Pictured Cliff Well in Section 18, Township 30 North, Range 4 West, in 1954.

This well was drilled prior to submitting the 1955 drilling program, which entailed plans to drill two Pictured Cliff Wells, one in the southeast quarter, and one in the southwest quarter of Section 16. One of these wells

1
2 subsequently went into the participating area. The other
3 well was a noncommercial well, and we will hear more about
4 that quarter section where that well was drilled later on.
5 This plan for 1955 was accepted by the Oil Conservation
6 Commission, and by the United States Geological Survey,
7 subject to a new drilling program being submitted in April
8 of 1955, providing for the drilling of a minimum of four
9 Mesaverde wells in 1955.

10 I'm making a mention of this because it is
11 a prelude to what appears to be a history of rather slow
12 development in the unit, but you will see there in the second
13 year of the formation of the unit, a plan was submitted, the
14 plan was approved by the Oil Conservation Commission, and
15 the United States Geological Survey, not approved. I retract
16 that. The plan was not approved. It was accepted by the
17 U.S.G.S., and by the O.C.C., subject to a new plan being
18 submitted for 1955, calling for the drilling of an additional
19 four wells.

20 Okay. April the 25th -- twenty-second of 1955,
21 El Paso submitted a plan for drilling three wells to the
22 Mesaverde, but this included two of the original wells, which
23 had already been projected to the Pictured Cliffs, so they
24 proposed to deepen those wells to the Mesaverde and test it

and drill one additional well in Section 27.

This well was noncommercial. The 1956 program called for the drilling of four Pictured Cliff Wells. One of these went into the six participating area -- two of them went into the sixth, one went into the fifth, and one was plugged and abandoned.

The '57 program was submitted, they now have twelve producing wells, and two noncommercial wells. They propose five wells for 1957.

The 1958 program came along, in late 1957, and at this point in time, nineteen wells had been drilled on the unit. Twelve of them were in the participating area, five had been plugged and abandoned, and two were noncommercial. They proposed seven wells for 1958. I didn't have a copy of the 1959 plan for some reason, but I do have the 1960 program, which states that as of then, twenty-nine wells had been drilled, of which nineteen Pictured Cliff Wells and one Mesaverde well were in the participating area. Three wells had been determined noncommercial, seven wells had been plugged and abandoned, including one of the wells which had previously been determined to be noncommercial, and they proposed three wells for 1960.

In Sections 14, 31 and 32. The 1961 program

stated that they had nineteen Pictured Cliff completions that were commercial, three noncommercial P.C. Wells. One had been P and A, two Mesaverde wells, nine Pictured Cliff Wells had been plugged and abandoned, including the one previously determined noncommercial well, and they proposed ~~two~~ ^{no} wells for 1961.

The program for 1962, no wells. Nineteen Sixty-three, no wells. Nineteen Sixty-four, no wells. Nineteen Sixty-five, no wells. Nineteen Sixty-six, no wells. However, they changed the well count in 1966 from the total amount of wells that had been drilled on the unit from a total of thirty-three down to twenty-nine, because at that time a large amount of acreage had been deleted from the unit, and four of the plugged and abandoned wells were on the acreage that was deleted from the unit, so the count came down to twenty-nine total wells on the unit rather than the thirty-three before, but, still, the program for 1966 called for no wells.

Nineteen Sixty-seven's program, no wells. Nineteen Sixty-eight's program, no wells. Nineteen Sixty-nine's program, no wells. Seventy, no wells. Seventy-one, no wells. Seventy-two, no wells.

Finally in 1973, El Paso submitted a plan of

development which called for one well, the Number 34 in the west half of Section 16. They still have the same twenty-nine wells, being eighteen commercial Pictured Cliffs, two commercial Mesaverdes, two noncommercial producers, and seven plugged and abandoned wells.

Now the well in the -- that was proposed to be drilled in 1973 was in the west half of Section 16. I had mentioned before that two wells had been drilled in Section 16 previously, early in the life of the unit. One of those wells was a commercial well, and the other was determined to be noncommercial, so they went back in on the same half, in 1973, where this noncommercial well had been drilled, and they did complete a commercial well in that quarter section. However, when the participating area was expanded, the forty acres where the noncommercial well had been drilled back in the early fifties, was deleted, and that expansion of the participating area left out that forty, so that was the program for 1973.

They did drill the one well in Section 16.

Nineteen Seventy-four's program called for no wells. For 1975, they called -- they submitted a drilling program, proposing four Pictured Cliff Wells.

Now, if you will take a look at these exhibits,

that would be Exhibit Number One in this case.

(THEREUPON, Exhibit Number One was duly
marked for identification.)

First of all, the acreage that is outlined on
there is the original boundary of the San Juan 30-4 Unit Area.
Now, as I mentioned earlier, considerable acreage has been
deleted. The acreage that has been deleted because of pro-
visions in the leases and in the unit agreement, itself,
is cross hatched on that exhibit, so you will see that a
tier of sections at the north end has been completely deleted
except for an arm of fee lands that pokes up into Section 35
there. That whole tier of lands have been deleted. Then
some fee lands, and also some additional federal leases on the
east side of the unit have also previously been deleted.

Now there are some windows, particularly down
there in Section 36. You will notice that there is one small
lease there, maybe a hundred and sixty acres, that is still
in the unit, completely surrounded by lands that are not in
the unit. Of course, one of the basic premises of unitization
over the years has been that the unit operator would have
effective control over the unitized area. Now how they have
unitized control when they have got a window of land in the
units, completely surrounded by nonunitized lands is difficult

to understand in this case.

Now, also, on that exhibit, you will notice that there are certain little blocks there that outline the initial participating area, which was in Section 18, the west half, and down in Section 29, the east half, and then subsequent to that, the unit was expanded as wells were drilled and you have the second, third, fourth, fifth, sixth, seventh, eighth, ninth, tenth and eleventh and twelfth expansion of the participating area. The twelfth expansion occurred in 1974, and that is in Section 16 where you see the two-hundred-eighty-acre expansion there, leaving out the forty acres where the noncommercial well was drilled back in the early days.

The eleventh expanded participating area is immediately southwest of that in Section 21, I guess it is -- Section 20. The west half of Section 20. That was the eleventh expansion of the participating area. That came in 1958.

The twelfth came in 1974, sixteen years later, so you can see there was a long period of time there where there was very little development in this unit area.

Also, down in Section 31, we have the only Mesaverde participating area in the entire unit. The east half of Section 31 was the initial Mesaverde participating area. It was expanded to include the west half of Section 31 in 1960,

so there have been no additional expansions of the Mesaverde participating area since 1960.

Q. Will you now review for the Commission the events leading up to the calling of this case?

A. Yes. I touched on the fact that in 1975, the unit operator submitted a plan of development calling for four Pictured Cliff Wells for 1975. This program was dated January 13th, 1975, called for the drilling of a well in the west half of Section 22, the east half of 20, the west half of 10, and the east half of 16. Now it is interesting to note that all four of those wells were proposed to be drilled in lands that were already included within the participating area. There was no development of the unit, so to speak, by drilling outside of the participating area proposed.

On January 30th -- I think that that plan of development should be identified as Exhibit Two in this case.

(THEREUPON, Exhibit Number Two was duly marked for identification.)

The plat showing the unit outline, the participating areas, and the acreage that has been deleted, would be Exhibit One. Exhibit Two would be the January 13, 1975, plan calling for the drilling of four wells. When we received that plan of development, we also, on January 29th,

received a letter which was addressed to Regional Supervisor of the United States Geological Survey, and to the Oil Conservation Commission from Mr. Paul Eaton, stating that he represented Cecelia Wirt Simms and so forth and so on, but he objected to the Commission, and I presume the U.S.G.S., approving the plan of development, making the following statement:

"We respectfully request that the plan of development not be approved, or in the alternative, you make demand on the unit operator to prepare a notice of proposed contraction of the unit area which would affect the elimination of all of the Simms lands from the unit other than the eleven point oh four acres presently in the participating area."

(THEREUPON, Exhibit Number Three was duly marked for identification.)

That letter is probably the thing that kicked off the chain of events which resulted in this hearing today. It was dated January 29th of 1975. January 30th of 1975, we wrote to El Paso Natural Gas Company, and advised them that we had had this objection to the plan of development, and suggested that a meeting of those involved in the matter, including representatives of the Commission, and the United States Geological Survey, be arranged at a place and time

convenient to all. That was our letter to El Paso of
January 30th. That will be Exhibit Four.

(THEREUPON, Exhibit Number Four was duly marked
for identification.)

(THEREUPON, Exhibit Number Five was duly marked
for identification.)

El Paso advised us on February 6th with Exhibit
Five, that they were forwarding our letter to Amoco Production
Company, concerning the meeting that we had set up.

(THEREUPON, Exhibit Number Six was duly marked
for identification.)

Amoco wrote to us on February 17th, 1975,
Exhibit Number Six, stating that they had gotten a copy of
the objection, and the proposed meeting and making the
following statement:

"All prior plans of development submitted by
the unit operator have been approved by the working interest
owners, the Commission and the supervisor as provided in the
unit agreement. Considering the performance of the existing
wells within and adjacent to the unit area, the 1975 plan
proposed by the working interest owners is reasonable and
proper for the development of unit lands, and we recommend
its approval."

(THEREUPON, Exhibit Number Seven was duly marked for identification.)

March 3rd, El Paso Natural Gas wrote to us on Exhibit Number Seven, said they concurred with Amoco's statements, and then urged our approval of the plan of development.

March 5th, Mr. Eaton wrote to us and said he had gotten El Paso's letter and Amoco's letter, and he urged that we not approve the plan of development. That's Exhibit Eight.

(THEREUPON, Exhibit Number Eight was duly marked for identification.)

April 19th, El Paso wrote to us and wanted to know on Exhibit Number Nine what was the status of their plan of development.

(THEREUPON, Exhibit Number Nine was duly marked for identification.)

On May 9th, El Paso wrote and said they would be present at the meeting.

(THEREUPON, Exhibit Number Ten was duly marked for identification.)

We had set up a meeting by that time. We had the meeting on June 5th, 1975.

(THEREUPON, Exhibit Number Eleven was marked for identification.)

Finally, on July 16th, the Commission, over the signature of Joe Ramey, Secretary-Director, wrote to El Paso Natural Gas Company and advised them -- this would be Exhibit Number Eleven -- as follows:

"The development history of the San Juan 30-4 Unit during the past ten years indicates that the productive area of the unit is established as being within the existing participating areas. Inasmuch as further drilling outside the participating area is not now contemplated, demand is made that the unit operator prepare a notice of proposed contraction of the boundaries of the unit area, the reasons therefore, and the proposed effective date thereof. It is suggested that after contraction, the unit area would comprise the following described lands: Township 30 North, Range 4 West, Section 3 West half."

Now you can follow this on your map there, because it will be the area in the participating area, or the area including the participating area, but squared off by a heavy line around the southwest quarter of the unit, and portions of the northwest quarter of the unit. You can follow it by the heavy line on your Exhibit Number One there.

It would be Section 3, the west half, Section 4, the east half, Section 8, the east half, Section 9, all, Section 10, west half, Section 15, west half, Sections 16 through 22, all, Section 27, east half, and Sections 29, 30 and 31, all.

On August 14th of '75, we got a letter from El Paso saying they would review our proposal, and respond in the near future, and finally on October 28th, El Paso wrote to the working interest owners in the unit saying that, "On October 1st we forwarded you materials pertaining to contraction of the San Juan 30-4 Unit, which had been requested by the Oil Conservation Commission, and asked for your recommendations. May we again request your response? Should you have questions or wish additional information, please contact the undersigned."

On November 21st -- and which I will identify as Exhibit Number Twelve --

(THEREUPON, Exhibit Number Twelve was duly marked for identification.)

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

El Paso addressed the Oil Conservation Commission on November 21st, 1975, on what is identified as Exhibit Number Twelve, stating, "Gentlemen, your letter of July 16th concerning contraction of the captioned unit was forwarded

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2 to the working interest owner with the request that they advise
3 us of their recommendation as to the response which El Paso.
4 as the unit operator, should make to such letter. A considerable
5 majority of such owners strongly oppose contraction. Copies
6 of Amoco's and T. H. McElvain's response are attached, and
7 as they most clearly set forth -- are attached, as they most
8 clearly set forth the thinking of those who objected to such
9 contraction.

10 As representative of the working interest owners,
11 as operator of the unit, El Paso feels obligated to continue
12 to operate the unit in accordance with the wishes of the
13 working interest owners, so long as such operations do not
14 violate the terms of the unit, and unit operating agreements.

15 We do not believe that either of these agree-
16 ments require a contraction of the unit, in light of present
17 circumstances. For this reason we must respectfully decline
18 to request approval of the unit working interest owners to
19 contract the unit in accordance with your demands."

20 And attached to that letter is a letter from
21 Amoco, and a letter from T. H. McElvain, Oil and Gas Properties.
22 All of that is Exhibit Number Twelve.

23 (THEREUPON, Exhibit Number Thirteen was duly
24 marked for identification.)

On December 3rd, 1975, the Commission addressed El Paso Natural Gas Company on what will be identified as Exhibit Number Thirteen, stating that, "The Oil Conservation Commission has reviewed your letter of November 21, and believes there are certain matters which should be called to your attention.

"First, pursuant to the terms of the unit agreement, for the above-captioned unit, there are certain things which El Paso Natural Gas Company, as unit operator, shall do. Once a demand is made upon it to either contract or expand the unit area they are to, one, prepare a notice of proposed expansion or contraction, describing the contemplated changes in the boundaries of the unit area, the reasons therefore, and the proposed effective date thereof.

"Two, said notice shall be delivered to the Commission.

"Three, copies of said notice shall be mailed to the last known address of each working interest owner, lessee, and lessor, whose interests are affected, advising that thirty days will be allowed for submission to the unit operator of any objections.

"Four, at the end of thirty days the unit operator shall file with the Commission evidence of the mailing

of the notice of expansion or contraction, and a copy of any objections thereto, which have been filed with the unit operator.

"Five, after due consideration of all pertinent information, the expansion or contraction upon approval by the U.S.G.S., State Land Office, and Oil Conservation Commission, shall become effective as of the date prescribed in the notice thereof. Demand for unit contraction was made upon El Paso Natural Gas Company on July 17th, 1975.

"On August 14th, 1975, the Commission was notified by letter that El Paso Natural Gas Company had received the demand on that date, and would respond in the near future.

"On November 21st, 1975, El Paso indicated its intention to, quote, 'Decline to request approval of the unit operator -- unit working interest owners to contract the unit,' close quote.

"Contrary to your opinion, it appears to the Commission that El Paso Natural Gas Company failed to comply with the unit agreement by performing any of those matters set out above. You are advised therefore, that the Commission hereby renews its demand on El Paso Natural Gas Company to prepare a notice of proposed contraction of the San Juan 30-4 Unit as set out in your letter of July 16th, 1975.

"Furthermore, you are given until January 15, 1976,

to comply with the provisions of the unit agreement, as summarized in this letter, and set out in pages three and four of that unit agreement."

(THEREUPON, Exhibit Number Fourteen was duly marked for identification.)

Well, on January 15th, 1976, Exhibit Number Fourteen, we did receive a letter from El Paso Natural Gas Company stating that they had made this -- sent the notice to the working interest owners in the unit, and I will summarize the letter very briefly.

"Parties owning ninety-nine point thirty-one percent of the working interest and gas have objected -- have expressed objections to the proposed contraction. Parties owning the remaining point sixty-nine percent have no objections or failed to respond.

"Two, El Paso recognized the role of the Commission as guardian of the rights of fee owners in the administration of units. In this regard we observe that much of the acreage proposed by the Commission to be contracted out of the unit is federal acreage. We respectfully submit that a demand for contraction insofar as it removes federal lands from unit boundaries should ideally originate from the United States Geological Survey, or at least bear the endorsement

of that agency."

And along with that letter, El Paso attached numerous letters from other operators owning working interest in the unit, in which they have varying degrees of objections to the proposed contraction. We had some other correspondence that came directly from some of the companies. I think it is probably in the El Paso portfolio.

Now the section that calls for the contraction of the unit, the one that the Commission quoted in one of the letters, is in Section 2-A of the unit agreement. It is on page four of the San Juan dash -- 30-4 Unit agreement, and reads as follows:

"Unit operator, on its own motion, or on demand of the Director of the Geological Survey, hereinafter referred to as Director, or on demand of the Commissioner and/or the Commission, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefore, and the proposed effective date thereof."

It goes on to outline the procedure to be followed on that, which was quoted in one of those letters, so there is provisions in the unit agreement for the Director or the Commissioner or the Commission to make a demand upon the

unit operator to prepare a notice of proposed expansion or contraction.

Now, actually, this is probably in error, as far as the Commissioner is concerned, because there are no state lands in this particular unit. This is all federal and fee lands in this unit, so they probably did not have to include the Commissioner in this particular unit agreement as standard procedure, however.

Now, getting back to the plan of development that we had for 1974, or to 1975, the one that proposed four Pictured Cliff Wells to be drilled inside of the existing participating area, and to which the representative of one of the fee owners in the unit objected, we get our 1976 plan of development.

(THEREUPON, Exhibit Number Fifteen was duly marked for identification.)

The 1976 plan, dated January 2nd -- and this is going to be Exhibit Number Fifteen in this case--the 1976 plan, dated January 2nd, 1976, states as follows:

"By letter dated January 13, 1975, El Paso Natural Gas Company, as unit operator, filed a drilling program on the captioned unit for the calendar year, 1975.

Said program provided for the drilling of four Pictured Cliff

1 Wells. Due to pipe shortages and unavailability of rigs
2 during 1974 and 1975, drilling in the San Juan Basin was
3 delayed. These delays, and the increasing shortage of gas
4 necessitated a revaluation of our proposed drilling programs
5 in the San Juan Basin so that the wells proposed for drilling
6 would obtain the maximum increase in deliverability. In this
7 vein, the four Pictured Cliff Wells proposed were not drilled
8 in 1975, and will not be drilled in 1976. So they submit
9 their drilling -- they hereby respectfully request the approval
10 of a drilling program for the calendar year, 1976, providing
11 for the drilling of no wells during calendar year 1976."
12

13 So, in summary, we will say that the drilling
14 program calling for no wells commenced in 1961, it continues
15 through 1972, they proposed one well in 1973, no wells in '74,
16 proposed four wells in '75, that weren't drilled, and
17 proposed no wells for 1976. That's just about the history
18 of the unit agreement in the unit area.

19 Q. Mr. Nutter, do you have a recommendation to make
20 to the Commission concerning the status of this unit?

21 A. Yes. I would make a recommendation that in the
22 absence of overwhelming testimony on the part of somebody,
23 that it shouldn't occur, or that there is a plan of development
24 proposed which would call for the development of some of this

large amount of acreage which apparently no one has seen fit to drill since back in 1953, when this unit was formed.

I would recommend that the Commission, in the absence of testimony, or evidence to the contrary, that the Commission enter an order requiring that this unit be contracted or that the order approving the unit be withdrawn.

Q Do you believe granting this -- the Commission's motion in this case would be in the best interest of conservation and prevention of waste?

A I think it would be and the protection of correlative rights.

MR. CARR: May it please the Commission, at this time I'd offer Commission Exhibits One through Fifteen.

MR. RAMEY: Without objection, they will be accepted.

(THEREUPON, Commission Exhibits One through Fifteen were duly admitted into evidence.)

MR. CARR: I have nothing further at this time.

MR. RAMEY: Mr. Nutter, do you propose to contract the unit to -- within the heavy red line on your Exhibit One?

A I believe that that -- let's see. Yes, sir.

That is the area -- within that line is the area that was outlined in the Commission's letter of -- and it is on one of those exhibits.

MR. RAMEY: Okay.

A. July the 14th or something, 1975.

MR. RAMEY: Okay.

CROSS EXAMINATION

BY MR. ARNOLD:

Q. And the red cross acreage, what is the significance of that?

A. That is acreage that has already been eliminated from the unit area.

Q. On what basis was that eliminated?

A. Either by terms of the lease or by terms of the unit agreement, some acreage that was not in the participating area by a certain date and didn't have active wells on it, had to be segregated and removed from the unit area, and the provision of those units -- or of those leases caused them to be eliminated.

Q. But you did mention there are two areas in the southeast part of this that -- these windows you were speaking of.

A. Yes. Those are still in the unit area, although

they are completely surrounded by acreage that has been eliminated.

Q What would have been the difference in terms on that acreage, which kept it in, when it --

A Must have been something peculiar in the form of the lease, or maybe that lease is being held by production somewhere else.

MR. PERMENTER: Okay. May I offer some help? I think the precise language leads to automatic elimination, is any lease, no portion of which is in the participating area by a certain date, will be eliminated, and the windows you see are part of the Simms fee acreage, and it was their misfortune to have --

MR. EATON: Eleven acres.

MR. PERMENTER: -- eleven acres in the participating area. Did I say misfortune or good fortune?

MR. EATON: I think you were right the first time.

THE WITNESS: I didn't get into any lands that are ~~permitted~~ permitted to the unit or to any particular lands that are involved in the participating area. Some of those lands you will see have -- do have portions extending into the participating area which are relatively small, compared

to the total extent of the lease.

MR. RAMEY: Mr. Traywick?

MR. TRAYWICK: I didn't see your exhibit,
Mr. Nutter. Is Section 31 proposed for elimination?

THE WITNESS: No. I believe that would
still be in the unit, wouldn't it? Mr. Traywick, I believe
that the unit boundary would still include Section 31.

MR. TRAYWICK: Okay. Thank you, Mr. Nutter.

MR. RAMEY: Any other questions of the
witness? You may be excused.

(THEREUPON, the witness was excused.)

MR. CARR: The Commission has nothing
further.

MR. RAMEY: Mr. Eaton.

MR. EATON: Mr. Ramey, I wonder if Mr.
Permenter could go ahead and make his statement since he
represents the unit operator. Based upon his statement, I
may or may not have any statement to make.

MR. RAMEY: That will be fine if it is
all right with Mr. Permenter.

MR. PERMENTER: I would be delighted, Mr. Ramey.
There is a missing exhibit here that astounds
me. One of the exhibits that Mr. Nutter referred to in which

1
2 El Paso points out that we recognize the role of the Commission
3 as guardian of the fee owners, et cetera, was written in El
4 Paso's capacity as a working interest owner. At the same
5 time we wrote that letter, we wrote a letter in our capacity
6 as unit operator, in which we acceded to the request for
7 contraction that you have proposed, and I didn't bring any
8 letters or exhibits or anything else, but we -- to repeat,
9 in our capacity as a working interest owner, we felt privileged
10 to make the observation that we thought the Commission was
11 perhaps being over zealous in its legitimate role as a
12 protector of the fee owners, without endorsement from the
13 Geological Survey that as far as we could tell, but again, our
14 capacity as unit operator, we said in effect, we submit the
15 contraction, as requested, and copies of that letter were sent
16 to the Commissioner, the O.C.C., and the Geological Survey.
17 Did anyone here get one? I'm embarrassed that I didn't bring
18 one.

19 MR. CARR: We didn't get it. It is the
20 first I have heard of it.

21 MR. PERMENTER: As a matter of fact, I'm
22 certain of that, because I wrote it and some of the phraseology,
23 I had a little difficulty in saying why we did that, and I
24 said that --

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MR. CARR: Is that the letter?

MR. PERMENTER: No. Huh-uh. No. No. Huh-uh.

MR. CARR: Well, the Commission has not received that letter.

MR. PERMENTER: Well, I --

MR. NUTTER: What was the date on that letter?

MR. PERMENTER: It was about the same time as the letter of January 15th, Mr. Nutter, because I wrote -- it perhaps predated it but it was certainly a week either way. If you will note, as I mentioned, we were careful to reference this letter as being in our capacity as a working interest owner as opposed to unit operator. I -- if I might go on, the terms of the notice of the case here were to show cause why the unit would not be contracted to its present participating area. Well, the contraction of this unit as proposed has some acreage that is not within that participating area, roughly two sections, and we felt that you were -- we were unable to understand why you hadn't done something when we acceded to your initial proposal, but we knew that to contract the unit to its present participating area would eliminate more acreage than you had initially proposed, so that is why I'm here.

MR. RAMEY: But as it stands, you have no

objection to the unit being contracted at least to what is outlined on Mr. Nutter's Exhibit One?

MR. PERMENTER: No. We have no objection to that, none at all, and if I might be permitted just a few observations --

MR. RAMEY: Certainly.

MR. PERMENTER: -- the Simms acreage, which as Mr. Nutter suggested, when Mr. Eaton was brought the problem that the Simms people had, it is the Simms acreage that have resulted in these hearings and this correspondence, and El Paso does not own that acreage. We could not release it to the Simms or anyone else, because it is not our acreage. As the unit operator, we can't -- we didn't feel that on our own motion it would be proper to eliminate, propose an elimination, rather. We haven't drilled many wells recently, obviously, and that is an understatement, obviously, nor do we plan to. This isn't the best country in the world to drill in. We feel that El Paso has been prudent, as unit operator. We haven't been asked, nor are we being asked now, to protect the unit from drainage. We are not being requested to offset any production. We received no request for other wells by other working interest owners in the unit, so we don't feel that we have been imprudent or improper, much less unfair in our

1 development of this unit. Those are self-serving statements,
 2 but, so be it. We sincerely feel that way. We feel that a
 3 step is being taken in this instance because there are peculiar
 4 and appealing circumstances that have led the Commission to
 5 take such a step. Again, without, I hope, caviling about it --
 6 I think that is, oh, to protest unduly--well, now, I forgot
 7 what I was going to say, but at any rate, we have no objection
 8 to the contraction that Mr. Ramey proposed earlier, and why
 9 you didn't get the letter, I have no idea, but I assure you
 10 it exists, and if sending it in will solve this problem,
 11 well, it will be here Monday at the latest.

13 MR. RAMEY: I think the Commission would
 14 be interested in getting a copy of this letter.

15 Mr. Eaton, do you have any --

16 MR. EATON: In view of El Paso's statement,
 17 I really have very little. I might point out that it was
 18 about two years ago that I, in behalf of Mrs. Simms, initiated
 19 this matter by contacting El Paso and Amoco. It has taken
 20 a long time to get to this point. I feel that the Commission,
 21 within the framework of the unit agreement, can approve the
 22 contraction of the unit to the area outlined by Mr. Nutter,
 23 and accepted by El Paso. The unit agreement does provide
 24 that the unit area shall, when practicable, either be expanded

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2 to include any additional tracts regarded as reasonably
3 necessary or advisable for purposes of this agreement, or
4 should be contracted to exclude lands not within any participating
5 area, whenever such contraction is necessary or advisable
6 to conform the purposes of this agreement, and I think in
7 view of Mr. Nutter's pointing out that there has been no
8 development outside of the participating area since 1960, '61,
9 is certainly evident that this Commission can approve the
10 contraction as recommended by Mr. Nutter.

11 Thank you.

12 MR. RAMEY: Does anyone have anything
13 further in this case?

14 Mr. Traywick?

15 MR. TRAYWICK: I'd just like to make a brief
16 statement, Carl Traywick, Assistant Supervisor, U.S.G.S.,
17 that the U.S.G.S. would like to support and agree with
18 Mr. Nutter's recommendation, recommend that the unit area be
19 contracted to the participating areas, and that the mechanics
20 involved, as far as compliance with the unit agreement, procedure,
21 be worked out jointly with the Commission, the Geological
22 Survey, and the Commissioner, if appropriate.

23 Thank you.

24 MR. RAMEY: Thank you, Mr. Traywick.

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The Commission will take the case under
advisement, and we will call for about a five-minute recess.

(THEREUPON, the proceedings were concluded.)

REPORTER'S CERTIFICATE

I, Linda Malone, a Court Reporter for the firm of HOWARD W. HENRY & COMPANY, do hereby certify that I reported the foregoing case in Stenographic Shorthand and transcribed, or had the same transcribed under my supervision and direction; and that the same is a true and correct record of the proceedings had at that time and place.

I further certify that I am not employed by any of the parties to this action or attorneys appearing herein, and that I have no financial interest in the outcome of this case.

WITNESS my hand this 2nd day of August, 1976,
at my offices in Albuquerque, New Mexico.


Court Reporter

I N D E X

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E X H I B I T S

<u>Commission Exhibits:</u>	<u>Marked</u>	<u>Admitted</u>
1. plat showing unit outline, participating areas and acreage that has been deleted	10	25
2. a plan of development	12	25
3. document	13	25
4. letter dated 1/30/75 to El Paso Natural Gas Company	14	25
5. letter dated 2/6 from El Paso Natural Gas Company	14	25
6. letter dated 2/17/75 from Amoco	14	25
7. letter dated 3/3 from El Paso Natural Gas Company	15	25
8. letter dated 3/5 from Mr. Eaton	15	25
9. letter dated 4/19 from El Paso Natural Gas Company	15	25

E X H I B I T S (Continued)

<u>Commission Exhibits:</u>	<u>Marked</u>	<u>Admitted</u>
10. letter dated 5/19 from El Paso Natural Gas Company	15	25
11. letter dated 7/16 from New Mexico Oil Conservation Commission	16	25
12. letter dated 11/21/75 from El Paso Natural Gas Company to New Mexico Oil Conservation Commission, and attached letter from T.H. McElvain	17	25
13. letter dated 12/3/75 from New Mexico Oil Conservation Commission to El Paso Natural Gas Company	18	25
14. letter dated 1/15/76 from El Paso Natural Gas Company	21	25
15. letter dated 1/13/75	23	25