



01147643

BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF COLORADO

3-2

IN THE MATTER OF THE INVESTIGATION
TO TAKE MEASURES TO PREVENT WASTE
OF OIL AND GAS IN THE IGNACIO FIELD
IN THE STATE OF COLORADO

Part 1 of 2

Pursuant to notice, the above-entitled matter came duly
on for hearing at the Hearing Room of the Employment Service
Division, 1280 Sherman Street, Denver Colorado, on the 6th
day of December, 1951.

BEFORE:

MR. WARWICK DOWNING, Chairman - - - - - present
MR. CLARK F. BARB, Member - - - - - present
MR. RUSSELL VOLK, Member - - - - - present
MR. J. J. ZORICHAK, Director - - - - - present
MISS ANNABEL HOGSETT, Ass't. Secty. - - - present

APPEARANCES:

DUNN & BOREING, 711 Colorado Bldg., Denver, Colo. by
John E. Dunn, and
M. J. Boreing.

BENNETT, WILLIAM J., 312 - 17th St., Denver, Colo.
CHILDERS, W. R.

GREENBRIER OIL CO., Durango, Colo., by
Earle S. Lougee, 327 So. Adams, Ft. Worth,
Texas.
John R. Marcum, 325 Continental Oil Bldg.,
Denver, Colo.

MERIDETH, W. CLAY, 728 Harrison St., Denver, Colo.
RUTLEDGE, W. J., Jr., P. O. Box 387 Durango, Colo.

STANOLIND OIL & GAS CO., by Lewis H. Bond, Jr., Box
1410, Ft. Worth, Texas, and
J. K. SMITH, Ft. Worth, Texas.

I N D E X

<u>Witnesses for Stanolind</u>	<u>Direct</u>	<u>Cross</u>	<u>Redirect</u>	<u>Recross</u>	<u>Board</u>
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Lewis H. Bond, Jr.				63	
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Oil & Gas Committee

W. J. Rutledge, Jr.					90
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For Stanolind

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For the Commission

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CHAIRMAN DOWNING: The meeting will come to order, This meeting is an adjourned meeting to consider the Rangely matter. It is also an adjourned meeting to consider our rules; and also an adjourned meeting to consider what I refer to as the Ignacio matter.

We have given proper legal notice of each of those hearings originally set and we have regularly adjourned each of them until today.

In regard to the rules, the commission has spent quite a bit of time in going over this and we feel that these rules are very important; they have the force of law. We feel it will behoove us to take more time and have them in as near perfect form as is possible rather than to pass them too quickly and have difficulty in their administration hereafter. That is particularly true because notice of those state-wide hearings costs between four and six hundred dollars.

The commission is agreed that we will in the near future get out a revision of a certain section of the rules; that is the section that we have tentatively amended. I believe practically all of these amendments have been submitted by the industry. At any rate that will give us something more to work on than we have now.

I have a letter here from the attorney for the Phillips Petroleum Company. I also understand Mr. Moran has talked with Mr. Russell Volk and suggested that the industry

appoint a committee of two or three lawyers and two or three practical oil men to go over the rules and very carefully study them. So we will adjourn the hearing until January 7th as the Commission decided. That meeting will be held either in the State Capitol Annex, Room 704, if possible, or if that room is not available at that time notice will be given as to the location of the meeting January 7th, 1952.

That disposes of the matters of Rangely and the Rules unless someone has something to add at this time..

I do not know how the industry wishes to organize themselves but we suggest that Mr. Moran and Mr. Bob Williams, together with Mr. Ryan whose committee has done a lot of work, name an industry committee of five or six or more, whatever you wish, to go over these rules as revised and make a very careful and critical study of them, not only for substance but for grammar. We should like to get these rules as near perfect as possible. Has anyone anything further to say at this time on the Rangely order?

I think perhaps the record should show that it was read, although I do not want to take time to read it. It is before us for consideration. Copies will not be available until this afternoon.

FROM THE FLOOR: Would you give us the gist of what that order reflects?

CHAIRMAN DOWNING: Well, in substance, I can't say but it embodies the basic parts of what was submitted by the California Company. We provide for the two limitations; one is the gas-oil ratio of a thousand to one; and the other is that no well shall be produced in excess of 150,000 cubic feet of gas per day but with the provision that any excess gas may be produced if it is returned to the reservoir. As to wells in the gas cap, those should not be produced without being put in proper condition to avoid waste. I think the rest of it is substantially the same.

Is there anything further? Mr. Moran, if you will take charge of this committee and give notification to Mr. Zorichak, and, I suggest you study it yourself and have one or two meetings and take it up with the committee.

The next thing on our docket is the Ignacio matter. Has our emergency order expired?

MR. ZOIRCHAK: It expires today.

CHAIRMAN DOWNING: I think that has been pretty well explained. As you know, some evidence has been presented by the Stanolind Company. Does Stanolind desire to make further showing?

MR. SMITH: (Stanolind) We do have some additional information which was developed since the last hearing which we would like to put into the record.

CHAIRMAN DOWNING: Is anyone opposed?

MR. RUTLEDGE: (Southwestern Colorado Land Owners' Committee) I would like to know what the attitude of the Commission is. Is the record made on the 14th of November

at the hearing at which certain of the parties that I speak for had no opportunity even to be present going to be considered as a part of the record in the Ignacio matter? If so, it is a closed book to me because I have made as diligent an effort as possible to find out what testimony was submitted to this Commission. And other than the exhibits which have been made available to me I know nothing about what has been presented as it has not yet been transcribed. Now, I can't conceive of the propriety of my going forward with the matter without knowing what evidence has been taken or what has taken place before. That hearing is annulled so far as I am concerned.

MR. SMITH: May I inquire of Mr. Rutledge whom he represents?

MR. RUTLEDGE: Southwest Colorado Oil and Gas Committee which is a group of Ignacio land owners, the people that own the land involved in the hearing before this Commission, one hundred fifty of them and there are quite a large number more of them who are interested in this proceedings whose names I do not have. So I speak for a substantial part of those who are interested in what is going on.

CHAIRMAN DOWNING: Certainly the evidence taken so far will be made available and it ought to be available. When can it be made available?

MR. RUTLEDGE: Not before Saturday, they tell me.

MR. ZORICHAK: I was under the impression, first, that it would be available by this morning and apparently the reporter has been working at it and undoubtedly other work has interfered which has resulted in non-completion of the transcript by this morning; I was anxious that it be completed, but apparently he hasn't been able to get it finished as yet.

MR. RUTLEDGE: Last Friday morning I came to Denver and I contacted Mr. Weimer as soon as I got his name; and he told me he would undertake to get it for me by Saturday or Sunday but to call him Saturday. I called him Saturday and he said he then could not promise me that there would be any transcript before Monday but for me to call him again on Sunday and see how far he had gotten with it. I called him on Sunday and he said, "It will not be available before Wednesday." That was yesterday. He did not say that it would be ready Wednesday but he said it wouldn't be ready before Wednesday.

I talked to him yesterday and he said then, "It will not be ready before tomorrow morning at which time I hope to be able to get it." And I called him last night about six o'clock and he said, "It will not be ready; certainly I hope to get it in the hands of the Commission tomorrow morning."

This morning they tell me it will be next Saturday. Now, from my standpoint it may just as well never have happened because it is still in his notes, it is not available

to me. And I am not prepared and don't even expect to be prepared to go forward until I do know what is in the record before this commission.

MR. SMITH: The witness we had at the last hearing is here today and we will be pleased to go over the testimony that was initially submitted. We do not want to be in the position of taking advantage of anyone or putting someone at a disadvantage.

MR. RUTLEDGE: What has taken place up to this time was done without notice and without our being present and now I am not going to begin this morning without knowing what has at least taken place or by this board going ahead and hearing it over. I do not want to burden the commission but I certainly do want to know what it is all about.

CHAIRMAN DOWNING: We feel that you are absolutely right; that you can't be called upon to present any evidence or take any position until this testimony has been made available to you. I might go further. If you insist on it, it might be necessary to retake the evidence because, as you have stated, that evidence was taken on an emergency order and prior to notice upon which our jurisdiction depends.

Now, this is my suggestion to both of you. I don't see any reason in taking the time of the commission and yourselves to repeat that evidence and have it typewritten. I think by consent we might agree that that evi-

dence may be considered as before the commission, provided a copy is furnished to these defendants or protestants, your association, the Southwest Colorado Oil and Gas Committee.

MR. RUTLEDGE: Call it what you want to. I think we are defendants under the circumstances.

CHAIRMAN DOWNING: If they receive a copy, it will not be necessary to take it over; and, certainly, they are not called upon to answer or take any position until they see the testimony--not only see it but have time to study it.

MR. RUTLEDGE: That is right, just exactly.

CHAIRMAN DOWNING: It seems to me maybe all we can do this morning is that we would like to hear a little bit from you informally while you are here.

MR. RUTLEDGE: I will be glad to state my position.

CHAIRMAN DOWNING: But by consent, enter an order that the testimony previously taken will be considered as before the commission provided the defendants are given a copy and that the hearing be adjourned to a day that we can agree upon at which time you may present anything further you wish.

It has been suggested--and I think wisely--that if you wish we can put that a little bit ahead and maybe Mr. Zorichak can go down there and get a first-hand on-the-ground view that might be helpful to the commission. So let me ask first, is it agreeable that after a statement that this hearing be continued and if so, when?

MR. SMITH: Judge Downing, I would like to object to its being continued to another date. This is the second time we have been out on this matter. We came out before and on informal notice to all interested operators; and, in my opinion, in view of the terms of the act, the royalty owners are directly affected. Now, their interests are covered by oil and gas leases and their rights have been given to the operators.

Now, I don't want to imply that they have not the right to say what they want to say. I would like to say that I am quite disappointed that the transcript of the testimony is not available and my idea at the time that we put it in before was that it afforded whoever might be interested an opportunity not only to hear the testimony but to study it. And that is one reason I thought it wise to go forward with the testimony at that time.

At the time we came out here, we did not know that the citations had not been entered. We thought that it would be a regular hearing at that time.

I do feel that since we have the witness here that we could go forward the same as at the initial hearing.

CHAIRMAN DOWNING: You would like to disregard the previous evidence and present your evidence over again?

MR. SMITH: We cannot do that completely because one of the witnesses is not here. However, as I said, the

important testimony, the testimony which controls the rules, was given by Mr. Bond who is here. And the exhibits are a matter of record. The testimony merely amplifies the exhibits. I will be glad to get the exhibits out and have Mr. Rugledge ask any questions he cares to in a preliminary way. It might be of some assistance when he looks at the testimony later. But I feel we could not and should not be called upon to make another trip out here at this time.

CHAIRMAN DOWNING: However, it is obvious that this is the first legal meeting we have had on notice. This is the first time we have had jurisdiction. I don't know what happened that the notice did not go out before but it didn't go out and we took testimony really in support of the emergency order and as a matter of convenience. We never assumed that there was going to be any particular controversy about it. Now, it is perfectly obvious to me it has got to be continued. I hate to put you to the trouble.

MR. SMITH: The statute provides for an emergency hearing. In other words, you had jurisdiction at the initial hearing.

CHAIRMAN DOWNING: I think so, yes.

MR. SMITH: And you still have jurisdiction.

CHAIRMAN DOWNING: It was an emergency hearing.

MR. RUTLEDGE: May I make a little speech? I would like to be heard on that. You had jurisdiction if there was

an emergency and you have found that there was an emergency; and it is my position, representing the people that I represent, that that finding has no basis whatever. It is without any basis whatever in fact.

CHAIRMAN DOWNING: However, if we are wrong that is past history; we are now up against the present. We want to have a legal hearing and we want everybody to be heard and heard fully. I don't see how we can go ahead today. We are perfectly willing to go ahead and take any testimony that is offered but I think these gentlemen--and I believe it is true--are royalty owners or land owners and have a decided interest.

MR. SMITH: I did not mean to leave that impression. The point I was making is that the operators are primarily interested in operating rules, which is what these are. They were advised of the hearing before. I did not want to leave the impression that we are trying to take any unfair advantage. That is not the case. The royalty owners are entitled to know what is going on and what did go on. But I think we should be permitted to go ahead with the additional testimony.

CHAIRMAN DOWNING: You would like to present your additional testimony?

MR. SMITH: Yes.

CHAIRMAN DOWNING: Is there any objection to that?

MR. RUTLEDGE: I want to put one other thing in this record. We are royalty owners. We are the land owners. They are our lessees. Now, when they act within the terms of their contract with us as lessors, then certainly they have got full rights. But when they undertake to do what we think they are trying to do here, they are far beyond the contract they have got with us and we are definitely interested and will undertake to hold them to the limitations that they have got to labor under. That is our position about the matter and we don't think that the commission or any other state power is going to write something into the thing or let them do something that has not got a basis in the contract with us. We are not standing by while the police power of the State of Colorado, through this commission, is going to be extended to the point where it changes our rights; at least we are not going to do it without saying something about it and this is the first opportunity we have had to say it.

CHAIRMAN DOWNING: You are going to have all the opportunity to say what you want to say.

MR. BARD: I would like to ask this question. The last time we were meeting on the Ignacio matter, there was some gentleman there, as I understand it, some attorney, who was supposed to be representing a group.

CHAIRMAN DOWNING: Mr. Sweet.

MR. BARD: Did he tell us what happened there?

CHAIRMAN DOWNING: Well, he said he did not represent anybody but he expected or hoped to represent somebody down there and it was upon his request that the hearing was set for December 6, today, to go over that long. He wanted to put it over even longer.

MR. BARD: Was he representing the same people this gentleman represents?

CHAIRMAN DOWNING: He called me up Sunday to let me know that he was not employed; as far as he knew, he was out of it.

MR. RUTLEDGE: I will answer that question. Mr. Sweet, when the word came to the attention of some land owners in that area down there that there was a hearing set for the fourteenth day of November and that happened to be about the tenth day of November, was employed by Mr. Childers of Hobbs, New Mexico, an owner in this area, to come up here and undertake to get a postponement of the hearing. He thought he had accomplished that.

CHAIRMAN DOWNING: He did.

MR. RUTLEDGE: Now, when that arrangement was communicated to Stanolind, they insisted on going forth with the hearing on the fourteenth; and, as I understand it, were permitted to go forward with their presentation of the testimony at that time and this hearing then was set and the first

notice given on this hearing today. So that he did not accomplish a postponement of the hearing but he did accomplish the holding of the matter open at least holding the hearing up until a legal hearing could be had. Now, when I came to Denver from Durango last Friday morning, I went to see Mr. Sweet; and as a result of that, from the standpoint of the landowners whom I speak for, we did not employ Mr. Sweet to go forward with the matter. It devolves upon me to do it and that is why I am here.

So, beyond the limited employment that Mr. Sweet had, as I have outlined it to you, nobody was represented up here before this commission. Mr. Sweet entered an appearance for Mr. Childers and under those circumstances and with that limitation.

CHAIRMAN DOWNING: All right, now, let's see if we can get a little order. In the first place I would like to have you enter your appearance. Is there anyone else?

MR. RUTLEDGE: I haven't a list of all the individuals but I will be glad to give you the names of one hundred and fifty if you want them.

CHAIRMAN DOWNING: That is entirely up to you. If you want to file them, we will be glad to have them.

The next thing, to proceed on an orderly basis, is for Mr. Zorichak to tell us what notice has been given of this meeting?

MR. ZORICHAK: Notice of hearing was published in the Daily Journal of Denver on November 23. I have a copy of the affidavit here. A notice of hearing was sent to the

Durango News for publication and we have not yet received the affidavit of publication, but as soon as it is returned it shall be entered into the record. Letters also have been sent or notice of hearing has also been sent to all the parties whose names and addresses were on record with our office.

CHAIRMAN DOWNING: Will you file with the record the affidavits of publication and the list of persons to whom the notice has been given?

MR. ZORICHAK: Yes, sir.

CHAIRMAN DOWNING: And make it a part of these minutes.

MR. RUTLEDGE: I raise a question there. This statute says that notice shall be published not only, as I get it, in Denver, but also a notice shall be published for ten days in the county in which the property or the matter arises. And he hasn't got any showing of a publication. If he tells me that that publication has been made, then, subject to the return showing that publication, I am perfectly satisfied to take his word for it. But there is no return showing publication within the terms of the statute even this morning.

CHAIRMAN DOWNING: Was it published or not?

MR. ZORICHAK: I haven't received the affidavit yet and about the only thing I could do is call up the paper and find out. We have been getting the affidavit and the invoice anywhere from two to three weeks after publication. The don't send them to me immediately.

CHAIRMAN DOWNING: You sent them in time? Have you written the paper? What paper was it?

MR. ZORICHAK: The Durango News.

CHAIRMAN DOWNING: (To Mr. Rutledge) Have you read the Durango News? Do you know whether it has been published?

MR. RUTLEDGE: I don't know; I have been in Denver since last Friday.

CHAIRMAN DOWNING: Is anyone familiar with that?

MR. SMITH: (Stanolind) The notice? I am not familiar with it but it must have been published before he came up from Durango. I would like to inquire of Mr. Rutledge if he knows.

MR. RUTLEDGE: I have not seen the notice and I know nothing about it.

CHAIRMAN DOWNING: Well, of course, if it hasn't been published we might just as well go home and start over again.

MR. SMITH: Judge, may I make this suggestion? The notice either has been published in Durango or it hasn't. If service comes in, the fact is accomplished. If it was not published, we will have to do it all over again. Let me make a suggestion that we proceed subject to service being proved by a proper receipt of affidavit of publication which shall be made a part of the record as soon as it is received. I think that is perfectly legal procedure.

MR. RUTLEDGE: I am not going to make any agreement of

any kind. I am here at the instance of people who have taken steps, so far without regard to the requirements of the law, as I see it, and I am certainly not going to make any agreement of any kind with anybody. That puts me on record.

CHAIRMAN DOWNING: The suggestion is that we proceed with the hearing on the assumption that the notice has been properly published. If it is not properly published, we will start over again and disregard everything that has been done today. If it has been published in accordance with the statute, as we have every reason to believe it has been, the commission finds that notice has been properly given, then we have full jurisdiction to proceed with the application of Stanolind Oil and Gas Company for spacing order and rules applicable to the Ignacio Field.

Now, the next thing, let's have a little agenda, a little order. It is my suggestion that Stanolind proceed with whatever proof they want; that unless somebody demands that they will not, the testimony previously given will be written out and it will not be necessary to repeat that testimony or take that same testimony over again. It may be considered before us.

Following that, Mr. Rutledge will be asked to proceed. We would like at least to have an opening statement. In all judicial proceedings whoever sits likes to hear what the controversy is all about. We know generally what the Stanolind Company wants and we would like to know generally what Mr. Rutledge wants. Then it will be up to

Mr. Rutledge to present whatever he wants at that time, the only other matter I can see to come before the commission at the present time would be to what date we will adjourn.

Also, I think, the commission will want Mr. Zorichak to go down and take a pretty good look at it. Apparently this is an important matter. Will you proceed, Mr. Smith?

MR. SMITH: May it please the commission, at this time I would like to recall Mr. Bond for the purpose of putting into the record, so that it may be complete as of today, certain additional information which has been developed and which is on the verge of being completed.

MR. RUTLEDGE: So this record will be complete, I do not put myself in the position of agreeing. I am here. What is going on is not a result of my agreement. You go forward with the matter and I am present. But I am not doing it under any agreement. I don't know what there is in this record. I don't know what I may be called upon to meet beyond the exhibits which I have had full access to and I don't now propose to be in the attitude of agreeing myself out of this picture.

MR. SMITH: Mr. Rutledge, I don't believe anybody is asking you to agree to anything. All I am trying to say is that we have already put certain evidence in and we want to be completely fair about this whole thing. We have certain additional evidence which will be made a part of the record which will also be made available to you for your study and scrutiny and when we come back, you can ask all the questions

you want and I am not asking you to agree to a thing.

MR. RUTLEDGE: I am present in the meeting. I am not making any agreement in connection with either the status of the record today nor what this commission may do. I am here from necessity, not from agreement.

CHAIRMAN DOWNING: I think Mr. Rutledge made his position very clear. I was hopeful that the commission's time could be saved and it would not be necessary to repeat the evidence that is already on the notebook. If it is going to be disregarded, we will cancel the order to rewrite.

MR. RUTLEDGE: Don't misunderstand me, your Honor. Under the circumstances when I have had an opportunity to look at it, if I can make an agreement that will simplify the procedure in connection with the matter, I will be glad to do it; but I am not in a position this morning to make any agreement at this time and don't propose to do so. If later on I can do so, I will do so.

CHAIRMAN DOWNING: Later on if you can. But if you can't, I think, if you don't want to you don't have to. It is up to you.

MR. SMITH: I believe we will not attempt at this time to review the other testimony in view of the fact that the meeting must be of record.

CHAIRMAN DOWNING: That is certainly pleasing to the commission. We do not want to sit and listen to the same

things again.

MR. RUTLEDGE: I don't want to be unduly burdensome.

LEWIS H. BOND, Jr.,

recalled as a witness by and on behalf of Stanolind Oil and Gas Company, was duly sworn to testify the truth, the whole truth and nothing but the truth and upon his corporal oath testified as follows:

REDIRECT EXAMINATION

BY MR. SMITH:

MR. BOND: I wonder if, before I give this testimony--

CHAIRMAN DOWNING: (To Mr. Rutledge) Have you had a copy of these exhibits?

MR. RUTLEDGE: I have had access to the originals.

CHAIRMAN DOWNING: (To Mr. Smith) Have you extra copies?

MR. SMITH: We are not obliged to give copies to everyone who participates in this hearing. I do not believe we have extra duplicate copies.

CHAIRMAN DOWNING: I am going away so I will loan Mr. Rutledge my copy so that he can look at them at his leisure.

MR. RUTLEDGE: I will appreciate that.

Q. Mr. Bond, will you please tell the commission the results of the later tests that you have made in the Ignacio area?

A. Yes, sir. I wonder if I might look at the exhibits?

CHAIRMAN DOWNING: You may take those with you. We

would like to have them back when you have finished.

MR. RUTLEDGE: We have had access to them, Judge. We have looked them over. We know what is there, thank you.

A. The commission may recall that at the time of the previous hearing on this matter, we had completed five wells in the Ignacio field and were drilling a sixth well, the Gallegos well located in section 12. The only new developments which I have to present concerns that Gallegos well which has proceeded almost to completion at the present time. To supplement the previous data which we have submitted, I would like to introduce as our next exhibit. This exhibit merely presents data on the Gallegos well which was submitted on the other wells.

(Whereupon, a map was marked as "S-A1" for identification.)

A. The Gallegos well was drilled into the Pictured Cliffs formation. The pipe was set on top of the Fruitland and cemented. The cement plug has not yet been drilled and the well consequently is not completed. However, we have most of the essential information except the actual open-flow potential which will be taken after the cement is drilled. I point out that the well on the drill stem test produced an estimated quantity of gas of 2900 mcf per day.

(Whereupon, a map was marked "S-A2" for identification.)

Q. Mr. Bond, what is your testimony with respect to exhibit S-A2?

A. This exhibit supplements previous information submitted on the other wells in the pool. It is a tracing of the electric log which was run in the Gallegos No. 1 well. It indicates the drill stem tests of which there were five performed during the drilling of the well. Four tests were taken in the Kirtland formation, none of which indicated commercial production.

One drill stem test was taken from the interval 2432 to 2740 which is indicated by a line tipped with arrows. On that test, the well produced an estimated quantity of gas, as I have previously stated, of 2900 mcf per day.

It can also be noted on that exhibit the top of the Fruitland, marked by characteristics on the electric log, and the top of the Pictured Cliffs, which is also indicated in the exhibit.

It will be noted that that well penetrated only a few feet into--approximately twenty feet--the Pictured Cliffs formation.

The well substantiates our previously expressed opinion of the structure of the Ignacio pool. I believe that is all the information I have.

Q. That is all the additional information available at this time?

A. Yes, sir. I have prepared one additional exhibit in which interest was expressed by the U. S. Geological Survey

supervisor which is a map showing the amount of patented acreage and the amount of Indian land involved in this pool.

Q. I believe that the Commission might be interested in that and if you will produce the exhibit, we will make it a part of the record.

(Whereupon, a map was marked
"S-A3" for identification.)

Q. I hand you what is designated as S-A3, which is a map showing the Ignacio area and ask that you explain to the commission the markings or colors shown thereon.

A. This map is largely self-explanatory. I merely point out that the acreage colored pink is fee land or patented land and the acreage colored green is Indian land.

CHAIRMAN DOWNING: Is there any public land?

A. There is only the two distinctions. There is only the Indian and patented land in the pool to my knowledge. That is the only purpose of that exhibit. I believe it needs no further explanation.

CHAIRMAN DOWNING: Might I ask, the map of this area includes the town of Ignacio, does it?

A. Yes, sir, that is correct.

CHAIRMAN DOWNING: What is the condition of ownership of the property in the town of Ignacio?

A. That is illustrated, to the best of our records, on this exhibit, S-24, which was previously submitted. You will note that there is a detail in the lower left-hand corner

of this exhibit in which I have attempted to show the ownership of the various town lots.

The acreage colored yellow in this detail is that under lease to the Stanolind Oil and Gas Company.

The block colored pink, according to our records, are owned by Mr. McIlvaney and the blocks colored purple by Mr. Thomas A. Keene. Some blocks are left white, a few, since we are not aware of the ownership of those.

CHAIRMAN DOWNING: To what extent is this area that you wish included in this pool leased to the Stanolind, and what is not leased?

A. Exhibit S-24 indicates by the yellow color the land which is under lease to Stanolind Oil and Gas Company.

The pink is under lease to Amarato Petroleum Corporation.

This gray to Malco Refineries.

This darker gray in this one block to the Skelly Oil Company.

The green to Bert Frost.

The purple to El Paso Natural Gas Company, one tract.

The blue indicates unleased Indian land.

CHAIRMAN DOWNING: Well, how much is unleased--not leased to any of the companies, just roughly?

A. There appears to be approximately a section, all told.

CHAIRMAN DOWNING: In the town of Ignacio?

A. Oh, in the town of Ignacio there are only a few lots, I believe, Judge Downing. I would say ten or fifteen lots. That is just a rough guess.

CHAIRMAN DOWNING: Now, I understand that you are endeavoring to unitize the area?

A. Yes, sir, that is correct.

CHAIRMAN DOWNING: When it is unitized, will there be any necessity for this spacing order?

A. I would think, of course, that that is possibly a legal question. I am not qualified to answer that.

MR. SMITH: On that, Judge, the Geological Survey, under the statute, is given jurisdiction in a situation of that sort, where unitization appears in which are included lands which are under their jurisdiction, which in this case would be the Indian lands. I think that at the last hearing Mr. Morell, Geology Supervisor from Roswell, New Mexico, was here.

CHAIRMAN DOWNING: Mr. Morell is not here?

MR. SMITH: No, sir, he is not here.

CHAIRMAN DOWNING: We are sorry. We will consult him.

MR. SMITH: He made the statement at the last hearing, as I recall, that he had no objection to spacing rules going into effect the way they are subject to our unitization and pending unitization of this entire area.

CHAIRMAN DOWNING: Mr. Zorichak phoned down to the Durango

News and was told the notice we sent was published on November 23d. In due course the affidavit of publication will be sent right away.

MR. RUTLEDGE: I understand.

CHAIRMAN DOWNING: In view of that, this meeting is declared duly called after due and proper notice.

MR. SMITH: That is all the testimony from Mr. Bond.

CHAIRMAN DOWNING: Mr. Rutledge, do you want to ask any questions?

MR. RUTLEDGE: Mr. Bond testified before and I don't know a thing about what he said at the other meeting. I want an opportunity to cross examine him and I think I will cross examine him on the whole thing if that will suit your purpose.

CHAIRMAN DOWNING: You do want to cross examine him?

MR. RUTLEDGE: He will have to be present and cross examined on what is already presumed to be in the record and I will do my cross examining at that time. It would be piecemeal here. I know nothing about what he said before. I can't cross examine without knowing what he said.

CHAIRMAN DOWNING: Is there anything further here?

MR. SMITH: I would like to make a brief statement if I may?

CHAIRMAN DOWNING: Yes, we will be glad to listen.

MR. SMITH: I'm fiew of the fact that there has been considerable misunderstanding of the intent and effect of the

rules proposed by Stanolind for the Ignacio field, I would like to explain briefly at least some of the more important considerations.

First, the rules apply to only two particular reservoirs lying within townships 32 and 33 north and range 7 and 8 west in the vicinity of the town of Ignacio. These reservoirs, which are referred to, underlie approximately 23,000 acres and are known as the Ignacio Fruitland-Pictured Cliffs pools and Ignacio Dakota-Morrison pools and are commonly referred to as the Ignacio pools field. The provisions of these rules, of course, to the best of our knowledge, apply to gas only; and the rules proposed by Stanolind are applicable to gas wells only, not to oil.

Stanolind advised all owners of leases in the field--those operators in the field within the limits of the Ignacio field--of its intentions regarding the rules for this area as early as September of 1951. When it became apparent at the November 14th hearing that some of the parties had need of additional time to prepare evidence or study our proposal, we made no objection to the continuation of the case to December 6th in order to furnish them an opportunity to do so in order to afford complete opportunity to understand our position.

Our testimony was further developed so as to enable interested parties to study it and prepare whatever testimony

or questions which they desired to be answered. The drilling units proposed by Stanolind are 320 acres for Fruitland and Pictured Cliffs wells and 640 acres for Dakota-Morrison wells.

It is our opinion, and evidence was introduced before the commission on November 14th to substantiate that belief, that units of this size will permit efficient drainage of gas from these reservoirs. Units of this size will permit more rapid development of the area and will prevent unnecessary waste of the critical materials which would result from denser drillings.

The pools covered by these rules are not an extension of the New Mexico pool nor the Colorado pool, but are a separate and distinct source of gas. In our opinion the rules which were adopted on a temporary basis are without prejudice to any permanent rules which are finally promulgated by the commission for correlative rights; and, further, the conservation statute itself fully protects the interests of all persons who own rights in connection with the Ignacio field. The facts in law amply justify such rules on a permanent basis. This we are not asking for.

In view of the fact there will be a continuation, I want to see if I can more or less clarify the position we took at that time. We have nothing to conceal in the matter. We want everyone to know exactly how we feel on the reservoir out there and it is available and copies of the testimony, I presume, will be transcribed shortly and copies made available

to whoever may be interested in seeing what our position may be.

CHAIRMAN DOWNING: Mr. Rutledge, I don't know whether you have been furnished a copy of our order?

MR. RUTLEDGE: Yes, sir, I have a copy of that order.

CHAIRMAN DOWNING: That order, you will notice, was made without prejudice.

MR. RUTLEDGE: I have read it.

CHAIRMAN DOWNING: That was put in there especially so that people down there will understand there was no prejudice whatsoever.

MR. RUTLEDGE: So far as I know, no one down there saw it but me. I read it after I came to Denver.

CHAIRMAN DOWNING: May I ask another question? What was the rule in New Mexico about similar situations?

MR. SMITH: They have a statewide rule down there in this particular area which is 160 acres for gas.

MR. RUTLEDGE: 320.

MR. SMITH: 640 in the Dakota.

MR. BOND: I believe the Paradox field has 640-acre spacing. There are fields, the Rio Blanco-Mesa Verde field, that has 320-acre spacing in the pool.

MR. SMITH: Blanco-Mesa Verde pool has 320-acre spacing. I might mention parenthetically that 640-acre spacing is common throughout the entire state depending upon the locality. But 640-acre spacing is the rule in that field, to name one. And there are any number of fields that could be named throughout the state. It is not something new and novel. That is the



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spacing in certain reservoirs.

CHAIRMAN DOWNING: What about areas within the units which you do not own or do not control in a state with a 640-acre statewide spacing rule and someone owns a quarter that you do not control. How do you propose to develop it?

MR. SMITH: In my opinion, the state ought to have the drilling units which are determined by the commission. The statute requires the commission to protect correlative rights of all people owning space in that district, Judge, even though you have someone who doesn't care to give a lease on his land. That is in a drilling district.

Whoever takes a lease and operates it, must carry the interest of it, the requirements. In other words, he gets a free ride. He doesn't have to give a lease when it has been paid out because it is returned and a slight charge put on which is determined by the committee for development and operating the well. Then from there on out that person is an owner just like anyone else. He has the position of receiving full benefits.

CHAIRMAN DOWNING: I want to know if you intend to carry out that without objection, the Colorado statute?

MR. SMITH: Absolutely! We feel that the statute in this particular situation is one of the best that we have run across because it does require that.

CHAIRMAN DOWNING: Tell us how many of those situations

you would have there on a 640-acre basis or the 320, whichever it is, that might cause people or owners who have not given you leases to perhaps object? I can't imagine but what they would want their wells drilled but they might not.

MR. SMITH: Our present information is, with the exception of this Indian land which isn't involved in this because it is under the supervision of the Department of the Interior, there are just a few lots in the town of Ignacio. I think it is pretty difficult to pick them all out but I would say that something like ten or twelve lots. Other than that all 23,000 acres are under lease.

CHAIRMAN DOWNING: Does any other member of the commission have any questions? Mr. Rutledge, would you like to ask a question?

MR. RUTLEDGE: I reserve my right to do any questioning.

CHAIRMAN DOWNING: Is there anything further?

MR. SMITH: I would like to ask the commission to adopt and continue the emergency order until the next hearing.

CHAIRMAN DOWNING: That will be taken under advisement. Let me ask you this. The purpose of the emergency order is as the statute quotes. Is there danger of anyone drilling there that might interfere with any spacing order that may be afterwards ordered?

MR. RUTLEDGE: After he gets through, I want to be heard on that.

MR. SMITH: I am not in a position to answer that, Judge Downing. We are not too well acquainted with what the plans for development may be by other lease operators. As far as we are concerned, of course, we will continue to operate on the same basis as outlined here until the commission sets up permanent rules. But I can't speak for the other parties, of course.

CHAIRMAN DOWNING: Are there any questions of Mr. Smith? Do you have anything further, Mr. Smith?

MR. SMITH: No, sir, that is all I have.

CHAIRMAN DOWNING: Mr. Rutledge, you know in most tribunals there is more or less of an opening statement. It is not compulsory at all; but, as one member of the commission, I have been a little puzzled as to just what you want us to do. If you would like to make a statement, you may. I would like to hear one. Your time is unlimited.

MR. RUTLEDGE: It will be my pleasure.

CHAIRMAN DOWNING: I might add that I am trying to get away by noon. I hope we can finish.

MR. RUTLEDGE: Your Honor, I will try to come within the limitations that you impose on me, although it may be subject to the observation, as in the case of, under those circumstances, "Here's your hat. What's your hurry?"

CHAIRMAN DOWNING: All right. Proceed.

MR. RUTLEDGE: I think this commission has been misled

with reference to what Stanclind is undertaking to do and what they have asked you to do and what, so far, they have gotten you to do. I came here for the purpose of undertaking to at least express the other side of it from the standpoint of the land owners, the people who have the contract relations with Stanclind Oil and Gas Company and other lessees in that area.

I am glad to have the opportunity to make an opening statement. I regret that the opportunity is not afforded to conclude the hearing.

In the first place, the law that you are acting under, although it amounts to a delegation of power from the legislature of the State of Colorado, and under the police powers of the State of Colorado, it definitely limits the scope within which this commission can exercise that power. Your commission is here for the purpose of conservation and for the purpose of preventing waste so far as gas is concerned and waste is defined in the statute.

Every place in that statute that I hear or see that term used, it says "waste as defined in this law". And that, to me, is a definite limitation on the extent to which the powers that you have may be exercised.

Conditions indicated from the exhibits that are on the wall and from what I understand from the exhibits that I have had the opportunity to examine that has been afforded to us show that there is no well drilled within the boundaries of approxi-

mately 23,000 acres except by Stanolind. And so far as I know, either in the record or out of it, nobody is even talking about drilling at Ignacio but Stanolind. And it is even rumored down there, hopefully, as the land owners may look for it, it doesn't promise a drilling rig on there except by Stanolind any time soon. Not only that, our position, from an acquaintance with the facts and not from this record, because I don't know what your record shows, but physical facts are that there isn't a pipe line that could possibly afford an outlet for gas nearer than about sixty miles from this field.

While they are not engaged in completing their six wells, every well they have completed to date, and I assume the same things there will apply to the Gallegos well when it is complete, it is shut in so there is no promise of gas from this field for Stanolind, particularly, to recoup the money that they have spent at Ignacio, is not going to be foolish enough to blow up the wells down there that are capable of producing gas and let them blow into the open air. You would not let them do it and we would not want them to do it, and they are not going to try to do it. So you haven't got any production at Ignacio. You have got some confirmation, good confirmation all right, such as the fact that we have a producing structure and they have got widely spaced wells, six of them, all of which are on what they, I am sure, will agree with me is top contour on that structure, and that is all.

It is inconceivable to us that anybody under the circumstances or any showing that could possibly be made to this commission here couldn't make you believe that there is any kind of an emergency about it. So far as I know, there isn't a drilling rig since they began to tear down the rig on the Gallegos well, the rotary. I assume in view of the statements I have heard this morning that they have a cable tool rig tailing in and completing it. I don't know that because I haven't seen it. But they say they are engaged and practically through with the completion and I assume then that the only rig today located on that whole 23,000 acres is a cable tool rig engaged in the completion of the Gallegos well.

When I read this order that was made and signed on the 23d day of November and which recites that there was an emergency that was the occasion for the entry of that order, I wondered what kind of showing Stanolind had made to convince this commission there was an emergency down there. I thought possibly maybe without my knowing so, although I have been to Ignacio recently, I might find a similar condition that was found in Scurry County, Texas, during the boom. But it isn't so.

I want to call your attention to some of the provisions of this law--which to me, and I think to you also, is what you might call your Bible. The burden of the law is conservation and to prevent waste. And it deals with the waste

of oil and gas. And waste, as applied to gas, is defined by law. It says "the term waste as applied to gas shall include the escape, blowing or releasing directly or indirectly into the open air of gas from wells productive of gas only, or gas from wells producing oil or both oil and gas, and the production of gas in quantities or in such manner as is unreasonably reducing reservoirs or unreasonably diminishing oil or gas that might ultimately be produced".

And then it expressly excepts: "Excepting gas that is reasonably necessary in the drilling, completing, testing and producing of wells". I will venture to say, and I think nothing could be said to the contrary, that except for the gas that they have released from the reservoir under the process of drilling and completing and testing, which is excepted from the operation of the law, that there has been no gas produced from Ignacio and no production today in sight. I am talking about the question of marketing. I am talking about the question of producing. That is what that law deals with. Or waste by the careless or heedless blowing or opening of a well down there which would be a violent and certainly a thing that ought to be stopped. But there is no emergency because there is no production; because there is no waste. That is all you have got the right to do.

Another thing that attracts my attention in connection with it--and it states one of our positions also---and we think it goes to the very meat of this thing, is that notwithstanding the fact that Stanolind has not got any kind of

contract with the people that I represent down there, those land owners, that permits them to unitize or pool or do both; this emergency order sets up a plan of unitization which also, although it does not say so, amounts to a pooling order down there dealing with a thing that they haven't got close to; because there is no production, no outlet, no market, and there you begin to get to the point where the land owners are interested.

They have got leases. Those leases run, I believe most of them, until about 1955 and some of them run until 1959. They have got leases, yes. They have the right to move on any part of that 23,000 acres and drill a well. Nobody is trying to keep them from doing it. Nobody can make them do it. So why don't they go ahead if they think the pattern as set out in this order is a proper pattern? Why don't they go ahead and pursue it until the day they can come before this commission with sufficient facts to indicate to you or prove to you the extent of the pool with reference to the structure? with the information with reference to wells drilled and capable of producing? and locate around there where you have factual basis for determination of what that reservoir contains and what it is capable of producing and how it ought to be developed and produced. Why don't they do that? They don't need an order from this body to do it. And they are the only people that are making any effort whatever to do it. Well, they have got

five wells, with this morning the additional information of another or part of the information on the Gallegos well, all of which in effect runs the contour line across the top of the structure.

There is an interesting observation to be made on that. I don't want to forget to make it. I think the paragraph you are referring to is section 12, paragraph (b), is that right?

MR. ZORICHAK: Section 6 (a).

MR. RUTLEDGE: "To prevent or assist in preventing any of the various types of waste." Well, where is the waste of oil or gas that you can prevent? "And upon proper application of the interested parties, but after notice as herein provided shall have the power to establish drilling units of uniform size and shape covering anything in the pool."

There is another provision in here that I have not called your attention to that I would like to--section 12, paragraph (b): "Whenever the producers have agreed or the producer in such field where there is only one producer has adopted a plan for the development and operation of a pool for the field, such plan shall be presented to the commission and if the same, in the judgment of the commission after hearing upon notice, has the effect of preventing waste as defined and prohibited by this act, then the plan shall be adopted and approved by the commission." But everywhere in the law it keeps on talking about

"waste as defined in this law" and that limits the scope of your exercise of the broad powers that have been lodged in you.

Well, the point I want to make is that you have no lateral control, no lateral information with reference to the extend or defining the producing limits on this structure. And you have proceeded at the instance of Stanolind in a manner which indicates that they have convinced you that every acre on that structure contained within their contour lines on both horizons is going to produce. It is a violent assumption. There is no fact to support it.

Now, he talks about a hearing and finding. What are you going to base your finding on? Are you going to base your finding on the fact? If so, there aren't any. Or are you going to base your finding on the hope and faith of the Stanolind Oil and Gas Company? If so, you are building a structure that hasn't even got a mud sill under it.

That is the position we think the order is in, both the temporary and permanent, that they are asking for. That is our position about it.

And why do we complain? It is because of this. Under that order Stanolind Oil and Gas Company, with a minimum of work and a minimum of expenditure, can sit on every acre in the formation for as long a time as it may be advisable for them to do so, not by virtue of the contract with the land

owners but by virtue of the aid of the sovereign police powers of the State of Colorado that write that sort of a provision into the contract between the Stanolind and the land owners.

Now, we didn't make that kind of a contract. We don't like that kind of a contract. And we don't propose to stand by and let this commission or any other body at the instance of Stanolind Oil and Gas Company or anyone else write that into the contract for us. That is why we are here.

Perhaps that sufficiently states my position.

I call your attention to another thing. In view of the suggestion that was made by the attorney for Stanolind Oil and Gas Company, there is a provision in this law, under which you have seen fit to act, that says that if there is an emergency you have the right to issue an emergency order. Well, if there is an emergency you have got that right. And you found the emergency to exist and you have signed that order. And this says, "When an emergency requiring immediate action is found by the commission to exist, it is authorized to issue an emergency order without notice of hearing which shall be effective upon promulgation, provided:

"That no such order shall or may be in effect for more than fifteen days." Well, you have done that. And that fifteen-day period expires this morning, today. Now, I certainly don't subscribe to the proposition that you can, by a succession of fifteen-day orders, continue to do something the legislature didn't give you the right to do. So you haven't

got any right to issue another fifteen-day order as an emergency order. If you are confronted with a situation of that kind, then I think the law puts on you the burden of finding what the facts are about it; the necessity to go forward with the fifteen-day order based not on what somebody asks you to do but based upon the facts and then write a permanent order. I don't think you can get away from the spirit or the letter of this law by writing a succession of fifteen-day orders and I certainly don't want you to do so.

Therefore, I oppose any efforts on the part of Stanolind or any disposition on the part of this commission to enlarge or extend or reissue an emergency order, first, because there is no emergency. There is no production. There is no waste, and no facts on which you could base it. I think, no facts on which your original order ought to have been issued.

That is my position about this situation from the standpoint of the land owners in La Plata County, Ignacio, as a condition or precedent, to us strong belief, strong evidence, and we believe that it has the earmarks of a major company undertaking to do something with the aid of your commission that they can't do otherwise and we say they wouldn't be able to do it.

MR. SMITH: What, Mr. Rutledge?

MR. RUTLEDGE: Unitize the pool; limit the production over there on that field and extend your leases far beyond the provision of the contract. The contract provides in your

leases that it--I don't care what kind of guise you put it under--that is laying the cat out on the table. And to us we don't like the way that cat smells. That is our attitude about it and we are not undertaking to shade it at all. We are glad to make the statement before you. That is our position about it.

MR. ZORICHAK: Do you feel that unitization is the effective way to operate a field, Mr. Rutledge?

MR. RUTLEDGE: If I was the czar--which no one is; and please God nobody will be--and I could, from the platform of superior learning--a lot of which isn't so, in fact, but it passes as learning--of an ideal plan of development and then irrespective of anybody's rights, I might unitize it and say, "That is what you will do." Well, we don't listen to that kind of talk in Southwestern Colorado and we are not going to take it lying down. So nobody is a czar. That is our position about it.

Now, I recognize that when the time comes which is when Stanolind has facts to come in here to where they can tell you that, "Our development has progressed to the stage that we can define the production limits of that field, and our drilling and the capacity of those wells shows what that reservoir--how it can reasonably be estimated and how it ought to be produced, then and in proper course a plan of development, a plan of operation, a plan of production can be determin-

ed by this board. But why do they want you to do that? There is nothing to keep them from going right ahead with the order or the pattern that they tell you is the right one. Nobody is going to keep them from doing that. They can drill a well anywhere they want to. They don't need this commission's order to do it. And certainly they don't need this commission's order to keep them from wasting things down there.

It looks to me like Stanolind is coming in here and saying, "I wish you would tie my hands behind me because I am liable to do something down there that I ought not to do." They are the only producers, the only operators, in the field. "So please tie my hands before I hurt somebody."

I don't want Stanolind and I don't want the members of this commission, either one, doing anything in here that they ought not to do. I am not opposing the proper prevention of waste and I am not opposing conservation and the land owners do not want to delay development. But, they don't want to surrender all of their powers and all of their property rights to the hands of the Stanolind Oil and Gas Company or any other operator. And they don't want this commission to undertake to make it possible by those orders for the Stanolind Gas and Oil Company to do anything beyond what they have got a right to do.

We will throw in with them on the question of development but we will not let them do it in such a manner so that they violate the contract rights and exceed them.

Now, let me call your attention to one more thing

and I am through. Look at that map, the exhibit they offered this morning. See the amount of green there is on there? Under the terms of this law you haven't got any right over it. You can't execute an order that is effective covering it. If you issued such an order, it cannot have any force and effect whatever except by the concurrence in that order, the concurrence of the people who control the Ute land. And I can't apply the pattern to either one of them that they have on that map without putting Ute land and fee land in the same units without making it necessary for a well drilled on Ute land to divide its production within proportions with the owner of the fee land. You can't do it. And to that extent you have written an order on that map over yonder that applies to the acreage without regard to Ute land and you see right there, however, it is limited by the facts.

Mr. Morell was up here with the U.S.G.S. Yes, he is a man of authority all right, within the limits of his authority. But you don't tell me that Mr. Morell can come in here and, by his appearance and his statement that they have no objection to the spacing pattern offered, bind the Ute agency or Federal government with reference to production on those things.

And it is interesting to see--to me it is--that there isn't a well drilled on land in there so far except on Ute land other than the Gallegos which they are just now in

the process of completing. Is that right, Mr. Smith? That is the way I read it. So you have not got sufficient information to act on. There isn't any emergency about the matter. It is a matter that is not going to get out of hand. There is no danger of it getting out of hand.

Talking about these town lots in Ignacio, if I recall the rules that have been issued and that have been in force in Colorado for the last four or five years at least and probably longer, there is a provision that is, so far as I know, still effective and will be until your new rules are announced, that the minimum location that will be allowed for a drilling permit in the State of Colorado, the minimum location without some sort of an exception and basis for exception being shown is a 330 location---330 feet from the property lines.

There isn't a lot in Ignacio, certainly, in excess of fifty by a hundred and fifty feet. If I owned a town lot in Ignacio and if I wanted to drill a well on it today under the existing old rules, I couldn't get a permit without coming to you. You have that under control automatically. You don't need to do anything about it. It is that way. So there is no danger from that.

But I don't know anybody, in view of the showing that has been made even here on the record, that will be reckless enough to talk about drilling a well even to the

Pictured Cliffs if it were the best well they have got on such a small acreage.

They talked about giving somebody a ride, that they didn't want the impression out that they were trying to give anybody a ride. Well, I have a different impression and I not only have a different impression with reference to the fact that they are interested in giving us a ride, but it looks as if it is going to be an awful long ride also.

I could go on probably for some time and I know there is going to be a further hearing of some kind and I believe I have stated my position clearly. Possibly it comes within the definition or within the term "more or less". You said "more or less of a statement." I may be subject to that criticism. And for that I don't know how to do any more other than to tell you I hope you have more than we reasonably can imply and I haven't bored you too much. That states our position and we do not see any occasion whatever to retract from it to any extent. Thank you.

CHAIRMAN DOWNING: Thank you very much, Mr. Rutledge. We appreciate it and we are glad to hear from you. By the way, here is a little pamphlet I got from the Oil State Compact Exchange. It may be of interest to you.

MR. RUTLEDGE: Thank you. I always like to hear from it.

CHAIRMAN DOWNING: It may not do you any harm.

MR. RUTLEDGE: No, and it may not do me any good.

CHAIRMAN DOWNING: The next thing, Mr. Rutledge, maybe some of the commissioners would like to ask you a question or maybe someone else would.

MR. RUTLEDGE: Now, I would like to state this, I will answer as long as I can, but when I don't have any answer I am capable of giving or that I can't swear to, I won't answer. So if you want to swear me, I will be glad to be put under oath.

W. J. RUTLEDGE, Jr.,

a witness in behalf of Southwest Colorado Oil and Gas Committee, called by the Colorado Oil and Gas Conservation Commission, being first duly sworn to testify the truth, the whole truth and nothing but the truth, upon his corporal oath testified as follows:

EXAMINATION

BY MR. BARD:

Q. Mr. Rutledge, I understood you to say that the Stanolind Company holds several thousand acres for an indefinite period without producing gas simply by drilling wells?

A. I said a minimum of wells, a minimum of expenditure instead of drilling the leases they hold by unitizing. As I see it, they can drill a minimum of wells spaced in that manner and cover the whole area.

Q. Without producing any gas?

A. I am an attorney at law. Maybe I would be bragging if I said I am a lawyer--I am an attorney at law and have been at it a long time and it has been my understanding that nearly every lease that comes within the so-called "Eighty-eight" producer class has a provision that a well that is completed and is capable of producing although shut in shall

be regarded as a producing well. And under the basis of shut-in royalty, that lease is taken out of the primary term and put over in the producing class. That is my understanding about that.

I will enlarge if you want me to by saying that Stanolind, if a single 320-acre unit includes a portion of the four or five or six or any number of leases, if any portion of the land described in half a dozen leases is included in a 320-acre unit and a well is drilled that, although it is a shut-in well, every acre of those leases is lifted out of the operation of the primary term and put over in the producing class even though that man that owns that tract participates. It is ratable under the production of one well.

CHAIRMAN DOWNING: Mr. Smith, I believe we would appreciate an answering opening statement. I don't think this is the time for us to draw conclusions. This has to be continued and lots of things may happen. But if you would like to make a few remarks in the nature of an answer to an opening statement, we would be glad to hear from you. However, it is up to you to say whatever you want.

MR. SMITH: My remarks will be quite brief. Unfortunately I am hampered because I am familiar with the testimony and Mr. Rutledge hasn't had the opportunity to see the testimony and, of course, is not familiar with the facts that were offered before. From that standpoint I am at somewhat of a

handicap in trying to answer Mr. Rutledge. I would like to point out that we have information that Bert Frost is drilling a well at the present time in the Ute area. That is the information that we received from Mr. Morell in Albuquerque.

CHAIRMAN DOWNING: It may not be shown on your map as a location but it was shown on the information I had as a location.

MR. SMITH: They are drilling, as I understand it.

CHAIRMAN DOWNING: They are drilling in accordance with the pattern you have?

MR. SMITH: I am not familiar. I got the information yesterday that they are drilling and Bert Frost knows the pattern there. Whether they are complying there, we have no assurance that they are complying with it or will comply with it in the future.

CHAIRMAN DOWNING: I think we have a wire from Bert Frost.

MR. ZORICHAK: We have a wire from El Paso Natural Gas Company.

CHAIRMAN DOWNING: Read that into the record.

MR. ZORICHAK; Mr. Hollis, Chief Petroleum Engineer, El Paso Natural Gas Company, called me yesterday evening and stated that his plane reservations were cancelled due to the weather and that he wanted to send a wire which he would like to have read into the record. This is the wire:

"Due to weather conditions and cancellation of plane flights, we are unable to attend the hearing on December 6th, 1951. Please accept our regrets. If in order, please read the following opinion of El Paso Natural Gas Company into the record concerning well spacing in the Ignacio area.

"El Paso Natural Gas Company feels that 160-acre spacing for Pictured Cliffs wells and 320-acre spacing for Mesa Verde wells should be adopted. As you know this is the spacing used in the New Mexico portion of the San Juan basin and we do not feel that crossing the Colorado state line should change the spacing rules for the same formation. Our engineering and geological information indicates to us that the formations in the Ignacio area are very similar to those in the New Mexico portion of the San Juan Basin. It is also our opinion that 160-acre spacing for Fruitland wells and 320-acre spacing for Dakota wells should be adopted. Signed, El Paso Natural Gas Company, by W. T. Hollis, Chief Petroleum Engineer."

I presume this should be offered as an exhibit.

CHAIRMAN DOWNING: It will be received.

(Whereupon, a telegram was marked as "Commission's exhibit No. 1 for identification and was received into evidence.)

CHAIRMAN DOWNING: (Continuing) Will you give us the location of this well that has just been started? Does the record show it?

MR. ZORICHAK: I don't have it.

MR. RUTLEDGE: I will give you what the Petroleum Engineer shows. I will be glad to give it to you from my map.

CHAIRMAN DOWNING: Haven't we got it?

MR. ZORICHAK: I don't have it. That is on Ute land.

CHAIRMAN DOWNING: I think they ought to file it with us.

MR. RUTLEDGE: They ought to file it.

CHAIRMAN DOWNING: Where does Petroleum Information say it is? Does El Paso adjoin you in the unit?

MR. RUTLEDGE: It is now called Three States Oil and Gas, No. 1 Ute, southeast section 36, 33 north, 7 west. I am reading from Petroleum Information dated November 24th, 1951.

CHAIRMAN DOWNING: Does that location fit in with the pattern you have requested, Mr. Smith?

MR. SMITH: Frankly, I would have to analyze our particular pattern on that. Mr. Bond, are you familiar with the pattern enough to know whether that will fit in?

MR. BOND: Repeat that location, please.

MR. RUTLEDGE: Northwest, southeast, southeast of section 36, 33 north, 7 west.

MR. SMITH: As I understand it, Commissioner, it does not fit our pattern.

MR. RUTLEDGE: I might offer this suggestion that no well drilled by Stanolind fits the pattern.

MR. SMITH: Again I would like to ask the witness if he is testifying on that? Are you testifying on that?

MR. RUTLEDGE: I am giving you my opinion about the matter for whatever it is worth.

MR. SMITH: You were sworn.

MR. RUTLEDGE: Except for the very large tolerance that outlines an area sufficient to include this in there, you can't fit a single well you have drilled to a 320 spacing except for the very large tolerance, spacing tolerance. I am talking about what you allow yourself, you can't fit it to a single well that you have drilled.

MR. BOND: That is not right.

MR. SMITH: I would like to ask Mr. Bond, the witness, whether or not the statement made by Mr. Rutledge is correct?

MR. BOND: No, sir, in my opinion it is not. Our first well we drilled in the field which was a wildcat well and was completed in the Dakota formation, Dakota and Morrison formations. That was our Ute Indian B-1. That does not fit our proposed rules for Dakota and Morrison locations which are within a tolerance to be located in the center of the section. I believe it is within a 650 foot square within the center of the section. This well, being a wildcat, we didn't know exactly what we were going to find. That well obviously is not in accordance with our proposed spacing pattern. To the best of my knowledge, every well that we have drilled subsequently with the exception of our Ute Indian B-3 is in conformance with our rules.

MR. RUTLEDGE: May I ask him a question without violating my statement that I didn't want to cross examine?

CHAIRMAN DOWNING: Yes.

MR. RUTLEDGE: I want him to clarify this. Do you allow in the center of the section, this is your Dakota-Morrison, a 660-foot square in the center of the section, and you give yourself the tolerance included within that with reference to future promised or projected locations?

MR. BOND: If I understand your statement correctly, what our rules provide is that the Dakota-Morrison wells can be drilled anywhere within the 660-foot square.

MR. RUTLEDGE: That's correct. That is what you call spacing tolerance, isn't it?

MR. BOND: You could refer to it that way.

MR. RUTLEDGE: You do the same thing with reference to your spacing pattern suggested with reference to the Pictured Cliffs-Fruitland wells. You allow yourself a large tolerance on that, too, don't you?

MR. BOND: That is correct. I would like to state that our wells are drilled within those tolerances as we have provided and do comply with our rules contrary to the statement which was made by Mr. Rutledge.

MR. RUTLEDGE: May I ask you one more question? Isn't it a fact that every location that you have made except your Dakota-Morrison wells is on a 330 location with reference to a 40-acre tract, a ten-acre tract or location?

MR. BOND: Out of the center of the quarter section?

MR. RUTLEDGE: Am I right or wrong about the question of your location being a 10-acre tract?

MR. BOND: You are absolutely right and that is what our rules provide for.

MR. RUTLEDGE: With reference to a 40--acre tract or location, they are 10-acre locations, aren't they?

MR. SMITH: I think the answer is, "How long is a piece of string."

MR. BOND: That would be how you intend to draw the 40-acre tract.

MR. RUTLEDGE: I am going by the government survey. I will test it this way. Isn't your No. 3 and 4 and Gallegos and No. 2--that is the second well drilled. Now, by numbers I am talking about that -- and No. 5. All the wells are located 330 from a 40-acre line?

MR. BOND: That is right. I don't understand your point, but you are correct about that.

MR. RUTLEDGE: If I am correct then we will get the understanding later.

MR. SMITH: I would like to say that Stanolind did discover this particular field here and I think we have more information on it than anyone else at the present and all we are asking for is an opportunity to develop the field in an orderly manner. Now, Mr. Rutledge has indicated that there is no production out there which is quite true. I think Mr.

Rutledge should know, since he appears to be in the business, that in order to get a good price for gas it is necessary that you know what your reserves are. You can't attract a pipe line to lay a line some distance into a particular locality unless you can attract them with a sufficient amount of reserves that will permit them to go to the Federal Power Commission to get a certificate of convenience and necessity. For that reason it is necessary that we develop that as widely as we can so we can be in the position to sell a block of gas. The larger the reserves the higher the price and what we are asking for is the benefit of you royalty owners and not for any ulterior motive.

I would at this time, although I don't think it necessary, like to categorically deny any inference which Mr. Rutledge has tried to inject here of our ulterior motives. We have none whatever. We have made a complete disclosure of our facts and we are ready at any time to answer any questions and bring our witnesses out and he can cross examine as long as he wants to and I think Mr. Rutledge, of course, may be quite sincere. I feel sure he must be. But on the other hand, I cannot let his statement about our ulterior motives go by unchallenged because it is not right.

CHAIRMAN DOWNING: What do you propose to develop the field for, the purpose you have outlined?

MR. SMITH: If you can develop on a 320-acre spacing,

obviously you are in a position to develop the periphery of it much quicker. In other words, you get to find out whether or not there is communication throughout which we believe at the present is true, but we don't know until we punch these holes in the ground at various locations out there. If you get it developed on an orderly basis, in that manner your limit on gas is the market, not the number of wells. And if we put down twice as many wells and the company that comes to buy the gas can only buy a limited quantity of gas.

CHAIRMAN DOWNING: Where do you propose to drill these wells to determine the ultimate reserves in the field?

MR. SMITH: Well, that, of course, is necessary to pick out locations supported by geology and to go around the field at various locations in accordance with this pattern.

CHAIRMAN DOWNING: Performance is contingent upon unitization?

MR. SMITH: No, sir. That is just orderly development. We feel this way about it. Sometimes unitization cannot be quite affected, in which event we want to be in the position of operating just like any other gas field might be operated under unitization.

CHAIRMAN DOWNING: I think what these people have in mind is development. I am wondering about what your present plan is about fully developing the field and all the tracts.

MR. SMITH: I think full development of the field will be pretty well contingent upon our geology information we get

from each well as we go along. I mean, it is impossible at this time to lay out a drilling pattern or a drilling program until we take each of these step-out wells and try to find out what we have got out there. After all, all we are asking for is running room to find out. I might mention also that we asked for wider spacing than in New Mexico. There is a good reason for it, Mr. Rutledge. That is that once you get on 160-acre spacing you can never go to 320. But if you go to 320, you can go to 160.

MR. RUTLEDGE: I would like to ask Mr. Smith some questions and I don't care to have him sworn. What is to keep you from doing it?

MR. SMITH: I don't understand what you mean?

MR. RUTLEDGE: You own the lease. Who can tell you where to drill if you think that is the right method to pursue to explore that structure? You have got leases on every acre that is shown in yellow on there. Nobody is trying to tell you where to drill any wells. Aren't you confusing a business policy and asking the aid of the powers of the State of Colorado to help you with reference to it when that is the thing you can settle around the table in your own office?

MR. SMITH: If there are other operators in the field but there are no other operators down there.

MR. RUTLEDGE: There are the people who own the leases.

CHAIRMAN DOWNING: Let's have testimony at one time and argument at another.

MR. RUTLEDGE: All right.

CHAIRMAN DOWNING: Do you have any other questions?

MR. SMITH: That is all I have, Judge. Will the commission notify us as to the next setting?

MR. RUTLEDGE: And you will notify me?

CHAIRMAN DOWNING: Wait a minute! Maybe we can reach a conclusion here.

(Whereupon, there was unrecorded discussion.)

CHAIRMAN DOWNING: The commission has now conferred and this obviously must be continued. I have already stated, Mr. Rutledge, you are entitled to have that testimony. And unless there is some reason to the contrary we have agreed upon January 7th as the date on the hearing on rules.

MR. RUTLEDGE: I will be here.

CHAIRMAN DOWNING: We have this one suggestion: That you gentlemen down there, it seems to us, have the same objective, to get that area developed and get the oil and gas to market. And you occupy different fields, one is the fellow that puts up the money and the other is the fellow that owns the land. It is quite evident to us that there is a very great misunderstanding of one with the other. We hope that you in Durango or Ignacio or some place can sit down and have a meeting and talk across the table like good sensible American citizens and dissolve this difficulty. I think when you get together you will be surprised how much you can settle.

MR. RUTLEDGE: I would like to know about this question of the order, this so-called emergency order, what are you going to do about it?

CHAIRMAN DOWNING: It is under advisement and it will stand there. If any emergency develops, it can be handled.

MR. RUTLEDGE: That is right.

CHAIRMAN DOWNING: No order at this time other than we have it under advisement.

MR. RUTLEDGE: May I ask then if, when you reach a conclusion about the matter, that you will give me an opportunity to know what that order is?

CHAIRMAN DOWNING: Yes, if that is taken out of advisement or if we reach a decision at any time, we will notify every one who has entered an appearance. They are entitled to it and will get it. Is there anything further to come before this commission?

The meeting is adjourned.

(Whereupon, at 11:55 o'clock a. m., Thursday, December 6, 1951, the meeting was adjourned.)

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