



01147515

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

30-11

IN THE MATTER OF THE INVESTIGATION
TO TAKE MEASURES TO PREVENT WASTE
OF OIL AND GAS IN THE "D" SAND OF THE
LITTLE BEAVER FIELD, WASHINGTON
COUNTY, COLORADO: AND IN THE MATTER
OF THE APPLICATION OF THE CONTINENTAL
OIL COMPANY IN BEHALF OF INTERESTED
PARTIES FOR AN ORDER FROM THE OIL AND
GAS CONSERVATION COMMISSION ADOPTING
AND APPROVING A CERTAIN UNIT AGREEMENT
AND UNIT OPERATING AGREEMENT, "D" SAND,
LITTLE BEAVER FIELD, WASHINGTON COUNTY,
COLORADO.

CAUSE NO. 30

PURSUANT TO NOTICE to all parties in interest, the
above-entitled matter came duly on for hearing at the State
Office Building, Denver, Colorado, at the hour of 1:30 o'clock
p.m., August 20, 1957.

BEFORE:

Mr. Warwick Downing, Chairman
Mr. H. C. Bretschneider, Commissioner
Mr. W. A. Dillon, Commissioner
Mr. Harvey H. Houston, Commissioner

APPEARANCES:

R. C. Hawley, Esq., Denver, Colorado, for
Continental Oil Company;
William Smith, Denver, Colorado,
A. J. Jersin, Denver, Colorado, Director,
Sam Freeman, Esq., Denver, Colorado, for the
Oil and Gas Conservation Commission.

I N D E X

<u>Witnesses</u>	<u>Direct</u>	<u>Cross</u>	<u>Redirect</u>	<u>Recross</u>
Keith S. Bennett	10			
W. P. Schmoe	30	42		

Exhibits

<u>Applicant's</u>	
<u>No.</u>	<u>Page</u>
A	2
B	3
C	3

COMMISSIONER DILLON: Gentlemen, we are now ready to take up Cause No. 30, the application of Continental Oil Company to have this agreement approved.

MR. HAWLEY: I am Bob Hawley, attorney for the Applicant, Continental Oil Company, representing the interested parties in this hearing today. The first thing that I would like to do is tell you gentlemen on the Commission exactly what we are here for and what we wish to have you help us out on. We are seeking an order from you adopting and approving a unit agreement and unit operating agreement in the Little Beaver Field "D" sands in Washington County, Colorado.

Now, in your regulations, Regulation 401, there are certain things that we must submit to you, and I believe that we have done this. These requirements are: First, the application be filed for carrying on any other method of unit or cooperative development or operation of a field or a part of either. It may be filed by either one of the parties that are interested, and it shall contain the following: A plat showing the area involved, together with a well or wells, including drilling wells, dry or abandoned wells located thereon. We must show a full description of the particular operation for which the approval is required; and lastly, a copy of the proposed agreement.

Now, gentlemen, we have submitted with our application Exhibit A, which is a copy of the unit agreement and unit

operating agreement, Little Beaver Field "D" Sands, Washington County, Colorado. We have also submitted a plat, which is Exhibit B to the application. There is one thing I wish to point out. There is one error on that plat, and that is the Lion Oil Company No. 1 Downing well. That should be in the southeast southeast northeast instead of the southwest northeast northeast of Section 4, Township 2 South, Range 56 West.

We have added one additional exhibit, which we have posted on the board here, which I should like to have designated as Applicant's Exhibit C. This is quite similar to Exhibit B, which we submitted to you with our application; however, it is much larger and much easier to see and it contains a little additional information. I don't know if this "C" can be seen for the purpose of the record, but I have changed it in red pencil from "B" to "C". This red solid line on Applicant's Exhibit C indicates the area which has been presently designated by the Commission in Order 15-1 as the Little Beaver "D" Sand Field. This area which is the colored tracts, which are Tract 2, Tract 1, and the west portion of Tract 4, is the area which the Commission seeks to have added by your own motion today to the Little Beaver Field. The area within the broken line on Applicant's Exhibit C shows the unit area which our agreement covers and for which we are seeking your approval. Now, those are the changes. I won't go into the significance of that at this time but our testimony will bring it out at a later time.

Now, we are in our application seeking to have you approve our unit agreement which has been executed by 100% of the working interest owners in this unit area and over 90% of the royalty owners. It applies only to the "D" sand, and the "D" sand as we define it in a unit agreement and in our application are those formations which are found at the approximate depths of 5,190 feet and 5,250 feet subsurface in Lion Oil Company's Downing No. 1 well, and between the approximate depths of 5,225 feet and 5,290 feet subsurface in Continental Oil Company's Downing No. 1 well. We, of course, intend to prove to you gentlemen that the approval of this unit will be in the best interest of conservation, will increase ultimate recovery, and will avoid waste and be a good thing both for the interested parties in the field and for the State of Colorado as a whole.

The unit area that we are talking about will come up in the testimony, but I will briefly put that in the record at this time, and it is comprised of the following lands: Township 1 South, Range 56 West, Section 28, southwest quarter; Section 29, southeast quarter; Section 31, southeast quarter; Section 32, all; Section 33 the west half. Township 2 South, Range 56 West, Section 5, the north half; Section 6, the south half of the northeast quarter, south half of the northwest quarter, and the northeast quarter of the northwest quarter; and in Section 7, the north half.

Now we have what we consider a "fee unit". This is

similar to the agreement that you approved at Adena where there are no federal lands involved, so the unit agreement and operating agreement were drafted by the interested parties themselves and no federal acreage is involved. We are here because it is my interpretation and our interpretation of the statute that you are required to obtain approval of a unit agreement by you gentlemen before it can become effective. I know you are familiar with the conservation statute so I am not going to read this verbatim, but when I make references to the regulations or to the statute I am referring to this blue book, the Oil and Gas Conservation Commission of the State of Colorado Rules and Regulations and Rules of Practice and Procedure, Effective April 30, 1956. In Section 100-6-16, Agreements for Development, under the statute the way we interpret that you must have approval of the Commission before the unit can become effective. That is further borne out in the regulations which you gentlemen, of course, have adopted, and the regulation that is particularly applicable to that is No. 401 in the blue book.

Now, when we speak of the prevention of waste and the protection of correlative rights and the other points that we must prove to you under the statute, we are defining those words as they are defined in the statute but we are limiting them to their application only in so far as it applies to this problem of unitization. By that I mean that whereas we are all familiar that the Commission has the power and the duty to

prevent waste and to protect correlative rights, which is Section 100-6-6 of the statute, many of these definitions apply to spacing in a hearing such of the type you had this morning. We are limiting the definitions only so far as they apply to the unit. For example, in Section 100-6-3, Definitions, under Subsection 9 it says: "The term 'waste' as applied to oil shall include underground waste, inefficient, excessive or improper use or dissipation of reservoir energy." Now that is as far as we are going in this hearing today.

In Subsection 10 under the term "waste" as applied to gas, we are going to confine that definition of waste for the purpose of our unit to the production of gas in quantities or in such manner as will unreasonably reduce reservoir pressure or unreasonably diminish the quantity of oil or gas that might ultimately be produced. In Subsection 12, of course, we have the general meaning: "Waste means and includes physical waste as that term is generally understood in the oil and gas industry." We feel that it is a waste if you can do the job with fewer men, with less equipment, and less facilities. We are saving manpower, and, of course, steel and equipment, and we believe that that can be best accomplished through this unitization that we ask your approval of today.

We also know that you have the duty, as I mentioned before, set forth under these definitions to prevent the abuse of correlative rights, and we hope that our testimony will show

you that correlative rights will be benefited and the utmost protection will be given to them by this unit agreement. Correlative rights, contrary to what was mentioned in some of the argument this morning in the other hearings, is pretty well covered by Subsection 13 of the statute; and that is the definition that we are intending to follow.

Now you may be interested in why we, Continental Oil Company, and what authority we have to appear here on behalf of a group of interested parties who number I will say approximately 100. I am not certain of that, but our witnesses will bring that out. In the unit agreement itself on Page 1 under Definitions, 1.1 -- and you gentlemen have had this unit agreement and I know that you are familiar to some extent with it, but I know also that it is long and complicated and technical, and that none of us, including myself who had a great hand in drafting it, be it good, bad, or whatever it might be, it's still pretty tough to remember all the things that are in it -- but under that section, Article 1, Definition, 1.1, it designates Continental Oil Company as the unit operator. This is further brought out on Page 9 where it states, "Designation of unit operator", that is 9.1 designation, and it says: "Continental Oil Company is hereby designated as unit operator." The reason I bring this up is because there are so many people who have executed this that I want to make it clear in the minds of you gentlemen that when they executed this unit agreement they were executing an instrument

that stated that we were the unit operator and that we have the right to represent them.

Now in the unit agreement, further on Page 14 there is a provision about the duties of the unit operator, and under Subsection "C" it's entitled, "Compliance with Laws and Agreements." These are the duties of Continental as the unit operator. We are to comply with the provisions of this agreement, all applicable laws and governmental regulations, whether federal, state, local, etc. So we have been given the task, as operator, to comply with the laws and regulations, and as I mentioned to you it is our belief that we must have approval under the statute and regulations by this group before we can proceed.

Now, the unit agreement on Page 38 provides that it can be executed in counterpart, so I haven't brought before you the numerous copies because very few instances have occurred where more than one party executes one agreement. We just recorded one agreement in the county records, and we have made provision that they can be executed in counterparts and then ratifications have been or are being recorded in Washington County.

Now, why is it imperative also that we appear before this Commission? Well, the effective date and term of this agreement depends upon the order of you gentlemen. In other words, if you don't approve of the order there won't be any unit, which will almost break my heart after four years of work in getting this thing together. But we have on Pages 39 through 41

of the unit agreement certain provisions beginning there under Article 36, Effective Date and Term, and the agreement is binding upon execution; that is by the parties who execute it. We go on under Subsection 36.2 on Page 40 and it says, "Tracts to be included in the unit area." Now we have 100% of the working interest and we have over 85% of the parties who in the aggregate own of record 85% of the lease burdens covering the unit area.

Going on then to the crucial thing, on Page 42, Effective Date of Agreement, which reads as follows: "Within 30 days after the unit area has been determined as hereinabove provided" -- I will just skip those subsections -- "unit operator shall file with the Oil and Gas Conservation Commission of the State of Colorado an application in behalf of all persons who have executed this agreement for approval of this agreement. If an order approving this agreement is entered by the Oil and Gas Conservation Commission of the State of Colorado prior to 120 days after said application has been filed, this agreement shall become effective on the first day of the calendar month next ensuing after such approval." It goes on to say what we must file providing approval is granted.

Now, gentlemen, I ask your indulgence. If the order could be granted this month, a few days before the first of September, we would certainly appreciate it because we have been making every effort with inventories, with the transfer of personnel, and the transfer of equipment to put this thing

into effect as of September 1, 1957.

Now that I think is enough of the background. I am going to later briefly go over a few highlights of the unit agreement just as a refresher to you so you will notice we tried to make it fair and equitable in our participation, ownership, and things of that nature. If there are no more questions on this introductory material, I will call our first witness. We have two witnesses and perhaps you would like to swear them both at the same time in the interest of saving time.

As our first witness I would like to call to the stand Mr. Keith Bennett.

KEITH S. BENNETT

called as a witness on behalf of the Applicant, being first duly sworn according to law, upon his oath testified as follows:

DIRECT EXAMINATION

BY MR. HAWLEY:

Q. Mr. Bennett, would you speak clearly and loudly. You may refer to notes, if you wish, but make sure that the Commission gets everything you have in your testimony. What is your name?

A. Keith S. Bennett.

Q. Where do you live?

A. 3300 South Ivy Way, Denver, Colorado.

Q. What is the nature of your employment?

A. Petroleum Landman, Division Land Superintendent, for Continental Oil Company.

Q. Have you had much experience in this field?

A. I have been Division Land Superintendent for Continental Oil Company for four years.

Q. Before that time did you work in the oil industry?

A. Yes. I spent four years doing scouting and title work.

Q. Have you ever testified before this Commission before?

A. No, sir.

Q. Are you familiar with the area which is described in the Applicant's application as the unit area?

A. Yes, sir.

Q. Have you firsthand knowledge on putting together and obtaining the signatures to this unit agreement?

A. Yes, sir.

Q. How long did it take to get this project accomplished?

A. The working interest owners who have interest within the unit have been in the process of unitizing this area for approaching the final period of the fourth year.

Q. About four years then?

A. That is right.

Q. Now, our application has set forth the unit area, and I have mentioned it to the Commission, but for the purpose of getting it into the testimony would you define for the Commission the area to be covered by this unit agreement. You may use the exhibits, but please identify them if you refer to them.

A. Tract 1, the southwest quarter of 28, 1 South, 56 West.

Tract 2, the southeast quarter of 29, 1 South, 56 West. Tract 3, the northwest quarter of 32, 1 South, 56 West. Tract 4, the northeast quarter of 32, and the west half of 33, 1 South, 56 West. Tract 5, the southeast quarter of 32, 1 South, 56 West. Tract 6, the southwest quarter of 32, 1 South, 56 West. Tract 7, the southeast quarter of Section 31, 1 South, 56 West. Tract 8, the southwest and the northwest quarter, the east half of the northwest quarter, the west half of the northeast quarter, and the southwest quarter of Section 6; and the northwest quarter of Section 7, 2 South, 56 West. Tract 9, the east half of the northeast quarter of Section 6, 2 South, 56 West. Tract 10, the northwest quarter of Section 5, 2 South, 56 West. Tract 11, the northeast quarter of Section 5, 2 South, 56 West. Tract 12, the southeast quarter of Section 6, 2 South, 56 West. Tract 13, the northeast quarter of 7, 2 South, 56 West. All being in Washington County, State of Colorado.

Q. Do those multicolored blocks on Applicant's Exhibit C designate the different tracts which you have just described?

A. Yes, that is correct.

Q. What are the total number of interest owners in that unit area?

A. According to the last title opinion furnished us by the title committee representing the working interest owners of the Little Beaver "D" Sand Units, our record showed there were 45 royalty interest owners and approximately 42 owners of working interest involved within the unit area.

Q. In your own words, could you tell the Commission a little of the history of this Little Beaver area and the development of this unit?

A. The Little Beaver "D" sand area under consideration consists of about 2700 productive acres in Township 1 and 2 South, 56 West. The field was opened by the Tucker-Snowden No. 1 Hubbird in 1952, May of that year. That well was located in the southeast of the southwest of the northwest of Section 6, 2 South, 56 West. About the same time the Goodall-Calstar-Fisher-Ward completed their No. 1 Wheatlake well in the southwest southwest southwest of Section 5, 2 South, 56 West. To date there has been 65 oil wells that have been completed within the unit, and the accumulative production is approximately 7 million barrels of oil. The spacing pattern, which was approved by Cause 15-1 by the Oil and Gas Conservation Commission, is one well per 20 acres.

Q. Are you speaking of all wells or just the "D" sand wells?

A. Those are "D" sand wells within the unit outline.

MR. HAWLEY: By way of explanation, our Exhibit B to the application indicates, as required by the regulations, all of the wells, and some of those wells are "J" sand wells, but our testimony and our interest here is confined to the "D" sand reservoir, and we will be speaking throughout of "D" sand wells. Steps have been taken to unitize the "J" sand reservoir but we are not going to make mention of that at this time.

Q. Could you describe the Little Beaver Field or point it out to the Commission as designated by the orders of the Commission?

A. On Exhibit C the Little Beaver Field outline is shown in red. That outline consists of the following sections: 1 South, 56 West, Washington County, Sections 31 and 32. 1 South, 57 West, Adams County, Colorado, Section 36. Township 2 South, 56 West, Washington County, Sections 5, 6, 7, and 8. 2 South, 57 West, Adams County, Sections 1 and 12.

Q. You will note that there are some areas included in the unit area which is not included in the Commission's definition of the field. The Commission on its own motion has requested at this hearing that those areas be included in the Little Beaver "D" Sand Field. Now, do you have any objection to that?

A. No, sir.

Q. Do you know whether that area which is shown on Applicant's Exhibit C as Tract 2, Tract 1, and the westerly portion of Tract 4--

A. That is the easterly portion.

Q. --Easterly portion of Tract 4, is governed by field rules applicable for the rest of the Little Beaver Field?

A. Yes. All the field rules that have been issued certainly apply to those wells thus far.

Q. And you have no objection to including those in the field?

A. No, sir, none whatsoever.

Q. What is the total percentage of the interest that have been committed to this unit, that is of the interest owners in that unit area?

A. 98.5.

Q. What percentage of the working interest?

A. We have 100% of the working interest signed and 91.3% of the royalty owners.

Q. I note within the confines of the Commission's definition of the Little Beaver Field there are certain areas that are not included in the unit area. Could you explain to the Commission the reason for this?

A. The Calstar Petroleum Company Wheatlake lease, being the south half of 5, 2 South, 56 West, is the area that has had sand production on it but is not in the proposed Little Beaver "D" sand unit. The Calstar Petroleum Company have repeatedly been contacted by the representatives of the working interest owners in the unit, and their only objection to the unit is that, No. 1, they are not in it and that reason being that the tract factor which was offered to them by the unit operators of the unit, that that tract factor was too small for them to go ahead and join the unit.

Q. Have you personally contacted Calstar?

A. Yes, I just talked to Mr. Grier yesterday.

Q. Who is Mr. Grier?

A. I don't remember his first name, but he is the president

of Calstar Petroleum, and they have an office in the Equitable Building in Hollywood, California.

Q. They are not opposed to the idea of unitization in this area?

A. No, they are not.

Q. I note in addition to the lands you describe as being held by the Calstar lease there are other lands in the Little Beaver Field as designated by the Commission which are not included in the unit area. What is the reason for their exclusion from the unit area?

A. Thus far there just hasn't been any "D" sand production found on any of those lands, with the exception of the Calstar lease.

Q. In your opinion, what purpose will be accomplished if this unit agreement is approved?

A. The leases that are now being held by individual companies that are now on a competitive basis, it places them under one operator who can effectively carry on a program which is planned with the other operators in the area, and it makes for better economy and ease of operating across lease lines.

MR. HAWLEY: Now, for the purpose of perhaps conserving time, I will bring this point to the attention of you gentlemen on the Commission. The next question that I was going to ask Mr. Bennett is a breakdown of the owners and their interests and their percentage of participation in each of those tracts.

If you so desire he can begin with that answer and if you think that you have heard enough and it's going to be too time consuming, I would like however to reserve the right to have that included in the record. He has it typed out there on sheets and if the reporter could put it in the transcript we would like to reserve that right.

COMMISSIONER DILLON: Is there any objection? There being none, it will be admitted.

MR. HAWLEY: Would you like to hear any of this testimony as to say one of the tracts?

COMMISSIONER DILLON: It will be a matter of record and we can review it.

MR. JERSIN: Is there any change from the figures submitted in the unit agreement, Exhibit A attached to your application?

MR. HAWLEY: As to participation there wouldn't be any change at all. The names, of course, also remain the same of the interest owners as shown on the exhibits. I think it will be exactly the same. We just wanted to get it into the record.

A. TRACT NO. 1

WORKING INTEREST

Clarice M. Goodall, also known as C. M. Goodall	51.5625%
Roy and Edna Eiker	10.3125%
Dale and Lois Miller	5.15625%

PERCENT AS TO TRACT

Working Interest 100%
Royalty Interest 100%

PERCENT AS TO UNIT PARTICIPATION 100% or 1.581%
(Tract Factor)

TRACT NO. 3

WORKING INTEREST

Monsanto 87.50%

ROYALTY INTEREST

Andrew N. Cross and
Hazel C. Cross 3.125%
Clarice M. Goodall 1.5625%
Russell Goslin 1.5625%
Christian Buehler Memorial,
a corporation 6.250%

PER CENT AS TO TRACT

Working Interest 100%
Royalty Interest 100%

PERCENT AS TO UNIT PARTICIPATION 100% or 2.877%
(Tract Factor)

TRACT NO. 4

WORKING INTEREST

Continental Oil Company 87.50%

ROYALTY INTEREST

William Luther Downing
Minnie L. Downing 2.2441%

ROYALTY INTEREST, continued

Clarice M. Goodall	.6875%
Ralph E. Downing and wife	7.6287%
Charles L. Jolly and wife	.3813%
Elmo M. Koken	
Catherine K. Koken	.39125%
Norman L. Mears and wife	.09634%
Lois M. Nothdurft	.39125%
Goodall Oil Co.	.6875%

PERCENT AS TO TRACT

Working Interest	100.00%
Royalty Interest	92.99%

PERCENT AS TO UNIT PARTICIPATION

99.5224% or 6.6764%
(100% is 6.819%)

TRACT NO. 5

WORKING INTEREST

Continental Oil Company	87.50%
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ROYALTY INTEREST

Beatrice Hoecher and Flora Christner, as joint tenants	2.625%
Jack W. Christner and Shirley J. Christner, as joint tenants	2.625%
Sylvester Grim and Lula Grim	.39063%
Woodrow Grim and Corrine M. Grim	.39063%
Lester Duvall and Nellie Duvall	6.46875%

PERCENT AS TO TRACT

Working Interest 100%
Royalty Interest 100%

PERCENT AS TO UNIT PARTICIPATION

100% or 12.423%
(Tract Factor)

TRACT NO. 6

WORKING INTEREST

Continental Oil Company 43.75%
Monsanto 43.75%

ROYALTY INTEREST

William Luther Downing
and Minnie L. Downing,
as joint tenants .34375%
W. C. Wagers 6.25%
Clarice M. Goodall .34375%
Ralph E. Downing and wife 3.8143%
Charles L. Jolly and wife .1907%
Elmo M. Koken and
Catherine K. Koken .1956%
Norman L. Mears and wife .0482%
Lois M. Nothdurft .1956%
William Luther Downing 1.1220%

PERCENT AS TO TRACT

Working Interest 100%
Royalty Interest 48.09%

PERCENT AS TO UNIT PARTICIPATION

93.5111% or 15.734%
(100.00% is 16.826%)

TRACT NO. 7

WORKING INTEREST

Monsanto 87.50%

ROYALTY INTEREST

Henry F. Borgman 3.125%
Martin L. Flessner, Deceased 1.3393%
Bertha E. Flessner 3.75%
Harvey W. Borgman 1.625%
Nelda C. Schneider .625%
Rosalyn A. Hergenreder :625%
Roland A. Borgman .625%
Lavern H. Flessner 1.7858%

PERCENT AS TO TRACT

Working Interest 100%
Royalty Interest 100%

PERCENT AS TO UNIT PARTICIPATION 100% or 3.705%
(Tract Factor)

TRACT NO. 8

WORKING INTEREST

Col-Tex 87.50%

ROYALTY INTEREST

Hazel Hubbird 12.50%

OVERRIDING ROYALTY

Robert O. Tucker 2.7343%

OVERRIDING ROYALTY, continued

James E. Spear, Trustee of
the Robert and Leona Spear Trust 1.000%

PERCENT AS TO TRACT

Working Interest 100%

Royalty Interest 100%

Overriding Royalty Interest 73.22%

PERCENT AS TO UNIT PARTICIPATION

99% or 13.979%
(100% is 14.120%)

TRACT NO. 9

WORKING INTEREST

Denver Basin Oil Co.	12.5%
Reco Oil Company	24.25%
Ajax Oil & Development Co.	11.125%
American Sun Petroleum Corp.	11.00%
Alva L. Shable	5.00%
William Shable	5.00%
Guy Shable, aka Guy A. Shable	5.00%
Thelma Cooper	3.175%
C. O. Atkins and Reta A. Atkins, joint tenants	0.5%
Seth F. Yocum and/or Clara E. Yocum	.25%
Roy Marymee and Jessie Marymee, joint tenants	.25%
Irby-Thompson Company, Inc.	3.000%
Millard Huey	2.50%
Martin Iverson	2.00%
Frank Y. Tsumoto	2.00%
Charles A. Karowsky & Ida Karowsky	1.6%
Monroe Corporation	1.6%
Frank G. Kriss and Libby Kriss	1.5%
John Dragna	1.25%
Albert L. Redding & Freda Redding	1.1667%
Gordon R. Tobin & Carolyn V. Tobin	1.0%

WORKING INTEREST, Continued

George G. Hayashi	}	
Frank K. Hayashi		
Nobuo Hayashi		1.0%
Frank D. Dublynn & Norma W. Dublynn		.6667%
Barnard Houtchens & S. Robert Houtchens		.625%
E. G. Ruhter & Carrie G. Ruhter		.5%
Christine Deaton West		.5%
Clarence R. Townsan & Bonnie Townsan		.3333%
Basil L. Tsamissis		.3333%
Frank B. Coniglio		.25%
C. B. Bentley & Louise Bentley		.125%

ROYALTY INTEREST

Hazel Hubbard	12.50%
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PERCENT AS TO TRACT

Working Interest	100%
Royalty Interest	100%

PERCENT AS TO UNIT PARTICIPATION

100% or 6.81%
(Tract Factor)

TRACT NO. 10

WORKING INTEREST

Clarice M. Goodall	87.50%
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ROYALTY INTEREST

Joseph Kejr Estate	12.50%
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OVERRIDING ROYALTY

The Kejr Trust	10.9325%
Harry A. Trueblood, Jr.	2.7343

PERCENT AS TO TRACT

Working Interest	100%
Royalty Interest	100%
Overriding Royalty Interest	100%

PERCENT AS TO UNIT PARTICIPATION 100% or 14.120%
(Tract Factor)

TRACT NO. 11

WORKING INTEREST

Monsanto	87.50%
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ROYALTY INTEREST

N. C. Wagers	6.25%
Clarice M. Goodall	6.25%

PERCENT AS TO TRACT

Working Interest	100%
Royalty Interest	50%

PERCENT AS TO UNIT PARTICIPATION 93.75% or 2.655%
(100% is 2.832%)

TRACT NO. 12

WORKING INTEREST

Clarice M. Goodall	43.125%
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Alfred Ward, Sr.	}	43.125%
Alfred Ward, Jr.		
Eleanor P. Ward and		
Oleta O. Ward in joint tenancy		

ROYALTY INTEREST

Hazel Hubbard	12.50%
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30-11

OVERRIDING ROYALTY INTEREST

R. C. Patterson	.625%
John M. Needham	.625%

PERCENT AS TO TRACT

Working Interest	100%
Royalty Interest	100%
Overriding Interest	100%

PERCENT AS TO UNIT PARTICIPATION

100% or 12.752%
(Tract Factor)

TRACT NO. 13

SAME AS TRACT NO. 8

PERCENT AS TO TRACT

Working Interest	100%
Royalty Interest	100%
Overriding Interest	73.22%

PERCENT AS TO UNIT PARTICIPATION

99% or 4.039%
(100% is 4.082%)

MR. HAWLEY: Does anyone on the Commission have any questions they would like to ask Mr. Bennett?

COMMISSIONER DILLON: Does anyone have any further questions to ask of this witness at this time?

MRS. MACHUGA: I would like to know how much profit Continental Oil Company will get for operating Little Beaver.

MR. HAWLEY: Well, I don't think that that is material.

MRS. MACHUGA: That is very important.

MR. HAWLEY: If I may beg your pardon, I don't believe that there are any of us at the present time who could tell how much profit in the way of dollars and cents would go to Continental or any of the other working interest owners or to any of the royalty interest owners at this time. That, of course, would depend upon the success of the unitization, perhaps secondary recovery, things of that nature. We do have a witness here who will offer testimony on the additional recovery that we hope to accomplish on barrels of oil.

MRS. MACHUGA: You know right now how many wells you have and how much you will get out. I have a letter from Washington that unitization is a vital issue of the antitrust. I have that from Washington.

COMMISSIONER DILLON: Do you have counsel? Do you have an attorney?

MRS. MACHUGA: No, but I have a letter from Washington.

COMMISSIONER DILLON: You may introduce it later. We will let these people complete their case and then you may present yours.

MRS. MACHUGA: It's just a point they are closing 66 wells up. We have tried to get a lease for 10 years and something is always coming up. They are unitizing everything.

COMMISSIONER DILLON: Well, you may present your case when they get through with theirs.

(Witness excused.)

MR. HAWLEY: Now, I think the background leading up to this unit agreement has been presented to you by Mr. Bennett. In the introduction I covered some of our purposes in appearing before the Commission. Of course we felt we were required to do so by law and by regulation, and our unit won't be effective until you approve it. We do desire to obtain a measure of anti-trust protection which is set forth in the statute. In our statute, as you are well aware, the Commission by its order can give a measure of protection against antitrust. This is not a partnership. I know you gentlemen are very familiar with units and I don't want to bore you with repetition, but contrary to what might be brought up this isn't a partnership that people can take their own oil or anything else. This is simply a unit and we think it's something that you gentlemen have been working toward for a long time, and we have had a great deal of success in Adena and, of course, it looks like we will have a great deal of success from Rangely from what the last reports are.

This agreement was placed of record in Washington County, Colorado, on March 5, 1957. The highlights of it in brief are: It defines a unit area which we have set forth here; it has a description of what we term the "D" sand formation, which I think I have given; it makes provision for the allocation of production by tracts, as shown by Exhibit B, to the unit agreement and unit operating agreement; it makes provision for the ownership of production from the unit area, as shown by

Exhibit C, to the unit agreement and unit operating agreement; it makes provisions for lease burdens and other interests, and the treatment of the lease burdens which are not committed to the agreement.

Under these interests which are not committed we have tried to take any interest which is not committed into account, and it will be treated just the same as if there would be no unit at all. In other words, they are not uncommitted interest; they will receive the same amount of payment for their royalty, or whatever their interest might be, as they would as if we never had a unit. It, of course, is not binding on the people not executed. It provides for liabilities, for damages to owners of uncommitted interest in case they have any complaint. It provides for supervision by the working interest owners of the unit operations as conducted by the unit operator. It provides for a title committee and the title papers which have been furnished and will be furnished after the execution of the unit and after the effective date. It provides what happens when title is approved and what happens if there is a title failure to any of the lands. It provides for adjustments of investments between the interested parties; and what is I know extremely important to you gentlemen, it makes provisions for secondary recovery, which I am sure we are all aware is the key to really greater ultimate recovery in fields of this type.

There is a provision in it that it can be enlarged if

later other areas are shown that should be in the unit and the people who have interest there want to bring them in, for example Calstar, in their interest if they want to come in, they can. It also provides that the unit can be made smaller under certain conditions, and it provides that the unit can be terminated when, of course, it is no longer feasible to operate this area.

We realize also, and we bring to your attention, that there will be a possibility that new field rules will be necessary in the Little Beaver "D" Sand Field. We are not asking for new field rules at this time because we thought that we want to get our unit started, see how the present rules work, then we will probably be back for your help again. Of course, again I re-emphasize that we feel that the only effective way -- not the only -- but the most logical effective way to accomplish secondary recovery is by unit operation.

Now that is an outline of the unit agreement itself. As I say, I know that you gentlemen have all looked it over, but I hit those highpoints. If you have no questions on the agreement as such, I would like to call our second witness, who is our engineering expert.

W. P. SCHMOE

called as a witness on behalf of the Applicant, being first duly sworn according to law, upon his oath testified as follows:

DIRECT EXAMINATION

BY MR. HAWLEY:

Q. What is your name?

A. W. P. Schmoe.

Q. Where do you live?

A. I live at 902 Grant Street, in Fort Morgan, Colorado.

Q. What is your occupation?

A. I am District Engineer, Fort Morgan District, Continental Oil Company.

Q. Have you been employed in this position for some period of time?

A. I have been in this position for slightly over a year. Before that I was also with Continental Oil Company as a Production Engineer in Glenrock and other places in Wyoming.

Q. Have you had experience prior to coming with Continental?

A. No experience. I have an engineering degree from Oklahoma A. & M. College, Stillwater, Oklahoma. I obtained that degree in January of 1953.

MR. HAWLEY: If there is no objection I would like Mr. Schmoe to be accepted, his qualifications, as an expert witness.

COMMISSIONER DILLON: He will be accepted as an expert witness.

MR. HAWLEY: Thank you.

Q. Are you familiar with the unit area and with the Little Beaver Field in general, Mr. Schmoe?

A. Yes, sir.

Q. What is your experience in that area?

A. Well, I have worked during the past year on the joint engineering subcommittee as set up by the unit operating committee. I have also worked, of course, on the engineering phase of all producing operations on Continental's leases in that area.

Q. You mention that you are on this committee. What was the name of that committee?

A. That is the Little Beaver "D" Sand Engineering and Geological Subcommittee.

Q. What is your position on that committee?

A. At present I am alternant chairman.

Q. In your own words, would you describe to the Commission the reservoir characteristics of the reservoir underlying the unit area. By that I mean gas-oil ratios, porosities, permeabilities, and limit it please just to the "D" sand reservoir.

A. The Little Beaver "D" Sand Reservoir, which underlies the lands that has been described in this application, is of the Dakota series of Upper Cretaceous age. The reservoir is a stratigraphic trap monoclinal structure with a porosity pinchout on the east and southeast or updip side of the reservoir. As is in the application and the unit agreement, the "D" sand is described as those productive sands found between the approximate depths of 5,190 feet and 5,250 feet subsurface in Lion Oil Company's Downing No. 1 located in the southwest quarter, southwest quarter, southwest quarter of Section 32, Township 1 South, Range 56 West, and between the approximate depths of

5,225 feet and 5,290 feet in Continental Oil Company's Downing No. 1 well in the southwest southwest northeast of Section 32, Township 1 South, Range 56 West.

As has been said, the discovery well was drilled in the summer of 1952. I believe it was completed on June 25, 1952. The development of the field was fairly rapid, and a total of 70 producing wells were completed. Now that is within the "D" sand pool underlying this area. That includes, in other words, the five wells which were drilled in the south half of Section 5 of the Wheatlake lease, which is not in the unit area as proposed. Core analysis data obtained from more than 700 samples indicates that the reservoir rock has an average porosity of close to 20% and an average permeability of approximately 300 millidarcies. The original bottom hole pressure was measured to be about 1,250 pounds per square inch gauge. Numerous bottom hole pressure surveys were conducted, both fieldwide shut-in surveys and selected well shut-in surveys, at various times since the discovery well was completed; and these bottom hole pressures as obtained from these surveys have dropped rapidly from the original of 1,250 pounds per square inch to an estimated 300 pounds per square inch at the present time.

The production decline has also been relatively rapid from a peak of more than 10,000 barrels per day in August of 1953 to approximately 2,400 barrels per day in June of this year. There is no evidence of effective water encroachment. All of

these data indicate a solution gas drive reservoir mechanism, and with that, of course, goes the resultant low primary recoveries.

Q. I assume, Mr. Schmoe, that you have some familiarity with the Colorado Statutes providing that units may be approved by this Commission if they are in the public interest for conservation or are reasonably necessary to increase ultimate recovery or are for the prevention of waste of oil and gas. Are you familiar at all with those statutes?

A. Yes, sir.

Q. In your opinion will unitization of the area as set forth in the Applicant's application accomplish some or all of these purposes?

A. Yes, in my opinion it will.

Q. At the present time is there any waste of gas in this area?

A. No, there isn't. The gas from these "D" sand wells in this field is gathered and piped to the Little Beaver gas products plant within the field.

Q. Do you believe there will be an increase in the ultimate recovery from this "D" sand reservoir if this unit is approved?

A. Yes. In my opinion there will be an ultimate recovery for several reasons: One, under unitized operation the life of the field can be extended somewhat. By that I mean that through more economical operation the wells can be produced to

a lower economic limit, thereby increasing ultimate recovery. Also it is possible in this type of reservoir to increase somewhat the ultimate recovery through the selective producing of wells. By that I mean if a well has an exceptionally high or relatively high gas-oil ratio it could conceivably be shut in, thereby conserving reservoir energy and thus increase ultimate recovery in other producing wells.

Q. Then in your opinion unitization is the best method of getting the largest amount of recoverable oil and gas underlying the unit area?

A. Yes. For that reason, and, of course, the primary one which I didn't mention, that being the possibility of secondary recovery operations of some type under a unitized operation.

Q. You think the best interest of conservation will be served by the formation of a unit in this unit area?

A. Yes, sir. Partly by the same reasoning conservation of reservoir energy and conservation of oil by higher ultimate recovery, gas also.

Q. Would it be possible to produce from this area for a longer period of time if the unit agreement is approved?

A. I believe so. As I mentioned under unitized operation and the resultant reduced costs in operation, the wells can be produced to a lower economic limit, thus extending their life. In other words, a tract that is now being produced by one

operator say for example might have four wells, has one pumper, a pickup and all other equipment that goes with it. As the field gets to the stripper stage some wells are abandoned and he may get down to one well. He still has to produce that one well with one pumper and so on, and his lifting cost per barrel is therefore high. Under a unit operation, of course, as the wells are abandoned there is still a larger number of wells as time progresses than are being operated by that one operator. I think that explains why it will increase the life and also the ultimate recovery.

Q. As I understand your example, as these wells get down to the stripper stage in the absence of a unit, they would all approach that stage within a reasonable approximate period of time and would be abandoned; whereas if there is unitization they could still keep the good wells going for a longer period of time, is that correct?

A. That is correct, and keep them operating to a lower economic limit. You might be able to produce a well, for example, to three or five barrels per day, whereby an operator in competitive operation might have a shut-off economic limit of eight or ten barrels per day, depending on the economics at the time.

Q. Now, in addition to considering the waste of oil and gas, we consider waste in its ordinary sense as set forth in the statute. Do you believe that waste in this sense would be prevented by unitization?

A. I am not sure I get the question.

Q. Well, isn't it a waste of steel to put three tanks up if one would do the job?

A. Well, that is true. Under unitized operation more than likely there could be a consolidation of treating and storage facilities, and also there can be a savings in equipment, such as pickups and that sort of thing.

Q. You mentioned secondary recovery. Do you believe that there would be additional ultimate recovery if secondary measures were put into operation in a unit area?

A. Yes. In my opinion this particular formation, this "D" sand reservoir, has excellent possibilities for a water flood type operation. It has relatively uniform permeabilities and sand thicknesses. In our opinion we are pretty sure that a water flood would work. We know that they are now injecting water into the Adena "J", which is, although a different sand body, similar; and it is the opinion in fact of the Little Beaver "D" sand Engineering Subcommittee that an additional 7,900,000 barrels of oil can be recovered through a secondary recovery operation. That is a figure that is based on the best data available to that committee and is based on volumetric calculations, sweep efficiencies, and so on.

Q. That is the additional recovery?

A. Yes, the approximately 8 million barrels of stock tank oil over and above what would be recovered under primary depletion.

Q. What in your opinion is still to be recovered by primary methods?

A. It's estimated by the committee that there will be approximately 9,300,000 barrels of stock tank oil recovered by primary means. Now through June of this year approximately 6,660,000 barrels of oil have been produced. That, of course, leaves in the neighborhood of 2,640,000 barrels of primary oil yet to be recovered.

Q. Now let's assume the worst. We won't assume the complete worse. We will assume that the unit was approved, but that it is found that secondary recovery measures are not possible. In your opinion will unitization still accomplish the basic purposes as set out in our laws and regulations and would there still be an increase in the ultimate recovery of oil from the reservoir?

A. Yes. As I testified earlier, I believe there would be an increase in ultimate recovery even though there were no secondary recovery operations performed due to the reason I mentioned earlier; the increased life through better economics and the possibility of selectively producing wells.

Q. So you believe then that unitization will accomplish the purpose of recovering more barrels of oil even without secondary recovery?

A. Yes, sir.

Q. And you further believe that with secondary recovery

the additional amount of recovery will be over four times the amount of oil that you estimate can be recovered by primary recovery methods?

A. No, not over four times. There is approximately 2,640,000 barrels left to recover of primary, and there is nearly four times that that could be recovered by secondary; but not four times the total.

Q. Well, I mean you mentioned 2,600,000 barrels roughly by primary means. How many additional barrels will be recovered if secondary recovery measures are put into operation in this area in your opinion?

A. Approximately 7,900,000.

Q. I believe you have set forth some of the advantages that can be gained by unitization. Are there any other advantages that you wish to bring to the attention of the Commission at this time?

A. I think we have pretty well covered them. To me the primary purpose and the means which unitization will provide for increasing ultimate recovery the most is, of course, secondary recovery, and we are hoping to be able to do that.

Q. Mr. Bennett pointed out in his testimony that apparently there is quite a conflict of ownership and lease boundary lines in the unit area. Do you feel that unitization will eliminate many of the problems that might arise if operations in the field were conducted on the present basis without unitization?

A. Yes, it could conceivably do that, and I believe it would. There is always, I believe, a certain amount of waste in both oil and gas recoveries, and, of course, along that same line the reservoir energy through competitive operation across lease lines. I don't think that I can say at the present time just what all the problems might be that could come up. We have run across in other fields that are being operated under competitive basis that I believe if they had been unitized, why, we would have prevented waste and also had better economic operations.

Q. Mr. Bennett pointed out that there are some lands on which production is obtained from the "D" sand reservoir, which lands, because of the reluctance of the operator, were not committed to the unit agreement. Can your proposed unit be effective with these tracts outstanding?

A. Yes, it will be effective. It in my opinion won't be as effective as if those lands were in the unit area. The largest portion of the "D" sand reservoir is, of course, within the unit area and therefore will get results from that much of it. It would be better if that tract were in.

Q. Can a secondary recovery program be effectively accomplished if these tracts are outstanding?

A. Yes. Again I say that it can be accomplished with, I believe, good results. However, again it would be better if all of the producing wells were connected to the unit.

Q. Will unitization or secondary recovery affect these outstanding tracts?

A. It's hard to say. I believe that we can probably -- I am speaking now of a secondary recovery operation under unitization -- I believe we can effectively water flood the committed tracts without affecting materially the outstanding tracts. However, I will say this: In my opinion if there is any effect on those outstanding tracts it would be to their advantage; in other words, it would increase their production.

Q. Would your plan be more effective both for unitization and secondary recovery if those tracts were in the unit?

A. Yes, sir.

Q. Could they come in at a later date if the operator so desired?

A. Yes. The unit agreement and operating agreement provides for expansion of the unit.

Q. Mr. Schmoe, as you know our Commission has the duty of protecting the correlative rights of parties in this area. In your opinion would unitization of the area covered in Applicant's application afford protection of the correlative rights of such parties?

A. Yes. In my opinion unitized operation is probably the best means we have of protecting correlative rights.

Q. Because everyone is sharing in proportion to their interest?

A. That is right, and also speaking in terms of royalty interest. If, for example, one operator were better than another

operator, why, that particular royalty interest would probably gain through drainage across lease lines under a competitive type of operation.

Q. Are you familiar with any similar units or unit that is somewhat similar in the State of Colorado to the unit which we are seeking approval for here today?

A. Yes. The Adena unit is similar in a lot of respects.

Q. In your opinion has the unitization approved by this Commission been helpful to operations in that area?

A. Well, I believe so. All I can say on that is that we do know at this time that they are performing a secondary recovery operation. They are, of course, not far enough along to increase recoveries as yet. However, the injection wells are taking water as predicted, and up until this point at least everything is going as planned in that particular operation.

MR. HAWLEY: I have no further questions of Mr. Schmoe. Perhaps some of you gentlemen on the Commission would like to ask him questions.

CROSS EXAMINATION

BY MR. JERSIN:

Q. Mr. Schmoe, these figures that you gave in connection with the recovery of oil, was that for the area under your proposed unit plan or for the entire productive acreage?

A. That is for the whole proposed unit area.

Q. Do you have any estimate how much you would increase

the ultimate recovery just by unitization without secondary recovery?

A. No, I can't say that. I don't know. I am not sure that anybody could. The increases, as I mentioned, due to extended life, you can't say how much that will be because we can't determine at this time or predict accurately the economics of say 1972 or 1973. I can't say. Now you can make some kind of calculations in certain types of reservoirs on that; for example, where there is a primary gas cap. Those calculations are sometimes used for those increased ultimate recoveries.

MR. HAWLEY: I might mention, Mr. Jersin, by way of explanation, if this unit is approved secondary recovery is seriously contemplated, and at this time Vaughey & Vaughey have acquired water rights in a tract out in that area; and if there are sufficient units, I believe five fields are involved out in the general area, they are going to build this water system and lay water lines and will make available a legal source of water to the unit operators in those fields. But the big block is this one right here, Little Beaver. Now if this is approved and it goes ahead, then they think they can begin taking the risk of going into this water line project; but if Little Beaver isn't approved, then they are going to forget it as far as constructing water facilities for the smaller fields such as Plum Bush and some of the others.

MR. JERSIN: Bob, I understood you to say that you

didn't want the present field rules changed?

MR. HAWLEY: With one exception, which I was going to bring up, and that is the deadline for the quarterly GOR test which is September 1, 1957. We would like to have that deadline extended to October 1, 1957, because it's going to be an awful job to take these inventories and change over this equipment and personnel. Now ultimately I believe it will be necessary to make changes in the field rules, and I had hoped informally to discuss that with you people, and, of course, the working interest owners are going to get together on it to see what should be proposed; but our primary aim here is to show what we have done and to try to get approval of it, and then when we have got the decks cleared, so to speak, and get the thing in operation we will be able to see what measures should be taken in the future.

MR. JERSIN: In other words, you want to produce your wells individually as a per well allowable rather than using your most efficient wells to the point that you have another hearing or application for a hearing before this Commission?

MR. HAWLEY: Yes. We didn't have field rules prepared for this hearing. If you will recall in Adena they had a set of proposed field rules ready at the time that they brought the unit in for approval, but we have been in a situation where we have been working right up against a deadline to get sufficient number of signatures by September 1, 1957. Fortunately we have

succeeded now and we thought we better take one egg out of the nest at a time so we didn't break any of them. Continental is prepared, if this is approved before September 1, to take over operations on September 1. We will comply with the rules, of course, that have been established by the Commission and will undoubtedly be back for another hearing, but that is after we kind of see what the lay of the land is.

COMMISSIONER HOUSTON: What per cent does the Continental Oil Company own of the production?

THE WITNESS: Of the production, sir, right now you mean?

COMMISSIONER HOUSTON: Of the field.

THE WITNESS: In the unit Continental has 27.655%.

COMMISSIONER HOUSTON: Are the largest wells in the field in the unitization program or are they out on the outskirts?

THE WITNESS: I can't answer that. I don't have test data at hand on any of those five wells which are outside the unit. As I recall the largest wells are within the unit.

MR. HAWLEY: I believe that is correct.

COMMISSIONER HOUSTON: Doesn't Bob Hobbs own some wells up there outside the unitization program?

THE WITNESS: His production, as I recall, is all or nearly all "J" sand production.

COMMISSIONER HOUSTON: Not any "D"?

THE WITNESS: No.

MR. HAWLEY: I think it can be safely said that the

best wells in the area are in the unit. I think your reports verify that.

COMMISSIONER HOUSTON: On secondary recovery with water, have you inquired about the potential water supply? Have you got enough water?

THE WITNESS: Yes. As Mr. Hawley pointed out, the Vaughey & Vaughey Company is working on a water system for five or six fields in the area now. They have acquired water rights, have drilled wells, and know their potentials and how much water they can supply. Now they won't build that line, of course, until they have commitments on that water, but we are looking into that and have contracts made up and so on.

COMMISSIONER HOUSTON: One other question and I will be through. Is the "D" and "J" sand of the same gravity oil?

THE WITNESS: It's nearly the same. I can't answer that exactly. Continental has no "J" sand production in this field. The nearest "J" sand production to the unit area is all gas. The "J" sand oil production is some distance away from this area.

COMMISSIONER HOUSTON: That is all.

COMMISSIONER DILLON: If there are no further questions, you may be excused.

(Witness excused.)

COMMISSIONER DILLON: Are there any other witnesses?

MR. HAWLEY: That is all of the witnesses we have,

Mr. Dillon, and by way of summary and conclusion of our case I would like to re-emphasize that the effective date of this unit is going to be based on the Commission's approval, because the unit cannot have an effective date until the first day of the month following the day in which you approve the unit, and we respectfully request that if you decide to approve our application that it be before September 1, 1957, if possible. I mentioned to Mr. Jersin and I will repeat that we would like also authority to continue the deadline on the gas-oil ratio tests from September 1, 1957, to October 1, 1957, because of the change in status that will be effected by the unitization. I point out that we have no objection to the inclusion of the acreage which you seek to have included in the Little Beaver "D" Sand Field on your own motion at this hearing today.

I believe that we have attempted to show you, and have shown you by the witnesses, that this epic document of almost four years' effort will increase the ultimate recovery, it is in the best interest of conservation, it's in the public interest, it will prevent the waste of oil and gas, it complies with our statutory requirements; therefore, we would like very much to have the prayer of our application granted, and that is the entry of an order by this Commission adopting and approving the unit agreement and unit operating agreement of Little Beaver Field "D" Sands, Washington County, Colorado, as being in the public interest for conservation and is reasonably necessary to

increase the ultimate recovery and to prevent the waste of oil and gas in accordance with the applicable orders and/or results and regulations of this Commission.

I thank you very much for your time and attention, and as usual it has been a pleasure to appear before you.

CHAIRMAN DOWNING: What will the increase be according to your estimate?

MR. HAWLEY: With secondary recovery we feel that it will be over 7 million additional barrels of recoverable oil.

CHAIRMAN DOWNING: How much would be recovered by conventional methods?

MR. HAWLEY: Our witness was not able to make an estimate of the additional recovery by the approval of the unitization without secondary recovery, but he did feel that in his opinion that selective production and economies in operations and avoiding duplication would result in ultimately more recoverable oil by unitization even without secondary recovery.

COMMISSIONER DILLON: May I ask one question. Will unitization injuriously affect the interest of any royalty owner?

MR. HAWLEY: No. As we have pointed out over 90% of the royalty owners have executed this unit agreement and 100% of the interest owners. Now those royalty owners that have not executed the unit agreement will be treated the same as they are now. In other words, the unit will have to make

adjustments so that they are paid on the basis of the production actually from their lease without participation in the unit. If their production is greater from that lease than the percentage of participation allocated to the unit they will be paid on whatever their interest is on the lease.

COMMISSIONER DILLON: In other words, none of them will be penalized because they did not join in the application?

MR. HAWLEY: No.

COMMISSIONER HOUSTON: What if they don't accept it?

MR. HAWLEY: You mean they don't sign?

COMMISSIONER HOUSTON: Yes. They won't accept the pay when you pay on a proportionate basis.

MR. HAWLEY: That would be a matter between these royalty owners, I believe, Mr. Houston, and the courts of the State of Colorado because they would be getting the same payment that we would be getting under their lease contract even if there was no unit at all. Now if they decide, assuming that they have a one-eighth land owners royalty, that one-eighth isn't sufficient and that the lease is incorrect, why, they can negotiate with their working interest owner who has their lease, the lessee of their lease, or they can go to court; but I doubt very much if they would be able to get a greater royalty than they agreed upon in their own lease.

COMMISSIONER HOUSTON: Nobody has threatened to sue you as yet?

MR. HAWLEY: No, sir, not yet.

COMMISSIONER DILLON: Are there any others that wish to present anything in this matter? If not, the matter of this application will be closed.

The Commission will consider this matter and make its findings as soon as it is possible. Thank you very much.

(Whereupon, the hearing in Cause No. 30 adjourned at three o'clock p.m., August 20, 1957.)

* * * *

C E R T I F I C A T E

I, Donald E. Weimer, Certified Shorthand Reporter, hereby certify that I personally recorded in shorthand the proceedings in the foregoing matter in the first instance and that I later transcribed the same and that the foregoing record is true and correct to the best of my knowledge and belief.

Done at Denver, Colorado, the 22nd day of
August, 1957.

Donald E. Weimer

Certified Shorthand Reporter
2027 Newport Street
Denver 7, Colorado

Phone
FR7-0358