

1 STATE OF NEW MEXICO
2 ENERGY AND MINERALS DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BLDG.
5 SANTA FE, NEW MEXICO
6 28 September 1983

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Belco Petroleum Cor- CASE
10 poration for compulsory pooling, 7970
11 Lea County, New Mexico.

12 BEFORE: Michael E. Stogner, Examiner

13 TRANSCRIPT OF HEARING

14 A P P E A R A N C E S

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18 For the Oil Conservation Division: W. Perry Pearce, Esq.
19 Legal Counsel to the Division
20 State Land Office Bldg.
21 Santa Fe, New Mexico 87501

22 For the Applicant: W. Thomas Kellahin, Esq.
23 KELLAHIN & Kellahin
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25 Santa Fe, New Mexico 87501

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I N D E X

DON PETERS

Direct Examination by Mr. Kellahin 4

EMORY W. PARROTT

Direct Examination by Mr. Kellahin 11

Cross Examination by Mr. Stogner 18

E X H I B I T S

Applicant Exhibit One, Plat 4

Applicant Exhibit Two, Correspondence 6

Applicant Exhibit Three, Operating Agreement 9

Applicant Exhibit Four, AFE 10

Applicant Exhibit Five, Structure Map 12

Applicant Exhibit Six, Cross Section 16

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3 MR. STOGNER: We'll call next
4 Case Number 7970.

5 MR. PEARCE: That case is on
6 the application of Belco Petroleum Corporation for compul-
7 sory pooling, Lea County, New Mexico.

8 MR. KELLAHIN: If the Examiner
9 please, I'm Tom Kellahin of Santa Fe, New Mexico, appearing
10 on behalf of Belco Petroleum Corporation, and I have two
11 witnesses.

12 MR. PEARCE: Are there other
13 appearances?

14 (Witnesses sworn.)

15 MR. KELLAHIN: Mr. Examiner,
16 since we've docketed the case, Belco has made a name change
17 and we can either file a sundry notice or we'd request that
18 you issue the order in the name of Belco Development Corpor-
19 ation.

20 MR. PEARCE: I think, Mr. Exa-
21 miner, we may properly change the name when we issue what-
22 ever order is appropriate in this case.

23 MR. STOGNER: Thank you, Mr.
24 Pearce.

25 Continue, Mr. Kellahin.

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DON PETERS,

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Peters, will you please state your name and occupation?

A My name is Don Peters. I'm District Landman for Belco Development.

Q Mr. Peters, as a landman for Belco Development Corporation, have you made a study of the land title arrangement with regards to the subject proration unit?

A Yes, sir, I have.

Q Let me refer you to what is marked as Exhibit Number One and have you identify for us, first of all, the proration unit that you propose to have the Commission apply the compulsory pooling order to.

A That would be the west half of the southwest quarter of Section 18, Township 17 South, Range 39 East.

Q All right, sir, and that's identified by the yellow shading --

A Yes.

Q -- on the exhibit. What is the proposed

1
2 objective of the well to be drilled on this proration unit?

3 A It would be a 12,200-foot Devonian test.

4 Q All right, and the Devonian in this area
5 is based upon 80-acre proration units?

6 A Yes, sir.

7 Q In this 80-acre unit, is it composed of
8 State, Federal, or fee acreage, or some combination?

9 A It's all fee.

10 Q It's all fee acreage.

11 Is the proration unit composed of more
12 than one lease, or combination of lease?

13 A Yes, it is.

14 Q All right. Is the mineral interest that
15 is apportioned among the owners in that 80-acre tract an un-
16 divided percentage for the entire 80, or is it composed of
17 different percentages?

18 A It's an undivided.

19 Q Okay. As of this point, Mr. Peters, what
20 is the status of the participation of the various owners
21 with Belco in the drilling of this Devonian well?

22 A All the parties have agreed to partici-
23 pate with the exception of Southland Royalty who will farm-
24 out.

25 Q And with the exception of one other indi-
vidual, right?

A Yes, and that is the Stanford Clinton in-
terest.

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2 Q All right, your Exhibit Number One shows
3 a compilation of the owners in this proration unit, being
4 the first, or the top block of percentages, is that not
5 true?

6 A Yes.

7 Q All right, would you identify for us what
8 Mr. Stanford Clinton, Junior's percentage interest is for
9 the proration unit?

10 A His interest is 1.040625 percent.

11 Q All right, and I'm correct in
12 understanding everyone else has either farmed out, leased,
13 or is participating?

14 A Yes, sir.

15 Q Let me refer you to the package of
16 correspondence that's identified as Exhibit Number Two, Mr.
17 Peters, and have you turn to the last page of the package,
18 directing your attention to a letter dated January 9th,
19 1981, and ask you to identify that correspondence.

20 A This was a letter that was written to Mr.
21 Clinton by Mary Ward, a previous District Landman with Belco
22 Petroleum. This was the initial contact with Mr. Clinton.

23 Q All the items contained in Exhibit Number
24 Two are items from Belco Petroleum Corporation's leasing
25 files with regards to this acreage.

A Yes, sir.

Q And that is files that is under your
direction and control.

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A Yes, sir.

Q All right, what, if any, response did you get from Mr. Clinton to your January 9th letter?

A Mr. Clinton indicated he was not interested at that time in leasing.

Q Okay, were the leasing terms that you had proposed to Mr. Clinton fair and reasonable terms that had been accepted by others in the area?

A Yes, sir. We'd leased approximately 30 percent under those terms.

Q All right, sir, and let's go then to the January 24th, '83 letter, some two years later, and have you identify that letter.

A This was a letter again to Mr. Clinton, explaining our offer to lease and what the royalty would mean to him if the well were drilled.

Q All right, sir, what, if any, response did you have from Mr. Clinton to this letter?

A He also declined to lease.

Q Okay. The next piece of correspondence is a letter dated May 24th, 1983, which apparently bears your signature, Mr. Peters, is that true?

A Yes, sir.

Q All right, what's the purpose of this letter?

A This was a letter to Mr. Clinton proposing the Brooks No. 1 Well and offering him the oppor-

1 tunity to participate.

2 We also submitted an AFE and operating
3 agreement to him at that time.

4 Q All right, sir, and what, if any, re-
5 sponse did you have from Mr. Clinton to this correspondence?

6 A He declined to participate in the well.

7 Q Have you talked with Mr. Clinton on the
8 telephone?

9 A Yes, I have. I visited with Mr. Clinton
10 and his accountant, both, and they both indicated that
11 rather than lease or participate they would rather be force
12 pooled.

13 Q All right, sir, and you have notified Mr.
14 Clinton of the various penalties imposed in a compulsory
15 pooling order issued by the Oil Conservation Commission?

16 A Yes, sir, I have.

17 Q All right, sir. Let's go on then to the
18 September 7th, 1983 letter and ask you to identify that one.

19 A This was a letter amending our operating
20 agreement based on a request from the other working interest
21 participants.

22 Q All right, sir, and then finally we get
23 to the last letter, this August 4th, '83 letter, and let me
24 have you identify that one.

25 A This was a letter to Mr. Clinton once
again requesting that he participate in the well and sign an

1
2 AFE indicating that he would do so.

3 Q I notice that the AFE, dated May 8th of
4 '83, is different in total dollars than the one issued in
5 August of '83.

6 A That's correct. The August '83 AFE is a
7 revision that reflects the reduced costs and somewhat -- a
8 \$100,000 less completed cost.

9 Q All right, sir, and the AFE that is dated
10 August 5th, '83, is that the AFE that's been approved by all
11 the other participants in the proration unit?

12 A Yes, it is.

13 Q Now, Exhibit, I believe, Number Three is
14 the operating agreement, or a copy of the operating agree-
15 ment, that has been used for this proration unit?

16 A Yes, it is.

17 Q And this is the operating agreement
18 that's been approved by the other participants?

19 A Yes.

20 Q Let me direct your attention to the exhi-
21 bit that shows the COPAS instructions, the overhead charges
22 for the drilling and producing well rates, and have you
23 identify for us what those amounts are.

24 A The drilling well rate is \$4500;
25 producing well rate is \$450.

Q Those are the numbers you're using with
regards to those that have contracted.

A Yes, sir.

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2 Q Are those the same dollar amounts you
3 would propose that the Examiner include in any pooling or-
4 der?

5 A Yes, sir, it is.

6 Q Now, Mr. Clinton has an unleased mineral
7 interest so that he is subject under the pooling order to a
8 1/8ths royalty and a 7/8ths working interest.

9 A Yes.

10 Q All right, you're aware of how that is
11 calculated.

12 A Yes.

13 Q Let's turn, then, to, I guess, the last
14 exhibit, which is One, Two, Three, Four. This is a repeat
15 of the same AFE of August '83, is it not?

16 A Yes, sir.

17 Q All right. Have you made a comparison to
18 determine whether or not these costs are similar to other
19 costs for Devonian wells in the area?

20 A Yes, sir, we have.

21 Q And based upon your research, or that of
22 Belco, Mr. Peters, how do these costs compare to other wells
23 of similar --

24 A They're comparable. They're reasonable.

25 Q All right, sir.

MR. KELLAHIN: That concludes
my examination of Mr. Peters.

Our second witness is a

1
2 geologist, who will talk about the risk factor.

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4 EMORY W. PARROTT,

5 being called as a witness and being duly sworn upon his
6 oath, testified as follows, to-wit:

7 DIRECT EXAMINATION

8 BY MR. KELLAHIN:

9 Q All right, sir, would you please state
10 your name and occupation?

11 A Emory Parrott, geologist, Belco Petro-
12 leum, Midland District.

13 Q Mr. Parrott, when and where did you ob-
14 tain your degree in geology?

15 A University of Virginia, in 1948.

16 Q Subsequent to graduation I assume you've
17 been employed as a petroleum geologist in Texas and New
18 Mexico?

18 A Since that date.

19 Q Yes, sir.

20 A I went to work in Texas in 1948.

21 Q As a geologist employed by Belco Develop-
22 ment Corporation have you made a study of the geology
23 affecting the proposed South Knowles Devonian test that
24 you're going to drill --

24 A Yes.

25 Q --pursuant to this application?

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A Yes, sir.

Q All right, sir.

MR. KELLAHIN: We tender Mr. Parrott as an expert petroleum geologist.

MR. STOGNER: He is considered qualified.

Q Mr. Parrott, let me refer you to the structure map, which is identified, I believe, as Exhibit Number Five.

A Yes.

Q All right, sir, first of all, orient us and locate the proposed location for your well.

A The proposed location is in the northwest of the southwest of Section 18, 17, 38. It's shown as the blank circle on the cross section on the map, the exhibit you're looking at, Exhibit Five.

Q All right, sir, I notice that you've identified a number of wells with a green circle. What is the significance of those wells?

A Those wells all produced, or didn't produce, from the Siluro-Devonian.

Q Can you give us a short summary of the exploration and development of this Siluro-Devonian pool, telling us approximately when the first well was drilled and when the last well was drilled?

A This well -- this field started development in '53-'54. It was, the major development was

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2 finished by '56-'58; however, the -- Hamon drilled the well
3 located as -- numbered as No. 10 in 1975.

4 BF Petroleum drilled the one labeled 9,
5 if you can -- as the last well drilled in the field and that
6 was drilled in 1979.

7 Q All right, Well No. 9 was drilled in --

8 A 1979.

9 Q -- '79.

10 A It's located in the southeast of the
11 northwest of Section 13.

12 Q Okay. What has been the history of the
13 lease ownership of the proration unit that you now desire to
14 form?

15 A This was originally owned by -- drilled
16 by Hamon. The well was abandoned in 1981.

17 Q This is the Well No. 14 in the southwest
18 of the southwest of 18?

19 A Yes, sir.

20 Q All right, sir. That Well No. 14 is
21 identified on the legend in the far left to show its cumu-
22 lative production and the different drill stem test inform-
23 ation.

24 A Yes, sir.

25 Q All right, sir. That well is now aban-
26 doned, I assume.

27 A Yes, sir.

28 Q All right. Approximately when was it

1
2 plugged?

3 A It was plugged in '81. Permission was
4 granted in '81 by the Commission.

5 Q Okay, what did Mr. Hamon do with his
6 lease for that proration unit?

7 A He allowed it to expire.

8 Q Okay. Were there any other oil and gas
9 operators that had interests in this proration unit?

10 A Yes. ARCO and Southland both own minerals
11 under this.

12 Q Okay, have either one of those operators
13 elected to pursue further development in the Siluro-Devon-
14 ian?

15 A They have joined us, or at least ARCO has
16 joined in the drilling of this well.

17 Southland has elected to farm out.

18 Q Mr. Parrott, you're familiar with the
19 risk factor penalty that the Commission incorporates into
20 its compulsory pooling orders, are you not, sir?

21 A Yes, sir.

22 Q Do you have an opinion as a geologist as
23 to what percentage that risk factor ought to be as it ap-
24 plies to Mr. Clinton's interest?

25 A I think the more or less standard 200
percent that the Commission uses would be fair.

Q All right, upon what do you base your
opinion and fact that this proposed location ought to bear

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the optimum risk under the pooling order?

A Well, first, you have the possibility of drainage, which I think was brought out by the fact that Hamon elected not to drill this location originally. It also probably came into the decision by Southland to not join us, to farm out.

You also have the, of course, the standard risk any time you drill a well, and as you can note on this section, the well in the -- that is noted as Well No. 13, which is in the southeast of the southeast of 13 --

Q All right, sir, let me find that well now.

In the southeast of the southeast in Section 13 there's a well No. 13.

A Well No. 13.

Q All right, sir.

A We got into the 13's.

Q All right, sir.

A That well is an unusual well in that it has a very thick Woodford section. It appears to have lost, either been eroded, as we think, but it also has highest cum production in the field.

The cross section, which we will introduce in a few minutes, shows that. We think this is an erosional channel and that increases the risk in our location. That erosional channel comes through and you just don't know what's going to happen to it.

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2 As you may see, we do have shooting on
3 this. The lines are noted --

4 Q You're talking about the seismic shots
5 now.

6 A Seismic shot lines.

7 Q All right.

8 A They are noted. The figures are there;
9 all the values.

10 We did not see a fault on the east/west
11 line that runs approximately through the center of the
12 field, you'll note there, we did -- we saw no effects, no
13 indication whatsoever of faulting, so therefor, we think
14 this is an erosional channel that crosses this part of the
15 field.

16 Q All right, sir, let's go to your cross
17 section, then, Mr. Parrott, and have you discuss that for
18 us.

19 A Just start?

20 Q Yes, sir. Commence with the well on the
21 far left that's labeled A, then go to the right progressive-
22 ly until you get to A'.

23 A Yes. This section is noted on your Exhi-
24 bit Five as -- and we start from the southwest corner with
25 the Hamon No. 2 Federal Davis, which as I numbered, is the
best well in the field, and you can see it, the perforations
are in the very top of the formation. It is a low well, and
you can see that the Woodford is almost twice as thick as

1
2 the direct offset to the east, which is Well No. 14, and if
3 you'll check the production on that, that high well has
4 only about 88,000 barrels of total production, whereas the
5 well in the -- 13 is a little over a million barrels.

6 So your production is slightly erratic in
7 the field. You either -- it's -- you can put it to fractur-
8 ing. You can put it to porosity or permeability, but you
9 don't have a cinch when you get a high well.

10 Q What you're saying is the proximity of a
11 well to a good well in the field does not necessarily mean
12 that it also will be a good well.

13 A Yes, sir. But as you -- in other words,
14 we have prognosed that our location, our proposed location,
15 will have a somewhat thicker Woodford than the direct south
16 offset, but will still be well within the oil column and our
17 engineers prognose that you cannot drain the area that's
18 left on top of the structure with the wells that have
19 presently been drilled.

20 Q Okay, so that there is hope of capturing
21 some of the Devonian oil production that has not already
22 been produced?

23 A Yes, sir.

24 Q But you're still subject to the fact that
25 there may have been some drainage occurring.

A Yes, sir.

Q And there is still a significant risk

1
2 remaining, due to the way these particular sands were deve-
3 loped.

4 A Yes, sir.

5 Q Were Exhibits Five and Six prepared by
6 you or compiled under your direction and supervision?

7 A They were, sir.

8 Q All right, sir.

9 MR. KELLAHIN: That concludes
10 our examination of Mr. Parrott.

11 We move the introduction of Ex-
12 hibits One through Six.

13 MR. STOGNER: Exhibits One
14 through Six will be admitted into evidence.

15 CROSS EXAMINATION

16 BY MR. STOGNER:

17 Q Mr. Parrott, on Exhibit Number Five, over
18 there on the east side of Section 18, is that a fly speck or
19 is that a well that's marked --

20 A That's a fly speck, sir. I had never
21 picked that up.

22 I think it's a piece of drafting tape
23 that didn't get cleaned off the original, is what it really
24 is.

25 Q Thank you, Mr. Parrott. So there has not
been any Devonian prospects or drilling to the east of your
proposed location --

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A No, sir.

Q -- at this time.

A No, sir.

MR. STOGNER: I have no further questions of this witness at this time.

Is there any further questions? If not, he may be excused.

Mr. Kellahin, do you have anything further in Case Number 7970?

MR. KELLAHIN: No, sir.

MR. STOGNER: Does anybody else have anything to come in Case Number 7970?

If not, this case will be taken under advisement and this hearing is adjourned.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

~~Sally W. Boyd CSR~~

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7970, heard by me on Sept. 28, 1983.
Michael E. Stagner, Examiner
Oil Conservation Division