

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
December 19, 1968

IN THE MATTER OF:)

Application of Marathon Oil Company)
for a unit agreement, Chaves County,)
New Mexico.)

Case No. 4002

BEFORE: DANIEL S. NUTTER

TRANSCRIPT OF HEARING

MR. NUTTER: Call Case 4002.

MR. HATCH: Application of Marathon Oil Company
for a unit agreement, Chaves County, New Mexico.

MR. MORRIS: Mr. Examiner, I'm Dick Morris, of
Montgomery, Federici, Andrews, Hannahs & Morris, Santa Fe,
appearing on behalf of the applicant. I have two witnesses,
Mr. Butler and Mr. Miller. I ask that they both stand and be
sworn at this time.

(Witnesses sworn.)

(Whereupon, Applicant's Exhibits
1 through 5 marked for
identification.)

* * * * *

W. T. B U T L E R, called as a witness, having been
first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. MORRIS:

Q Mr. Butler, please state your name and where you
reside?

A My name is W. T. Butler, I am employed by Marathon
Oil Company, Midland, Texas.

Q In what capacity are you employed with Marathon?

A I am a land man, working in the southeastern two-
thirds of New Mexico, which includes Chaves County, in which

this unit is located.

Q Have you previously testified before the Commission or one of its examiners and had your qualifications as a land man established as a matter of record?

A Yes, sir.

MR. MORRIS: Are the witness's qualifications accepted?

MR. NUTTER: They are.

Q (By Mr. Morris) Mr. Butler, please refer to the Unit Agreement which has been marked Exhibit 1 in this case, and first turn to Exhibit A attached to that unit agreement with is the plat.

A This is a true copy of the Dallas Ranch Unit Agreement, Exhibit A is the plat showing the outline of the unit area, the tracts within the unit area, the State Lease numbers and leasehold ownership.

Q Now, this shows the outline of the unit area that is stippled, is that correct?

A Yes, sir, there is one tract within the unit area that the owner, Champlin Petroleum Company, declined to join the unit. This tract is the south half of the southwest quarter of Section 22, containing 80 acres, but Marathon as operator is of the opinion that we can successfully operate

this unit without the joinder of this company.

Q So that 80 acres has been deleted from the unit, it's not part of the unit area?

A That is right, sir.

Q How many acres does the Dallas Ranch Unit contain?

A The Dallas Ranch Unit contains 8,848.60 acres.

Q This acreage is located in Township 9 South, 26 and 27 East, is that correct?

A That is correct.

Q Approximately where is this unit located with reference to the City of Roswell?

A The unit is located approximately 15 miles northeast of Roswell.

Q What is Exhibit B to the unit agreement?

A Exhibit B is a take-off, descriptive, showing the tract numbers; describing the acreage in each tract; giving the numbers of acres of each tract; showing the State Lease numbers; the overriding royalty owners, their percentages; and the working interest owners with their percentages, of each tract.

Q Would you summarize the information shown on this exhibit, first with respect to the working interest owners, state who the working interest owners are, and their

approximate percentage interest in the unit?

A The working interest owners are Marathon Oil Company as unit operator, with approximately 18%; Humble Oil and Refining Company, approximately 17%; Allied Chemical Corporation, approximately 17%; Phillips Petroleum Company, approximately 20%; Atlantic Refining Company, approximately 15%; Phillips Petroleum Company, approximately 6%; Joseph E. Seagrams & Sons, Inc., approximately 3%; J. M. Huber Corporation, a little over 1%; and Norman L. Stevens, approximately 1%.

Q Now, Mr. Butler, do these percentages that you have just given, do they vary depending upon whether you are talking about the cost interest or the interest after pay-out of the initial well?

A The percentages I just gave are the committed acreage percentages. Now, due to farmouts which are being taken by Marathon and Humble, the cost percentages will vary somewhat.

Q What is the status of commitment of the working interest owners to the unit at the present time?

A All working interest owners within the unit outline have verbally committed their acreage to the unit.

Q With respect to the royalty interest, did I understand you to say a while ago that all of the acreage involved in this

unit is State acreage?

A All of the acreage is State acreage and the State of New Mexico is the only royalty owner.

Q Has the State given preliminary approval of this unit?

A Yes, sir; we have a letter from the Commissioner's Office of a preliminary approval to the unit agreement as to form and content, copies of which were presented in this hearing.

Q And that letter has been marked as Exhibit No. 2 in this case, is that correct?

A That is correct.

Q What is the situation with respect to the overriding royalty interest?

A There are only two overriding royalty owners in the unit, these owners are under the Bell Petroleum Company Leases, and these two owners have been given an opportunity to join the unit.

Q Let's refer to the unit agreement itself. What is the form of this agreement?

A The unit agreement is on the State form with no unusual provisions.

Q And this is the standard form for an exploratory

unit?

A That is correct.

Q What formations are unitized?

A All formations of oil and gas are unitized.

Q Who is designated Unit operator?

A Marathon Oil Company is designated unit operator.

Q What is Marathon's initial obligation under this unit agreement?

A The unit agreement provides that Marathon as operator will commence a well within 60 days from the effective date of the agreement, and drill a well to a depth to test the Ordovician Formation, but we will not be required to drill to a depth in excess of 5300 feet.

Q Mr. Butler, was Exhibit No. 1 prepared by you or under your supervision?

A Yes, sir, it was. Let me say, with the assistance of legal counsel.

Q Certainly. Do you have any other comment you wish to make with respect to the unit agreement?

A Yes, sir. We haven't described the acreage within the unit agreement.

Q Well, this is as shown on --

A Page 2 of the unit agreement.

Q All right, fine.

MR. MORRIS: At this time, Mr. Examiner, we offer Marathon's Exhibits 1 and 2 into evidence.

MR. NUTTER: Exhibit 2 is the letter?

MR. MORRIS: Yes, sir.

MR. NUTTER: Marathon's Exhibits 1 and 2 will be admitted in evidence.

(Whereupon, Marathon's Exhibits 1 and 2 offered and admitted in evidence.)

MR. MORRIS: That's all I have, Mr. Nutter.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Butler, now the Champlin acreage, the way you have done this, you haven't included the Champlin acreage in the unit, and carried it as non-committed acreage, you have just completely deleted the acreage from the unit?

A Yes, sir, although I didn't bring the letter with me, I have a letter in my files from Champlin Petroleum Company declining to join the unit, so we omitted them from the unit outline.

Q And the 8,929 acres, excludes the 80-acre tract?

A The 8,848 excludes the unit tract; originally we had 8,928.6 acres.

Q So the acreage, then, is not the 8929 that we

advertised, it would be 80 acres less than that?

A Yes, sir, 8848.60.

MR. MORRIS: That's 8,848.60 acres.

Q (By Mr. Nutter) Now, you mentioned that the two overriding royalty owners, Culligan and Barnhill, have been given an opportunity to join you, have they expressed themselves on this?

A No, sir, we were a little late in getting our agreement prepared and I haven't heard from them.

Q They haven't declined as yet?

A No, sir, they haven't declined as yet.

MR. NUTTER: Are there any further questions of Mr. Butler? He may be excused.

(Witness excused.)

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DAVID MILLER, called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. MORRIS:

Q Mr. Miller, please state your name and where you reside.

A I'm David Miller, and I reside in Midland, Texas.

Q By whom are you employed and in what capacity?

A I am a Geologist with Marathon Oil Company.

Q Would you state briefly your education and experience in the Petroleum Industry?

A I received a B. A. Degree in Geology from the University of Illinois, and have served as a Geologist in the Permian Basin for 13 years.

Q What are your present duties with Marathon?

A I am Province Leader, Geological Supervisor in the Exploration Department.

Q Did your duties involve you in the geologic work on the Dallas Ranch Unit?

A It did.

MR. MORRIS: Are the witness's qualifications acceptable?

MR. NUTTER: They are.

Q (By Mr. Morris) Mr. Miller, please refer to Exhibits 3, 4 and 5; first please identify each of these exhibits and then explain them.

A I am sorry, I don't know the numbers on these exhibits.

Q This is 3 and this is 4.

A Exhibit 3 is a geologic report, Exhibit 4 is a structure map on the Ordovician Formation. Now, Exhibit 5

is a cross-section which crosses the proposed unit. There's an index map on it which shows the location of the cross-section. It goes from the DeKalb No. 1 Lewis across prospect to the Hammond No. 1 Salsberry and it picks the target formation which is the Ordovician, which underlies the Mississippian and overlies the Granite.

Q Now, you have a little plat insert that shows the line of cross-section on the cross-section itself?

A That is correct.

Q Go ahead.

A As you can see from the cross-section, the Ordovician is truncated west of the proposed location. Now, the structure map which is on top of this Ordovician shows that the lateral trap will be caused by an anti-cline crossing this truncation line with the structural contours closing against the truncation line on the southeast flank against a permeability barrier on the northwest flank. Evidence of the permeability barrier is given in the Union No. 1 Kitchen located in Section 6 of Township 9 South, Range 26 East, which tested this Ordovician dolomite and recovered a small amount of gas, a three foot flair, and recovered mud. Permeability and fluid was recovered to the east in the Honolulu-McKonkee Well in Section 10 of Township 9 South, Range 26 East. This well

recovered a small amount of gas and 800 feet of salt water on drillstem test.

We anticipate a gas reservoir rather than oil due to the gas shows and other gas shows laterally along the truncation line. The anticipated gas-water contact is expected at approximately minus 1900 feet, and in my opinion, the unit conforms to the anticipated productive area.

Q Your unit outline is based upon your gas-water contact of a minus 1900 and the permeability barrier along the west side of your unit?

A That is correct.

Q Where will the initial well be drilled?

A The initial well will be in the southwest quarter of the southwest quarter of Section 23, Township 9 South, Range 26 East; this is our tentative location.

Q I believe you've covered this already, but in your opinion, Mr. Miller, does the unit outline fairly cover the structure as you see it at this time?

A It does.

Q Were Exhibits 1, 2 and 3 prepared by you or under your direction?

A They were.

Q Excuse me, not 1, 2 and 3, Exhibits 3, 4 and 5.

A 3, 4 and 5, yes.

MR. MORRIS: Mr. Examiner, we offer Marathon's Exhibits 3, 4 and 5 into evidence.

MR. NUTTER: Marathon's Exhibits 3, 4 and 5 will be admitted into evidence.

(Whereupon, Marathon's Exhibits 3, 4 and 5 offered and admitted into evidence.)

MR. MORRIS: That's all I have.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Miller, as I interpret your structure map here, what we might say is that you have a structural nose extending to the northeast here, backed up against this truncation line with permeability barrier on the west flank?

A That is correct.

Q Now, the red circle in Section 23, I presume, is the proposed location?

A That's right.

Q Now is it going to hurt the operation of this unit to not have that 80 acres in Section 22 committed to it?

A I don't believe it will.

Q What formation is your actual target formation, the Ordovician?

A It is, yes.

Q What are the chances of gas in the Pennsylvanian in this area?

A They're quite remote, I believe.

Q You do expect that gas, if discovered, would be Pennsylvanian or older, at least?

A Yes, sir.

MR. NUTTER: Are there any further questions of the witness? He may be excused.

(Witness excused.)

MR. NUTTER: Do you have anything further, Mr. Morris?

MR. MORRIS: No, sir.

MR. NUTTER: Does anyone have anything they wish to offer in Case 4002? We'll take the case under advisement.

I N D E X

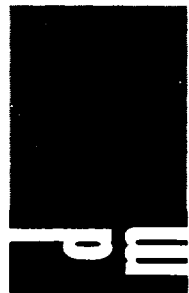
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STATE OF NEW MEXICO)
) ss
 COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Court Reporter within and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my hand this 20th day of December, 1968.

12/19 4003
 Ada Dearnley
 New Mexico Oil Conservation Commission



dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

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STATE OF NEW MEXICO)
) SE
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Court Reporter within and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my hand this 20th day of December, 1968.

I do hereby certify that the foregoing is
a complete record of the proceedings in
the preceding hearing of Case No. 4007
heard by me on 12/19, 1968.
Dearnley

Return, Examiner
New Mexico Oil Conservation Commission