

BEFORE THE  
OIL CONSERVATION COMMISSION  
SANTA FE, NEW MEXICO  
DECEMBER 12, 1960

-----  
IN THE MATTER OF: :  
: :  
: :

CASE 2141 Application of Honolulu Oil Corporation for ap- :  
proval of a unit agreement. Applicant, in the :  
above-styled cause, seeks approval of its McKit- :  
trick Canyon Unit Agreement, which unit is to :  
embrace 6708 acres of Federal, State and fee :  
lands in Township 22 South, Ranges 25 and 26 :  
East, Eddy County, New Mexico. :  
: :  
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BEFORE:

Elvis A. Utz, Examiner.

T R A N S C R I P T    O F    P R O C E E D I N G S

MR. UTZ: Case 2141.

MR. MORRIS: Case 2141. Application of Honolulu Oil Corporation for approval of a unit agreement.

MR. BRATTON: Howard Bratton, Roswell, New Mexico, appearing on behalf of the applicant, Honolulu Oil Corporation. We have two witnesses, and I ask that they be sworn.

(Witnesses sworn)

MR. UTZ: Any other appearances in this case? (No response)

LEO BRADY,

called as a witness, having been first duly sworn, testified as follows:

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PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO



DIRECT EXAMINATION

BY MR. BRATTON:

Q Will you state your name, occupation and address?

A Leo O. Brady, Division Lineman, Honolulu, Midland, Texas.

Q Are you familiar with the matters contained in the application in Case 2141, the area under consideration, and the unit agreement?

A Yes, sir.

Q All right, sir. Will you state the area covered by the proposed unit agreement?

A The unit agreement embraces the east half of Section 22, all of Sections 23, 24, 25 and 26. The east half of Section 27. The east half of Section 34, and all of Sections 35 and 36, Township 22 South, Range 25 East, and all of Sections 19, 30 and 31, Township 22 South, Range 26 East Eddy County, New Mexico containing 6708.28.

Q And in the unit area there are 5200 acres. Federal lands, approximately 1270 acres of State land and 160 acres of fee land?

A Yes, sir.

Q Mr. Brady, has a copy of the proposed unit agreement which has been turned in with the application in this case, has it not?

A Yes.

Q We would ask that it be marked as Exhibit No. 1 in the case.

MR. UTZ: All right, sir.

(Whereupon, Applicant's Exhibit

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ALBUQUERQUE, NEW MEXICO



No. 1 marked for identification)

Q (By Mr. Bratton) Referring, then, Mr. Brady, to your Exhibits in the blue folder, will you explain what Exhibit No. 2 is?

A Exhibit No. 2 in the blue folder is an exhibit to the unit agreement. It is a plat map showing the area outlined and the next of acres Federal, State and Fee lands and also indicates the area, number of lease and another working interest owner, and the number of acres in each lease. The tract, the nomination refers to tract number and Exhibit B to the unit agreement.

Q Now, the unit agreement referred to, Mr. Brady, is that a typical Federal participating area type of unit agreement?

A Yes, sir.

Q And Honolulu is the unit operator?

A Yes.

Q What does the unit agreement provide for by way of test well?

A The agreement provides for drilling of an exploratory well to test the Devonian formation which is expected to be encountered at approximately 12,000 feet.

Q And you have stated, Mr. Brady, this is a standard and Federal type of unit agreement?

A Federal type participating.

Q Have you received tentative approval of this unit both as to form and content and designation of area from the U.S.



Geological Survey?

A Yes, sir.

Q That was in the form of an informal verbal approval given by the Director of U.S.G.S. to Mr. Ekland in Washington?

A Yes.

Q Has this matter been submitted to the State Land Commissioner?

A Yes, sir.

Q And have you received tentative approval as to the form and content and designation of the area from the State Land Commissioner?

A Yes, sir, we received an oral approval.

Q Final approval has been delayed by processing and illnesses within the Land Office?

A Yes.

Q Mr. Brady, have you obtained comment or ratification by agreement with the working interest owner and royalty overriding working interest owners?

A Yes, sir, we received 100 percent oral approval by the working interest owners. The agreement is not being circulated for signature before we have obtained ratification by 100 percent of the Federal overriding royalty owners and we have received approximately 50 percent of approval of fee owners and the ratification is now being circulated among the remainder of the fee owners.

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Q So that all have a very high percentage of agreement to the area unit?

A We will obtain 100 percent approval.

Q As to the unit operating agreement, Mr. Brady, among the operators, is it an undivided interest agreement?

A Yes. It is a, what would be termed the fully participating interest whereby all the working interests share in all costs and all production and a proportion of their interest in the unit area.

Q But the royalty and overriding interest owners are governed by the unit agreement which is a standard participating area?

A It is provided in Paragraph 11 in the unit agreement.

Q There are expanding and contracting provisions?

A Yes, sir.

Q And are there any wells--

A Section 26 of the agreement--

Q Are any wells drilled or drilling in the unit area?

A No, sir -- yes, our well.

Q Now, Mr. Brady, you say "our well," you are referring to the unit well?

A Yes, sir.

Q Would you explain to the Commission the status of that well?

A Well, we started this well during the month of October known as the No. 1 McKittrick Canyon unit well. It is now drill-



ing at approximately 6,000 feet.

Q And that is the well which will be the initial test well under the unit agreement?

A Yes, sir.

Q And by virtue of the fact that well is not drilling, you would appreciate every expeditious treatment that could be granted to this application?

A Very much so.

Q All right, sir. Mr. Brady, you are the Division landman and you have checked the ownership and status of ownership as reflected in the Exhibit, haven't you?

A Yes.

Q Is there anything else you would care to bring out, Mr. Brady?

A I believe not.

Q Was Exhibit No. 2 prepared by you or under your supervision?

A Yes, sir.

MR. BRATTON: Our second witness will be -- excuse me, you might have questions of this witness at this time.

MR. UTZ: Did you want to introduce 1 or 2 at this time?

MR. BRATTON: I would offer in evidence Exhibit 1 and 2.

MR. UTZ: Exhibits 1 and 2 will be entered into the record.

(Whereupon, Applicant's Exhibits

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1 and 2 were received in evidence)

CROSS-EXAMINATION

BY MR. PAYNE:

Q Mr. Brady, what did you use in determining the size of the unit?

A I believe that will be covered more fully by Mr. Hoy, geologically.

Q Do you know the unit agreement provides for the test well each six months.

MR. PAYNE: Thank you.

(Witness excused)

GEORGE R. HOY,

called as a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BRATTON:

Q Will you state your name, address and occupation?

A George R. Hoy. I am employed in Midland, Texas by Honolulu Oil Corporation as Division Drilling and Proration Engineer.

Q How is that spelled?

A H-o-y.

Q Have you previously testified before this Commission and are your qualifications as an engineer a matter of record?

A Yes, sir, they are.

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Q You are familiar with the matters contained in the subject application and with the proposed McKittrick Canyon area?

A Yes, sir.

MR. BRATTON: Are the witness' qualifications acceptable?

MR. UTZ: Yes, sir, they are.

(Whereupon, Applicant's Exhibit No. 3 marked for identification)

Q Now, Mr. Hoy, referring to what has been marked as Exhibit 3 in the blue folder, will you explain what it is and what it shows?

A It is a subsurface map contoured to the top of the Devonian formation. Also showing a gravity anomaly which is outlined in green. The top of the Devonian being outlined in blue. It also covers the unit area involved in this application on the surrounding lines.

Q Excuse me, Mr. Hoy. I left you there for a minute. Did you explain everything on Exhibit 3 you desired to?

A Yes sir.

(Whereupon, Applicant's Exhibit No. 4 marked for identification)

Q Referring to what has been marked as Exhibit 4, would you explain that?

A On referring to Exhibit No. 4, which is a plat map of the unit area and also surrounding land. On Exhibit No. 4 in Section 23, Township 22, South, Range 24 East Northern Natural Gas McKittrick No. 1 drilled to the total depth to 20,890; in



Section 20, Township 22 South, Range 25 East, Standard No. 1 Well drilled to the 1,354. The right-hand side of Exhibit 4 notice Humble Federal No. 1 Well, which is a well drilled to the 14,865 feet. From these three wells and other wells on Exhibit 4 we have contoured the top of the Devonian shown on Exhibit No. 3. As I have stated previously, the green lines depict gravity anomaly which lies within the unit area of the proposed application of the McKittrick Canyon unit.

Q (Whereupon, Applicant's Exhibit No 5 marked for identification)

Q All right, sir. Would you refer to Exhibit No. 5, Mr. Hoy, and explain what that is?

A Exhibit No. 5 is colored photograph of a cross-section going from northwest to southeast through the wells that I have mentioned previously which are shown on Exhibit No. 4.

(Whereupon, Applicant's Exhibit No. 6 marked for identification)

Q In referring, then, to your Exhibit No. 6, Mr. Hoy, would you explain what that is?

A Exhibit No. 6 is a stratigraphic section of the interval we expect to penetrate in drilling this McKittrick Canyon well. We expected to contour the top of the Devonian 11,890, at our primary objective. Oil and gas symbol zone on this Exhibit indicate further possible pay zones in the Wolf Canyon Morrow and so on.



Q Mr. Hoy, in your opinion, does the proposed unit area cover substantially all of that geophysically reflected on Exhibit No. 3?

A Yes, sir, it does.

Q Do you believe that the proposed boundaries of the unit area encompass a sufficient area to assure adequate control of the structure?

A Yes.

Q Do you believe it does not cover excessive acreage?

A We do not think so, no.

Q Mr. Hoy, in your opinion, will the granting of this application be in the interest of conservation and protection of correlative rights?

A Yes, sir.

Q And do you believe that in the event oil or gas were found in the unit, the unit agreement will permit a more economic and efficient recovery of the unitized substances?

A Yes, I do.

Q Is there anything else you care to point out in connection with this application of any of the Exhibits you have discussed?

A No, sir, I have nothing further.

Q Were Exhibits 3 through 6 prepared by you or under your supervision?

A Yes, sir, they were prepared under my supervision.



MR. BRATTON: We would offer in evidence Exhibits 3 through 6.

MR. UTZ: Exhibits 3 through 6 will be entered into evidence.

(Whereupon, Applicant's Exhibits 3 through 6 received in evidence)

CROSS-EXAMINATION

BY MR. UTZ:

Q Mr. Hoy, referring to Exhibit 3, the blue contours is the size contours?

A No, sir, they are -- our interpretation is they contour to the top of the Devonian as we determine by subsurface geology.

Q The wells in the area?

A Yes, sir.

Q And is the shown proposed location on this Exhibit the location of the actual drilling well?

A That is correct.

MR. UTZ: Any other questions?

BY MR. PAYNE:

Q Mr. Hoy, I don't recall whether you testified on this or not, what percentage of the working interest owners are committed at present?

A I do not know. Mr. Brady testified to that.

MR. PAYNE: Mr. Brady, could you go through that again?

MR. BRADY: All are committed except Skelly Oil Company



which has a 40-acre tract out of 6700.

Q Do you have any of the fee royalty owners committed?

A Fee royalty owner under Exhibit B.

MR. BRADY: We have Ralph Shubert who owns one-half of the 120 fee acres.

Q He is committed?

A Yes, sir.

Q And the major part of the area is either State or Federal?

A Right.

MR. PAYNE: Thank you.

MR. UTZ: Any other questions? (No response) No further questions, the witness may be excused.

(Witness excused)

MR. BRATTON: Mr. Examiner, we would request that the Exhibits 1 through 5 be withdrawn from the case as we would like to treat them as confidential for a while. If the Commission or anybody would care to examine the case file, we would, of course, make them available to the Commission, and would, of course, file them permanently with the Commission shortly after the present well is drilled.

MR. UTZ: We will give you these Exhibits and let you take them out. Any statements in this case? (No response) If not, the case will be taken under advisement.

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A Yes, sir.

Q All right, sir. Will you state the area covered by the proposed unit agreement?

A The unit agreement embraces the east half of Section 22, all of Sections 23, 24, 25 and 26. The east half of Section 27. The east half of Section 34, and all of Sections 35 and 36, Township 22 South, Range 25 East, and all of Sections 19, 30 and 31, Township 22 South, Range 26 East Eddy County, New Mexico containing 6708.28.

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A Yes, sir.

Q Mr. Brady, has a copy of the proposed unit agreement which has been turned in with the application in this case, has it not?

A Yes.

Q We would ask that it be marked as Exhibit No. 1 in the case.

MR. UTZ: All right, sir.

(Whereupon, Applicant's Exhibit



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Q Now, the unit agreement referred to, Mr. Brady, is that a typical Federal participating area type of unit agreement?

A Yes, sir.

Q And Honolulu is the unit operator?

A Yes.

Q What does the unit agreement provide for by way of test well?

A The agreement provides for drilling of an exploratory well to test the Devonian formation which is expected to be encountered at approximately 12,000 feet.

Q And you have stated, Mr. Brady, this is a standard and Federal type of unit agreement?

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A Yes, sir, we received 100 percent oral approval by the working interest owners. The agreement is not being circulated for signature before we have obtained ratification by 100 percent of the Federal overriding royalty owners and we have received approximately 50 percent of approval of fee owners and the ratification is now being circulated among the remainder of the fee owners.



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DALLAS, NEW MEXICO

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the area unit?

A We will obtain 100 percent approval.

Q As to the unit operating agreement, Mr. Brady, among the operators, is it an undivided interest agreement?

A Yes. It is a, what would be termed the fully participating interest whereby all the working interests share in all costs and all production and a proportion of their interest in the unit area.

Q If the royalty and overriding interest owners are governed by unit agreement which is a standard participating area?

A It is provided in Paragraph 11 in the unit agreement.

Q Are there any expanding and contracting provisions?

A Yes, sir.

Q And are there any wells--

Section 26 of the agreement--

Are any wells drilled or drilling in the unit area?

No, sir -- yes, our well.

Q Now, Mr. Brady, you say "our well," you are referring to the unit well?

A Yes, sir.

Q Would you explain to the Commission the status of that well?

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Q So that all have a very high percentage of agreement to the area unit?

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Q All right, sir. Mr. Brady, you are the Division landman and you have checked the ownership and status of ownership as reflected in the Exhibit, haven't you?

A Yes.

Q Is there anything else you would care to bring out, Mr. Brady?

A I believe not.

Q Was Exhibit No. 2 prepared by you or under your supervision?

A Yes, sir.

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MR. UTZ: Did you want to introduce 1 or 2 at this time?

MR. BRATTON: I would offer in evidence Exhibit 1 and 2.

MR. UTZ: Exhibits 1 and 2 will be entered into the record.

(Whereupon, Applicant's Exhibits



1 and 2 were received in evidence)

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BY MR. PAYNE:

Q Mr. Brady, what did you use in determining the size of the unit?

A I believe that will be covered more fully by Mr. Hoy, geologically.

Q Do you know the unit agreement provides for the test well each six months.

MR. PAYNE: Thank you.

(Witness excused)

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Q How is that spelled?

A H-o-y.

Q Have you previously testified before this Commission and are your qualifications as an engineer a matter of record?

A Yes, sir, they are.

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ALBUQUERQUE, NEW MEXICO



Q You are familiar with the matters contained in the subject application and with the proposed McKittrick Canyon area?

A Yes, sir.

MR. BRATTON: Are the witness' qualifications acceptable?

MR. UTZ: Yes, sir, they are.

(Whereupon, Applicant's Exhibit No. 3 marked for identification)

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A Yes sir.

(Whereupon, Applicant's Exhibit No. 4 marked for identification)

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Q All right, sir. Would you refer to Exhibit No. 5, Mr. Hoy, and explain what that is?

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A We do not think so, no.

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MR. BRATTON: We would offer in evidence Exhibits 3 through 6.

MR. UTZ: Exhibits 3 through 6 will be entered into evidence.

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which has a 40-acre tract out of 6700.

Q Do you have any of the fee royalty owners committed?

A Fee royalty owner under Exhibit B.

MR. BRADY: We have Ralph Shubert who owns one-half of the 120 fee acres.

Q He is committed?

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MR. PAYNE: Thank you.

MR. UTZ: Any other questions? (No response) No further questions, the witness may be excused.

(Witness excused)

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