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BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
EXAMINER HEARING

April 26, 1967

IN THE MATTER OF:)

Application of Maxwell Oil Company)
for a unit agreement, Eddy County,)
New Mexico.)

Case 3564

BEFORE: Elvis A. Utz, Examiner

TRANSCRIPT OF HEARING

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MR. UTZ: Case 3564

MR. HATCH: Case 3564, application of Maxwell Oil Company for a unit agreement Eddy County, New Mexico.

MR. DURRETT: If the Examiner, please, James Durrett of the firm of Rhodes, McAllister and Durrett, representing the applicant. I have associated with me Mr. William Harold Price, P-r-i-c-e, a member of the Texas Bar, who will present the case on behalf of the applicant.

MR. UTZ: Are there any other appearances? If there are none, you may proceed.

MR. PRICE: I am employed by Maxwell Oil Company as a land man and attorney and in this capacity, I drew the unit agreement for the development and operation of the Taylor Unit, Eddy County, New Mexico. A copy of which I submit as Exhibit 1.

MR. DURRETT: Why don't we have him sworn in so he can present testimony, if you would.

(Witness sworn.)

MR. PRICE: In drawing this unit agreement, I followed a form which was recommended to me by the U.S.G.S. I did this for the reason that all of the lands in the unit area which are shown on the Exhibit A of the unit agreement are federal lands, covered by federal leases. In fact, all of the working interest owners who have joined in the unit

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agreement are also the owners of the various tracts in the unit area. So the representation and percentage of ownership in the unit area will be the same as it was before a unit was formed.

Also, the only royalty owner is the U.S.G.S. but, there are overriding royalty owners which are also classified as royalty owners under the terms of the unit agreement. At this time, all one hundred percent of the working interest owners have executed the unit agreement and counting the U.S.G.S., eighty-one percent of the royalty owners have executed or have ratified the unit agreement, which exceeds the requirement in the unit agreement of seventy percent ratification by royalty owners.

Since the unit agreement, forming the unit area, will not alter ownership of working interest owners, and, since it will result in added production of oil and gas from the unit area, we request adoption and approval by this Commission of the unit agreement. The U.S.G.S. has approved, made preliminary approval of the unit agreement. They made this approval subject to certain changes and all of the changes which they made have been incorporated in the unit agreement, which has been signed and introduced as Exhibit 1.

MR. DURRETT: Do you have anything else?

MR. PRICE: That's all I have to offer,

Mr. Examiner, unless you have any questions.

CROSS EXAMINATION

BY MR. UTZ:

Q ~~What~~ zones does this unit agreement encompass?

A The unitized formation is in our Section 2F of the agreement and it covers substantially the Queen Sand formation since some of the ~~old~~ wells are open-hole wells, the unitized formation as defined includes an additional 200 feet above the top of the Queen Sand and 50 feet below the base of the Queen Sand. This was placed in the agreement at the request of the U.S.G.S., because of these open-hole wells, to be sure that all of the producing formation was covered.

Q What is the purpose of this unit agreement?
Is it for the primary production of oil?

A No, this is a unit to affect secondary recovery operations. Operations have been commenced under previous order of the Commission for the technical work and we have four water injection wells on the premises and we have noticed an increase in the oil production from the leases at this early date and anticipate much more when the property is fully developed in accordance with the unit agreement.

Q So, you already have an order from the Commission for a pilot waterflood?

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A Yes, sir.

Q What is the order number?

A Let's see if I have that.

Q Well, if you don't have it handy, I'm sure we can find it out.

A I have an original order number R-133 Case Number 334, March 6th, 1952 and extended by Order WFX Number 243, October 18th, 1966.

Q Extended by what?

A WFX Number 243, dated October 18, 1966.

MR. UTZ: Are there any other questions of the witness?

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Price, each of the various leases included in this unit area is owned by Maxwell Oil Company as the working interest owner, is it not?

A Yes, sir, as to an undivided one-half interest, working interest.

Q And the royalty is identical throughout each of the leases?

A No, sir, there are four tracts. The U.S.G.S. owns the basic one-eighth royalty in all of the tracts.

Q That is what I mean. The royalty is the same. It

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is all --

A Yes, sir, with the exception of overriding royalty.

Q Right.

A But, under the terms of the unit agreement, it is included as royalty.

Q I see. Well, now, the royalty then, or the overriding royalty is different insofar as the various tracts are concerned?

A Yes, sir, in two of the tracts they are the same. In two others, they are different.

Q Now, there is a tract partition formula included in Section 12 of the unit agreement. Has this tract participation formula been approved by all of the overriding working interest owners?

A No, sir, it has only been approved by eighty-one percent of the total royalty owners, including the U.S.G.S.

Q And the U.S.G.S. owns twelve and one-half percent of the royalty?

A Yes, they own two-thirds of the total royalty as defined.

Q In other words, sixty-six and two-thirds percent?

A Yes, sir.

Q Then, fifteen percent of the royalty in addition to the U.S.G.S. has approved it?

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A Yes, sir. We anticipate receiving additional ratifications, but at this time, we have only received ratifications from five out of the eight overriding royalty owners.

Q You still have to hear from three?

A Three.

Q Have any of the three actually refused?

A No, they have not and they have all been forwarded a copy of the unit agreement with the request to -- and a ratification form to execute the same and we have return receipts, U. S. mail return receipt cards executed by all of the nonconforming overriding royalty owners, indicating that they have received a copy of the unit agreement.

Q How long ago were those mailed to them?

A On April 5th, 1967.

MR. NUTTER: I believe that's all. Thank you.

MR. UTZ: Are there any other questions? If not, the witness may be excused.

MR. PRICE: If the Examiner please, I would like to introduce Exhibit 1, the unit agreement which was marked.

MR. UTZ: Without objection, the Exhibit 1, which is the unit agreement for this case will be entered into the record.

(Whereupon, applicant's Exhibit Number 1 was admitted into evidence.)

(Whereupon, the witness was excused.)

MR. DURRETT: Thank you Mr. Examiner.

MR. UTZ: The case will be taken under advisement.

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Jerry Patti
Notary Public

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 3564,
heard by me on April 26, 1967.
[Signature], Examiner
New Mexico Oil Conservation Commission