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MR. UTZ: Case 4573.

MR. HATCH: Case 4573. Application of Tenneco Oil Company for a unit agreement, Lea County, New Mexico.

MR. KELLY: Booker Kelly of the firm of White, Gilbert, Koch, Kelly and McCarthy, appearing on behalf of the applicants.

I have one witness and ask that he be sworn.

(Witness sworn.)

MR. UTZ: Are there other appearances? You may proceed.

MR. KELLY: Mr. Examiner, I was informed that there is not a written application in this case. Would you like me to --

MR. UTZ: I believe that's correct.

MR. KELLY: Would you like me to send that by a letter?

MR. UTZ: Well, I imagine that it would be in order to. Do you think so?

MR. HATCH: Why don't you do it?

MR. KELLY: All right.

N. B. VENUS, JR.

having been first duly sworn, according to law, testified upon his oath as follows:

DIRECT EXAMINATION

BY MR. KELLY:

1 Q Would you state your name, position and employer, please?

2 A My name is N. B. Venus, Jr. I am a senior land man for  
3 Tenneco Oil Company; headquartered in Midland, Texas.

4 Q And how long have you been with Tenneco?

5 A Oh, well, over fifteen years.

6 Q And as part of your responsibilities, are you concerned  
7 with preparing unit agreements for New Mexico?

8 A Yes, sir.

9 Q And did you prepare the unit agreement which is marked  
10 exhibit two in this case?

11 A Yes, sir.

12 Q Now, referring to what has been marked exhibit one, do  
13 you have a copy of that plat?

14 A No, sir, I don't.

15 Q Well --

16 MR. HATCH: Why don't you, if you need to testify,  
17 why don't you move up here closer to the examiner.

18 THE WITNESS: All right. This will be fine.

19 Q (Mr. Kelly continuing) Well, exhibit one is a plat  
20 showing the outline of the units; is that correct?

21 A Yes. The outline of the unit as being presented this  
22 morning, and a larger outline of an attempted unit.

23 Q The area edged in red is the proposed unit? Is that  
24 correct?

25 A Yes, sir.

1 Q And exhibit number two, which is a copy of the proposed  
2 unit agreement, specified the actual acreage on some page?

3 A Page two, yes, sir.

4 Q And what is the total acreage, sir?

5 A 2,535.57 acres.

6 Q And are you unitizing everything below the surface?

7 A From the surface to the base of the Bough "C" formation  
8 only.

9 Q In the Permo Penn? Now, is that the base of the Bough "C"  
10 formation? Is that established by any particular well?

11 A Well, it is established by, oh, over a half a dozen wells  
12 in the immediate area.

13 Q All right. Now, referring to --

14 A Which were drilled to a much deeper depth.

15 Q I see. Referring to exhibit one. You have an overlay  
16 there that shows some geology. What were your controls  
17 on that?

18 A Let's see, we had ten wells that we used for our subsurface  
19 control.

20 Q And all of those wells went through the Bough "C"?

21 A Yes, sir.

22 Q Have any of those Boughs ever tested the Bough "C"?

23 A There were tests on eight of the wells, tested the Bough  
24 "C".

25 Q There would have been no production?

- 1 A No production.
- 2 Q All right. Is there anything else you wish to add in  
3 reference to exhibit number one?
- 4 A No, sir. I don't -- I can't think of anything.
- 5 Q So the unit is formed for primary production?
- 6 A Yes, sir.
- 7 Q Now, who is the working interest, working operators?
- 8 A The working operator is Tenneco Oil Company.
- 9 Q And is all of this land state land?
- 10 A Every acre is state land.
- 11 Q Now, could you refer the examiner to the exhibit in the  
12 unit agreement which shows your percentage of sign-up?  
13 Could you go through that?
- 14 A That is exhibit B, the last two pages of the unit agree-  
15 ment.
- 16 Q Now, explain to the examiner your percentage of sign-up.
- 17 A We have assignments of operator rights from the surface  
18 through or to the base of the Bough "C", in which the  
19 Tenneco Company is one hundred percent working interest  
20 owner.
- 21 Q How about your royalty and overriding royalties?
- 22 A The overriding royalties are in every case the record  
23 title holder if it is not Tenneco Oil Company, and I have  
24 -- we have consent and ratifications from these companies  
25 to the unit agreement in every case, with the exception of

1 five leases where the maximum override is one percent.

2 Q This is the Boling and Clark interests; is that correct?

3 A Yes. That is set out on exhibit B.

4 Q That is one quarter of one percent in about a five years'

5 lease.

6 A Well, about one half of one percent.

7 Q Is that right?

8 A One quarter of one percent in one.

9 Q Now, I take it that from the exhibit one that you attempted

10 to form a larger unit, but were not able to get some of

11 the other lessees?

12 A That is true. Our initial unit outline took in all of

13 the geology with the exception of an existing South four

14 lakes units, bordering our area on the Southeast.

15 Q You just couldn't work out arrangements with those

16 people?

17 A There was no one would join us.

18 Q I see. Now, you say this is all state acreage? Has the

19 land office looked over this unit agreement and given

20 its approval?

21 A Yes.

22 Q And is the unit agreement as shown in exhibit number two

23 a similar--an agreement similar to those that have been

24 approved by this commission in the past?

25 A Yes. It is a word for word agreement. The only change

1 being the exhibits and descriptions --

2 Q I see. --

3 A Of the line.

4 Q Now, do you have any information on the necessity for this  
5 unit as far as the economies in which you expect to get  
6 out of the proceeds?

7 A This area, with the ten wells was used for subsurface  
8 control. The planning of those wells penetrated the  
9 Devonian, a much deeper formation than our B.C. formation,  
10 and our initial well will be drilled, a new hole in the  
11 Southeast quarter of Section 30, Township 11 South, Range  
12 35 East.

13 From our experience in the Bough "C" in an area to  
14 the North of this area, primarily in Townships 9 South,  
15 Ranges 34, 35, and 36 East, in the North of Township in  
16 Lea County.

17 We have found that any economy that you can use in  
18 the conservation, especially with the large surface  
19 equipment necessary to lift this oil, and large water  
20 volumes in most every case that we have encountered, it  
21 is just better to put as large an area together as  
22 possible.

23 Q I see. Now, in your --

24 A I don't know whether I said that just like I meant to,  
25 but --

1 Q Well, in other words, the economies are such that any  
2 saving you can make on any of your equipment such as  
3 tank batteries and things, easily --

4 A Yes, sir.

5 Q -- Make a more --

6 A Yes, sir.

7 Q -- Feasible project out of this east --

8 A Yes, sir. We are just lucky in this case. I think that  
9 it is one hundred percent state land.

10 Q Now, therefore, in your opinion, would the granting of  
11 this or approval of this unit agreement promote the  
12 development of hydrocarbons in this area?

13 A Boy, there is no question about that, with the ten  
14 previously drilled tests that have at least penetrated  
15 this formation, and then in every case they were plugged.  
16 We just think there is a possibility.

17 Q I see. In exhibit number two, the unit agreement says  
18 you have submitted to the commission here, is an executed  
19 copy, isn't it?

20 A Yes, sir.

21 Q And was exhibit one prepared by you, or under your  
22 supervision?

23 A Exhibit one and exhibit two were prepared by me.

24 Q All right.

25 MR. KELLY: I move the introduction of the two

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exhibits.

MR. UTZ: Without objection, exhibits one and two, will be entered into the record of the state.

MR. KELLY: We have no further questions on direct, Mr. Examiner.

CROSS EXAMINATION

BY MR. UTZ:

Q Mr. Venus --

A Yes, sir. That is the isopach.

Q The best part of the structure, would you say, would that be the parts showing the low in the middle or the --

A Yes, sir.

Q -- the high part? That would be the thickest section?

A Yes, sir.

Q It appears that the unit is over to the Northeast.

A Yes, sir. Our original unit outline came on down into here, and I have correspondence with me that I have answers from everyone in that area.

Now, this is a separate unit here, Mr. Utz.

Q Everything within the green outline is shown on this, you tried to get into the unit; isn't that correct?

A Yes, sir. Yes, sir.

Q And they wouldn't go?

A No, sir. I couldn't get an answer out of one company.

I sent them a return envelope.

- 1 Q Duker Oil Company?
- 2 A Yes. They have a box number here in Santa Fe. Lone Star  
3 wanted to give us -- add a foot dry hole money, and  
4 didn't want to do anything.
- 5 Sun have their acreage tied up in a proposed Devonian  
6 deal over here to the West, and Flag Redthorne wanted an  
7 exorbitant price for the acreage, did not want to join,  
8 or did not want to -- if they sold it, they wanted to  
9 make a few high priced -- Hubert would not do anything.  
10 They have bought that state lease for re-entry possibili-  
11 ties on that Devonian dry hole.
- 12 Q Now, where do you intend to drill this well?
- 13 A South of East 30, right between these two Devonian wells.  
14 Right here. A new hole. If we are successful, then we  
15 will attempt re-entry.
- 16 Q You are looking for production on the Bough "C"?
- 17 A Yes, sir. Our unit agreement is limited to the base of  
18 the Bough "C". These are tests in --
- 19 Q Judging from your contour here, then, you apparently  
20 think that these dry holes should have done something  
21 they didn't do --
- 22 A Yes.
- 23 Q -- in the way of completion measures?
- 24 A Right.
- 25 Q Is that correct?

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A Right.

Q And the real purpose of this unit would be to control the acreage within your yellow outline or red outline, the yellow acreage within the red outline for purposes of spacing?

A Spacing and surface equipment.

Q Well, will all the area be in a participating area?

A Yes.

Q It will all participate?

A Yes.

Q So in effect if you only complete one well, it will be 2,500 acre spacing?

A Oh, no, sir. That is not -- that is not -- well, I didn't understand your question.

Q Well --

A No. Our unit agreement calls for continuous development.

Q Oh, I see. At regular intervals?

A Yes, sir.

Q Well, is it compulsory if you think you can get another well, you don't have to drill it now?

A No, sir.

Q So if you do just draw one complete well, then the entire hundred twenty-five acres will participate in that well; is that correct?

- 1 A No, sir. Our units will be contracted.
- 2 Q Oh, I see.
- 3 A Paragraph eight on page five of the unit agreement, we  
4 would have to drill a well at least every six months  
5 until a well capable of producing unitized substances  
6 is completed to the satisfaction of the commissioner.
- 7 Let's see, then, there is one place in here about  
8 the contract.
- 9 MR. KELLY: And make that Number 10 participate.
- 10 Number 10 is the participation agreement.
- 11 Q (Mr. Utz continuing) Well, just glancing at this,  
12 paragraph eleven would indicate that the entire  
13 participating area or entire unit area would participate  
14 in the revenue from the production, but on the other hand,  
15 paragraph 10 gives you the right to sell off or contract  
16 the unit; is that right?
- 17 A What was the last section?
- 18 Q Paragraph 10.
- 19 A Yes.
- 20 Q The right to sell or otherwise dispose of a proportional  
21 share of any working interest without specific authoriza-  
22 tion from time to time to do so?
- 23 A Yes.
- 24 Q So rather than to dilate the thing, you will probably  
25 contract the unit?

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A Yes, sir.

Q At least that is your plan?

A Yes, sir.

MR. UTZ: Are there other questions?

MR. KELLY: Nothing further.

MR. UTZ: Witness may be excused.

(Witness excused)

MR. UTZ: Statements in the case? Case will be taken under advisement.

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I N D E X

WITNESS

PAGE

N. B. VENUS, JR.

Direct Examination by Mr. Kelly

2

Cross Examination by Mr. Utz

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OFFERED AND

EXHIBIT

MARKED

ADMITTED

Applicant's  
Exhibits 1  
and 2.

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STATE OF NEW MEXICO )  
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COUNTY OF BERNALILLO )

I, LINDA MALONE, Court Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me; and that the same is a true and correct record of the said proceedings, to the best of my knowledge, skill, and ability.

Linda Malone  
Court Reporter

I do hereby certify that the foregoing is a complete record of the proceedings in the final hearing of Case No. 4523, held by me on July 28, 1971.  
[Signature]  
New Mexico Oil Conservation Commission