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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION FOR THE PURPOSE OF)
CONSIDERING:) CASE NO. 10718

APPLICATION OF S & J OPERATING COMPANY

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

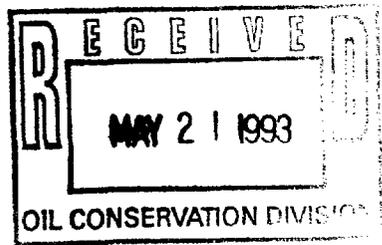
BEFORE: Michael E. Stogner, Hearing Examiner

April 22, 1993

Santa Fe, New Mexico

This matter came on for hearing before the
Oil Conservation Division on April 22, 1993, at the
Oil Conservation Division Conference Room, State Land
Office Building, 310 Old Santa Fe Trail, Santa Fe, New
Mexico, before Deborah O'Bine, RPR, Certified Court
Reporter No. 63, for the State of New Mexico.

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I N D E X

April 22, 1993
Examiner Hearing
CASE NO. 10718

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A P P E A R A N C E S

1
2 FOR THE DIVISION: ROBERT G. STOVALL, ESQ.
3 General Counsel
4 Oil Conservation Commission
5 State Land Office Building
6 310 Old Santa Fe Trail
7 Santa Fe, New Mexico 87501

8 FOR THE APPLICANT: HINKLE, COX, EATON, COFFIELD
9 & HENSLEY
10 P.O. Box 2068
11 Santa Fe, New Mexico 87504
12 BY: JAMES BRUCE, ESQ.
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1 EXAMINER STOGNER: Hearing will come to
2 order. Call next case, No. 10718.

3 MR. STOVALL: Application of S & J
4 Operating Company for an unorthodox oil well location,
5 Chaves County, New Mexico.

6 EXAMINER STOGNER: Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce from
8 the Hinkle law firm in Santa Fe representing the
9 applicant. I have two witnesses to be sworn.

10 EXAMINER STOGNER: Are there any other
11 appearances? Will the witnesses please stand and be
12 sworn at this time.

13 (Witnesses sworn.)

14 FRANKLIN X. RATLIFF,
15 the witness herein, after having been first duly sworn
16 upon his oath, was examined and testified as follows:

17 EXAMINATION

18 BY MR. BRUCE:

19 Q. Would you please state your name and city
20 of residence for the record.

21 A. My name is Franklin X. Ratliff, and I live
22 in Lubbock, Texas.

23 Q. And who do you work for?

24 A. I am Vice President and Land Manager of DDD
25 Exploration, Inc.

1 Q. And what is the relationship of DDD to the
2 applicant in this case?

3 A. We are consultants for them.

4 Q. Have you previously testified before the
5 Division?

6 A. No, I have not.

7 Q. Would you please outline your educational
8 and employment background.

9 A. I got my B.B.A. in Accounting from the
10 University of Texas in 1985. I subsequently worked as
11 a public accountant. Then I went to law school at the
12 Texas Tech University School of Law in 1986 and
13 obtained my law degree in 1989.

14 I worked for the law firm of McCleskey,
15 Harriger, Brazill & Graf in Lubbock, Texas, and I am
16 currently of counsel with them, but currently I have
17 started my own business with my brother, DDD
18 Exploration, Inc.

19 Q. And are you familiar with the land matters
20 involved in this application?

21 A. Yes, I'm familiar.

22 Q. Could you kind of discuss what you've done
23 in this?

24 A. Okay. I've researched all the land. We
25 actually put this deal together for the operator, and

1 I'm familiar with the land, and helped them obtain
2 leases and extensions on leases in pertinent acreage.

3 Q. With respect to, say, mineral ownership,
4 did you research the county records to make a
5 determination with respect to that?

6 A. Yes, I did.

7 MR. BRUCE: Mr. Examiner, I would tender
8 Mr. Ratliff as a petroleum landman.

9 EXAMINER STOGNER: Mr. Ratliff is so qualified.

10 Q. (BY MR. BRUCE) Mr. Ratliff, the location
11 sought is quite unorthodox for this well, isn't it?

12 A. Correct.

13 Q. So I'd like you to testify a little bit
14 about lack of effect or adverse effect on anybody
15 else's correlative rights. If you would refer to
16 Exhibit 1, could you discuss what that exhibit shows?

17 A. Okay. Exhibit 1 in the blue crosshatched
18 shows 960 acres. That 960 acres has the exact same
19 working interest owners. The 40-acre tract where the
20 unit is -- proposed unit is --

21 Q. Marked in red?

22 A. -- marked in red, crosshatched, has the
23 exact same working interest owners.

24 Q. So the well units to be operated by S & J,
25 S & J and its partners offset all well units

1 surrounding the proposed location, do they not?

2 A. Yes, they do.

3 Q. And, therefore, in your opinion, would any
4 working interest owners' correlative rights be
5 affected by drilling this well at this location?

6 A. In my opinion, there would be no adverse
7 effect to the working interest owners by drilling a
8 well in this unorthodox location.

9 Q. Because of the uniform ownership?

10 A. Yes, because of the uniform ownership.

11 Q. Moving on to the royalty interests, could
12 you discuss that? And I refer you to Exhibit 2.

13 A. Okay. With regard to the 960 acres
14 crosshatched in blue, there is a uniform royalty
15 interest at 25 percent. The remaining 75 percent
16 became uniform when this royalty pooling agreement set
17 out in Exhibit 2 was executed by all of the royalty
18 owners that weren't uniform.

19 Q. So just like the working interest, the
20 royalty interest ownership is uniform throughout this
21 blue-shaded area?

22 A. Yes, it is.

23 Q. And, therefore, again would there be --
24 would the rights of the royalty owners in the
25 offsetting tract be adversely affected by the

1 unorthodox location?

2 A. No, they would not be.

3 Q. And were Exhibits 1 and 2 compiled from
4 company records?

5 A. Yes, they were -- well, with the exception
6 of Exhibit 2 was actually prepared by the royalty
7 interest owners.

8 Q. It was prepared by them, but this is part
9 of your company records?

10 A. Right, right.

11 Q. And, in your opinion, is the granting of
12 this application in the interest of conservation and
13 the prevention of waste?

14 A. Yes, it is.

15 MR. BRUCE: Mr. Examiner, I'd move the
16 admission of Exhibits 1 and 2.

17 EXAMINER STOGNER: Exhibits 1 and 2 will be
18 admitted into evidence at this time.

19 MR. BRUCE: I have no further questions of
20 this witness.

21 MR. STOVALL: I do.

22 EXAMINER STOGNER: Mr. Stovall?

23 EXAMINATION

24 BY MR. STOVALL:

25 Q. It's very possible I'm reading things

1 wrong, but Tract No. 1, the east half of Section 29,
2 that would appear to me to be the portion of 29 that
3 is not crosshatched?

4 Mr. Bruce, you're raising your hand.

5 MR. BRUCE: Yeah, it does cover a larger
6 area, but also on page 2 of that Exhibit 2 --

7 MR. STOVALL: Oh, I'm sorry. Good, thank
8 you very much. I knew I was missing something. I
9 flipped the page and didn't see it.

10 MR. BRUCE: I did the same thing, Mr.
11 Stovall.

12 MR. STOVALL: Oh, thank you very much. Let
13 me just run through it real quick then. I feel much
14 better. I knew you hadn't done that to me, but I
15 couldn't figure out why I couldn't see it. I feel
16 much better. Yes, that does more consistent --

17 MR. BRUCE: For historical purposes, the
18 ownership of the 75 percent of the minerals here is in
19 a checkerboard pattern, which is why they entered into
20 this agreement.

21 THE WITNESS: And for purposes of these
22 four sections, that 75 percent interest executed this
23 royalty pooling agreement so they have a uniform
24 interest throughout the tract. The remaining 25
25 percent interest was always uniform.

1 MR. STOVALL: I just missed that
2 description. After I saw a narrative again, I didn't
3 look real carefully. So the question I didn't finish
4 asking won't be asked.

5 EXAMINER STOGNER: There is no overriding
6 royalty interest of any kind?

7 THE WITNESS: Well, not at this time.
8 Actually, our company will receive a 2 percent
9 overriding royalty interest upon -- you know, assuming
10 that the well gets drilled.

11 MR. STOVALL: But it will be uniform?

12 THE WITNESS: Yeah, it will be uniform.

13 MR. STOVALL: You're not too worried about
14 your correlative rights?

15 THE WITNESS: No.

16 EXAMINER STOGNER: Any other questions of
17 Mr. Ratliff?

18 MR. STOVALL: This is, in effect, really a
19 unit without unitization, isn't it?

20 THE WITNESS: That's right.

21 MR. STOVALL: It's not leaseholding, but it
22 shares an interest in it?

23 THE WITNESS: Right.

24 EXAMINER STOGNER: And I'm assuming this --
25 what did you call it?

1 MR. STOVALL: A unit without unitization.
2 Let me ask you a question, actually. Is that a single
3 lease by which that working interest was acquired, or
4 is that multiple leases?

5 THE WITNESS: There's multiple leases.

6 EXAMINER STOGNER: But this was -- I was
7 trying to come up with the right wording of why it was
8 formed. Was it formed because of the geology, what
9 you're going to be presenting today or which your
10 company is going to be presenting today?

11 THE WITNESS: You're talking about the
12 royalty pooling agreement?

13 EXAMINER STOGNER: Essentially, yes.

14 THE WITNESS: As I said, 25 percent -- this
15 is part of the large ranch, 25 percent of the minerals
16 are uniform throughout. The remaining 75 percent are
17 in checkerboard half-sections. We propose to shoot
18 seismic out here on these four sections, and the
19 royalty owners decided that they wanted to enter into
20 a royalty pooling agreement because they didn't want
21 to be left out, assuming that the well got on one-half
22 sections. They just wanted basically to minimize
23 their risk by forming a royalty pooling agreement so
24 wherever the wells turned out, they would be able to
25 participate to some extent.

1 EXAMINER STOGNER: What got the whole thing
2 started, prior to the seismic, they were going to run
3 seismic out there, and this was formulated for that,
4 or was it after review of the seismic?

5 THE WITNESS: It was prior. There was some
6 existing 2-D seismic out there. This was prior to the
7 running of 3-D seismic.

8 MR. STOVALL: This is as much curiosity as
9 anything. Is the 75 percent checkerboard interest
10 derived from the same original source as -- was it
11 like a family deal where they kind of --

12 THE WITNESS: Yeah. What happened was when
13 the original owner of the ranch, he sold 25 percent
14 about 1950, and then he sold the ranch and half of the
15 remaining minerals, but instead of having an undivided
16 interest, they sold it in -- the minerals were in a
17 checkerboard.

18 MR. STOVALL: You kept all of some and none
19 of the others?

20 THE WITNESS: Yeah, all of some and none of
21 the others.

22 MR. STOVALL: And so the subsequent owners
23 turned around and said that kind of puts us at the
24 luck of the draw, huh?

25 THE WITNESS: Right. They didn't desire

1 the luck of the draw. All parties did not desire the
2 luck of the draw in this situation.

3 MR. STOVALL: S & J is the owner of all of
4 the working interest mineral leases; is that correct?

5 THE WITNESS: Them and their partners.

6 MR. STOVALL: Okay. All right. I don't
7 have any others.

8 EXAMINER STOGNER: Anything else?

9 MR. BRUCE: No, sir.

10 EXAMINER STOGNER: He may be excused.

11 MR. BRUCE: Call Thomas Ratliff to the
12 stand.

13 THOMAS RATLIFF,
14 the witness herein, after having been first duly sworn
15 upon his oath, was examined and testified as follows:

16 EXAMINATION

17 BY MR. BRUCE:

18 Q. Would you please state your name and city
19 of residence for the record.

20 A. My name is Thomas Ratliff, and I live in
21 Lubbock, Texas.

22 Q. And what is your occupation?

23 A. I'm a geophysicist, and I'm also President
24 of DDD Exploration.

25 Q. Have you previously testified before the

1 Division as a geologist or a geophysicist?

2 A. No.

3 Q. Would you please outline your educational
4 and employment background?

5 A. I received a bachelor's degree in
6 geophysics from Texas A & M in 1984. From 1984 to
7 1986, I worked as a geophysicist for Plains Radial
8 Petroleum. In 1986, I returned to Texas A&M, received
9 a master's degree in geophysics in 1988. In 1988, I
10 worked for Mobil out of Midland. And in late 1991, I
11 left Mobil, and me and Frank started DDD Exploration.

12 Q. And are you familiar with the geology
13 involved in this prospect?

14 A. Yes.

15 Q. And in fact, were you and your company
16 involved in putting this prospect together?

17 A. Yes. Our company took the existing well
18 control and the existing 2-D seismic, put together
19 this prospect, sold this prospect as a 3-D deal to the
20 operators that now own it. And we subsequently shot a
21 3-D survey, and this is what the 3-D survey showed.

22 Q. Have you prepared what's marked Exhibit 3
23 for submission for the Division?

24 A. Yes, I have.

25 MR. BRUCE: Mr. Examiner, I tender Mr.

1 Thomas Ratliff as an expert -- I don't know if we
2 should qualify him as geologist or a geophysicist.

3 MR. STOVALL: I think the crossover is
4 pretty narrow. But I have a question first.

5 MR. BRUCE: Sure.

6 MR. STOVALL: Your brother referred to this
7 as DDD, you're calling it 3D, and we're talking about
8 3-D seismic. Is it named after the seismic? We're
9 into company names this week.

10 THE WITNESS: The company name, it's
11 spelled DDD Exploration. We often refer to it
12 ourselves as 3D or DDD. It was named -- we set up as
13 -- I've been dealing with 3-D seismic since 1986. We
14 set up our company basically based on 3-D seismic
15 exploration.

16 MR. STOVALL: That answers that question,
17 doesn't it?

18 EXAMINER STOGNER: Am I going to need some
19 special glasses for that?

20 MR. BRUCE: We've got those coming up next
21 as our Exhibit 4.

22 EXAMINER STOGNER: Mr. Thomas Ratliff is so
23 qualified, Mr. Bruce.

24 Q. (BY MR. BRUCE) Mr. Ratliff, the examiner
25 has been given Exhibit 3, which is a portion of what's

1 on the wall. And if you would feel more comfortable
2 sitting or standing, would you discuss what has been
3 done to determine the optimum location for the
4 proposed well.

5 A. What we essentially did was we shot a 3-D
6 seismic survey over the area that you see mapped here
7 on the section lines. The seismic of the 3-D survey
8 was 82.5 feet; so we feel like we have accuracy up to
9 82.5 feet.

10 This is a map of the top of the
11 Mississippian, which lies directly over the top of the
12 Fusselman. The Fusselman is our target zone. What we
13 have here is we have a faulted anticline, rollover
14 anticline on the east side of the fault. And our goal
15 is to, as economically as possible, produce this
16 field. And we feel to do that, we need to drill at
17 the crest of the anticline as high on the anticline or
18 on the top of the Fusselman as we can. And that is
19 where the proposed well location lies.

20 Q. And you are trying as a matter of safety --

21 A. Yes, we tried to --

22 Q. -- to remain away from the fault?

23 A. To remain 250 to 300 feet to the east side
24 of the fault as a precautionary measure to alleviate
25 any possibility of getting on the wrong side of the

1 fault.

2 Q. If this initial well is successful, what
3 would you anticipate as far as further development?

4 A. I would anticipate another location to the
5 south, and I will point out on this map -- I would
6 anticipate another location right here.

7 Q. Which section are you pointing to?

8 A. Which would be in Section 30 or in Section
9 31.

10 EXAMINER STOGNER: Tell you what, when you
11 say "right here," how far south of the intersection of
12 that box in that map of Exhibit No. 3 --

13 THE WITNESS: It's approximately, off the
14 top of my head, 400 feet to the south, but about 200
15 feet to the west of the section line.

16 Q. (BY MR. BRUCE) Was Exhibit 3 prepared by
17 you or under your direction?

18 A. It was prepared under my direction.

19 Q. And, in your opinion, is the granting of
20 this application in the interest of conservation, the
21 prevention of waste, and the protection of correlative
22 rights?

23 A. Yes, it is.

24 MR. BRUCE: Mr. Examiner, I move the
25 admission of S & J Exhibit No. 3.

1 MR. STOVALL: Mr. Bruce, Exhibit No. 3 is
2 only the one piece that we've been handed and not that
3 total exhibit that's on the wall; is that correct?

4 MR. BRUCE: That's correct.

5 EXAMINER STOGNER: Do you have another
6 witness today?

7 MR. BRUCE: I have no other witnesses.

8 MR. STOVALL: It's your intent that you're
9 not submitting the 3-D cross-section and the 3-D
10 structure part of the exhibit on the wall?

11 THE WITNESS: Yes.

12 MR. STOVALL: Is it your intent --

13 MR. BRUCE: We could xerox that for you if
14 you desire. This was a rather costly exhibit to make
15 up.

16 MR. STOVALL: I guess it's not part of the
17 record, but let me ask you some questions on the
18 development of that, if you don't mind, Mr. Bruce.

19 THE WITNESS: Sure.

20 EXAMINATION

21 BY MR. STOVALL:

22 Q. It appears that what is on the wall
23 incorporates this two-dimensional drawing which is
24 marked as Exhibit 3. Above that was sort of an area
25 locator, I assume. Am I correct in interpreting that

1 what is to the left of that on the exhibit that's on
2 the wall and which is not being submitted is a
3 three-dimensional depiction of this same structure
4 that is mapped; is that correct?

5 A. You are correct.

6 Q. And to the right is a cross-section which
7 supports your interpretation?

8 A. To the right are five seismic sections
9 extracted from the 3-D survey. If you'll look, those
10 cross-sections are depicted on the structure map.

11 Q. So those are -- it is on the basis of that
12 other information that you come up with a structure
13 map that is Exhibit 3; is that correct?

14 A. The structure map, I came up with the
15 structure map on the basis of the entire 3-D survey.
16 We put this montage together initially when we tried
17 to sell the deal, and these are just five
18 cross-sections extracted just so people could get an
19 idea of what the structure looked like in a
20 cross-sectional view via the 3-D seismic.

21 Q. So the five cross-sections that you've
22 referred to, that's really the original data that you
23 have evaluated? That is actually the seismic itself?

24 A. That is part of the 3-D seismic survey
25 itself, it sure is.

1 Q. So Exhibit 3 and then the three-dimensional
2 colorful display on the left of the big thing is
3 really putting that together and kind of making a
4 picture of it; is that correct?

5 A. That's right, a more conceptual view.

6 Q. Just so we understand the basis of how you
7 created this information. And so really what it
8 amounts to is Exhibit 3 represents your opinion of the
9 structure based upon this information. And this is
10 your final conclusion as to how that structure looks?

11 A. That is correct.

12 MR. STOVALL: I'm through.

13 EXAMINATION

14 BY EXAMINER STOGNER:

15 Q. Exhibit No. 3, when I look at the center of
16 the map, I see a dot, and it's represented underneath,
17 as negative 30-217. What does that dot depict?

18 A. That is a well that was drilled,
19 preexisting Fusselman test. That was drilled in early
20 January of 1990.

21 Q. Is that a producing well, or is it plugged
22 and abandoned?

23 A. It has not been producing for a year and a
24 half, and, to my knowledge, it is plugged and
25 abandoned.

1 Q. Were you able to obtain any information on
2 that well to help substantiate your mapping?

3 A. Yes.

4 Q. And what did you review?

5 A. Well, this is where the well projects into
6 the seismic. We feel that we can get 100 to 80 feet
7 high to that particular well. This well came in for
8 50 barrels of oil and quite a bit of water. We feel
9 like it was close to the old water contact. Our
10 objective is to get height of the well and to drain
11 the structure that we feel is filled with oil,
12 everything updip to the well.

13 Q. When I look at this map, is it a different
14 shading depicting the oil:water mark?

15 A. What the different shading depicts in
16 yellow is everything that is structurally even.

17 MR. STOVALL: Let's use Exhibit 3 here
18 because Exhibit 3 does not have the colors.

19 THE WITNESS: Okay. In white is everything
20 that is either even to the well that was drilled in
21 1990 or updip to the well that was drilled in 1990.
22 We feel that everything in yellow is filled with oil,
23 everything in white is filled with oil, and in that
24 dark color, that is where the actual spill point
25 occurs in the 3-D perspective. If we had an oil

1 column that was thick enough, potentially all that
2 could be filled with hydrocarbons, although this well
3 seems to show that we are starting to get into water.

4 Q. (BY EXAMINER STOGNER) Does there appear to
5 be any gas association with this production that you
6 are aware of?

7 A. There is some gas association, but the
8 GOR's are extremely low.

9 Q. What do you surmise as being the reservoir
10 energy in this area?

11 A. A water-drive.

12 Q. Is your company anticipating putting the
13 proposed well on pump if it's allowed to be drilled?

14 A. Yes.

15 Q. Any kind of stimulation will be necessary?

16 A. I'm not really qualified to say. I'm not
17 the engineer on this project.

18 Q. Give me a little elementary -- let's go
19 back to elementary portions here of this particular
20 reservoir. It's an anticline on the -- it's on this
21 fault line; right?

22 A. Right, on the east side of the fault. And
23 that fault happens to be about 400 feet, 400-foot
24 fault.

25 Q. How about the matrix of the reservoir

1 itself?

2 A. The reservoir is a carbonate. It's a
3 limestone up on structures, in analogous fields, and
4 the Fusselman in general on structures, we feel we
5 have additional fracture porosity as well as vugular
6 porosity.

7 FURTHER EXAMINATION

8 BY MR. STOVALL:

9 Q. While the examiner is looking at that, your
10 well is proposed to be in Section 29; is that correct?

11 A. That is correct.

12 Q. On Exhibit 3, it almost looks like a square
13 is pretty much on the left side of -- actually over
14 into Section 30, but that's --

15 A. This exhibit was made using the 3-D
16 seismic. What we did was, we actually went out to the
17 location, and we surveyed in the trace extracted from
18 the seismic that we want to drill the well on. And
19 when we went out to the field and surveyed again, it
20 just happened to be 15 feet from the west side of the
21 lease line. But it's just the -- there's about a
22 50-foot inaccuracy of this particular map of what's
23 actually there on the ground. That is the reason for
24 that slight discrepancy.

25 Q. Is there good correlation between that well

1 that you've referred to in 29 and the seismic as far
2 as tops that are structure?

3 A. Yes, there is.

4 FURTHER EXAMINATION

5 BY EXAMINER STOGNER:

6 Q. When were the seismic lines run?

7 A. The 2-D seismic lines were run in 1989
8 subsequent to the first well that was drilled. This
9 3-D survey was run in July of 1992.

10 EXAMINER STOGNER: Any other questions of
11 this witness? He may be excused.

12 Mr. Bruce, do you have anything further?

13 MR. BRUCE: No, sir.

14 EXAMINER STOGNER: Anybody else have
15 anything further in case No. 10718?

16 This case will be taken under advisement.
17
18
19

20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the Examiner hearing of Case No. 10718.
23 heard by me on 22 April 1993.

24 
25 _____, Examiner
Oil Conservation Division

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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Deborah O'Bine, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that I caused my notes to be transcribed under my personal supervision, and that the foregoing transcript is a true and accurate record of the proceedings of said hearing.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL, May 5, 1993.

Deborah O'Bine

DEBORAH O'BINE
CCR No. 63

