

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6 1 March 1989

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Murphy Operating Corp- CASES
10 oration for expansion of unit area, 9589
11 Chaves and Roosevelt Counties, New
12 Mexico, and

13 Application of Murphy Operating Corp- 9590
14 oration for area expansion of a water
15 flood project, Chaves County, New
16 Mexico.

17 BEFORE: Victor T. Lyon, Examiner

18 TRANSCRIPT OF HEARING

19 A P P E A R A N C E S

20 For the Division:

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22 Attorney at Law
23 Legal Counsel to the Division
24 State Land Office Bldg.
25 Santa Fe, New Mexico

26 For Murphy Operating
27 Corporation:

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I N D E X

ANN MURPHY EZZELL

Direct Examination by Mr. Ezzell	4
Cross Examination by Mr. Lyon	18

E X H I B I T S

Murphy Exhibit One-A, Exhibit A	6
Murphy Exhibit One-B, Letter	10
Murphy Exhibit One-C, Letter	10
Murphy Exhibit One-D, Ratifications	11
Murphy Exhibit One-E, Ratifications	11
Murphy Exhibit One-F, Ratifications	11
Murphy Exhibit One-G, Ratifications	11
Murphy Exhibit One-H, Letter	12
Murphy Exhibit One-I, Data	14
Murphy Exhibit One-J, Data	14
Murphy Exhibit One-K, Revision	16

1 MR. LYON: We'll call next
2 Case 9589.

3 MR. STOVALL: Application of
4 Murphy Operating Corporation for an expansion of unit area,
5 Chaves and Roosevelt Counties, New Mexico.

6 MR. LYON: Call for appear-
7 ances.

8 MR. EZZELL: Yes, Mr. Exam-
9 iner, I'm Calder Ezzell with the Hinkle Law Firm of Ros-
10 well, and I've move that we consolidate this case and the
11 case that next follows on the docket and I have one witness
12 to swear.

13 MR. LYON: All right, we'll
14 call Case 9590.

15 MR. EZZELL: 9590, yes, sir.

16 MR. STOVALL: Application of
17 Murphy Operating Corporation for an area expansion of a
18 waterflood project, Chaves County, New Mexico.

19 MR. LYON: Same appearances?

20 MR. EZZELL: Yes, sir.

21 MR. LYON: Are there other ap-
22 pearances?

23 This is your witness?

24 MR. LYON: Will you stand and
25 raise your right hand?

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(Witness sworn.)

MR. LYON: Proceed, Mr. Ezzell.

ANN MURPHY EZZELL,
being called as a witness and being duly sworn upon her
oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. EZZELL:

Q Would you state your name and residence,
please?

A Yes. My name is Ann Murphy Ezzell and
my residence is Roswell, New Mexico.

Q By whom are you employed and in what
capacity?

A I'm employed by Murphy Operating Corpor-
ation in the capacity of Chairman and CEO of the company.
I function in the capacity of attorney and petroleum en-
gineer.

Q Have you previously testified before the
Commission and had your qualifications as an expert in the
field of law and petroleum engineering accepted as a matter

1 of record?

2 A Yes, I have.

3 Q Are you familiar with Murphy Operating
4 Corporation's applications in the consolidated Cases Number
5 9589 and 9590?

6 A I am.

7 Q What does Murphy Operating Corporation
8 seek by its applications in these cases?

9 A It seeks to expand a previously approved
10 Haley Chaveroo San Andres Unit and the waterflood project
11 associated with it to include two additional 40-acre tracts
12 located in Section 3 of Township 8 South, Range 33 East.

13 Q How did you become familiar with the
14 facts concerning these applications?

15 A As Chairman of Murphy Operating Corpor-
16 ation and operator of the Haley Unit, I initiated the pro-
17 posal to expand the unit to include the southwest of the
18 southwest and the northeast of the southeast of Section 3.

19 I've had direct involvement in the con-
20 trol of the effort to include these tracts since approval
21 of our unit upon our original application.

22 MR. EZZELL: Mr. Examiner, are
23 the witness' qualifications acceptable?

24 MR. LYON: Yes, the witness is
25 qualified.

1 MR. EZZELL: Mr. Examiner, we
2 have packaged our exhibits in file folders compatible with
3 the way we did the original exhibits and what I have done
4 is just marked each file folder as Exhibit One and then
5 we'll refer to Exhibit One-A through One-K, and they are
6 all packaged in the (unclear).

7 Q Mrs. Ezzell, I direct your attention to
8 what has been marked as Applicant's Exhibit One-A and
9 ask you to identify that, please.

10 A Exhibit A is Exhibit A to the unit
11 agreement, which has been revised as of 1-27-89. This map
12 shows the original unit outline in a solid black line and
13 the proposed expanded unit outline in a broken line.

14 Q Your original unit was 1,840.7 acres,
15 which was all State of New Mexico leases and divided into
16 tracts formed according to common ownership with the tract
17 number and operator shown.

18 You have proposed the expansion of the
19 original unit to include Tract 5. Would you describe this
20 proposed expansion?

21 A Yes. Our proposed Tract 5 consists of
22 the State of New Mexico oil and gas Lease K-2019 and it
23 covers the southwest quarter of the southwest quarter and
24 the northeast quarter of the southeast quarter of Section
25 3, Township 8 South, Range 33 East; therefore, our expanded

1 unit would consist of 1920.7 acres, all State of New Mexico
2 oil and gas leases.

3 Q Why does the applicant wish to expand
4 the unit area?

5 A These two 40-acre tracts are logically
6 and properly included in the unit.

7 Q Why were these two 40-acre tracts omit-
8 ted from the original unit area?

9 A When we made our original application
10 for unit approval, I believe this was then owned by Union
11 Pacific Resources Company, formerly Champlin Petroleum Com-
12 pany.

13 We approached Champlin about partici-
14 pating in the unit and were informed that the tract was
15 part of a bid package with a great many other Champlin pro-
16 perties.

17 We attempted to contact the broker in
18 Dallas and get the tract split out of the bid package so
19 that we could acquire it and include it in the unit, but
20 they declined and asked us to deal with the seller at the
21 time the package was sold, so that there was no one that we
22 could deal with to include the unit and we did not want to
23 delay our development effort in the other parts of our pro-
24 posed unit at that time.

25 Q What has transpired since that time to

1 make these tracts available for inclusion in your unit?

2 A The parcels in the bid package were pur-
3 chased by Bristol Resources' 1987-1 acquisition program out
4 of Tulsa, Oklahoma, and when they closed their deal they
5 agreed to commit the tract to the unit. So we -- we
6 scheduled the expansion hearing and we met with them
7 several times and subsequently, just several days prior to
8 the -- our scheduled hearing, they changed their mind and
9 told us that their financial institutions did not want to
10 pay for the development and asked us to buy the tract from
11 them.

12 So we entered into a purchase agreement
13 and acquired the tract effective February 1st.

14 I might add that we own the tract now
15 along with our partner, American Energy Capital
16 Corporation, and they are a current working interest owner
17 in the unit.

18 Q How did you confirm ownership of the new
19 tract?

20 A We had a title opinion prepared by
21 Hinkle, Cox, Eaton, Coffield and Hensley of Roswell, New
22 Mexico.

23 Q Does your unit agreement provide a pro-
24 cedure for expansion of the unit?

25 A Yes, it does. Section 4 of the unit

1 agreement outlined the procedure and requires that the unit
2 operator circulate a notice of the proposed expansion to
3 each of the working interest owners and if a certain number
4 of working interest owners concur that the expansion is
5 proper, then a formal notice is prepared and furnished to
6 all of the working interest owners, the Commissioner, and
7 the Oil Conservation Division. Thirty days, there's a
8 period of 30 days for response or any objections and then
9 after the 30 day period the operator proceeds to the expan-
10 sion process either through an administrative approval or
11 a hearing at the OCD.

12 Q Does Commission Order R-8750, which ap-
13 proved your original unit, contemplate expansion?

14 A Yes, it does. Expansion is authorized
15 with Commission approval.

16 Q What percentage of working interest
17 owners and royalty owners have approved the proposed expan-
18 sion?

19 A 100 percent are supporting the expansion
20 effort.

21 Q You testified as to an expansion proce-
22 dure in your unit agreement. Was this procedure followed?

23 A Yes, it was. The expansion was proposed
24 by Murphy Operating Corporation as operator and working in-
25 terest owner, and American Energy Capital Corporation as

1 working interest owner in the proposed tract to be
2 included.

3 The only remaining working interest
4 owner is PHAW Corporation of Washington, D. C., and they
5 have given us written -- their written support and approval
6 for the expansion.

7 Q Okay, I refer you in your folder to
8 Exhibit B and C and ask you to identify them.

9 A Exhibits B and C consist of identical
10 letters dated January 30th, 1989, which were sent by Tele-
11 fax and then hard copies by Federal Express to PHAW Corpor-
12 ation and American Energy Capital Corporation.

13 This letter outlines the basis for the
14 expansion of unit boundary, provides formal notice of the
15 unit expansion, and provides an agreement at the bottom of
16 the letter, whereby these working interest owners accept
17 and agree to the expansion.

18 Q So these executed agreements from Ameri-
19 can Energy Capital Corporation and PHAW Corporation, com-
20 bined with your application for unit expansion, represent
21 notice to and the approval by 100 percent of the working
22 interest owners to the original unit?

23 A Yes, they do.

24 Q Who is the record title owner of State
25 of New Mexico Oil & Gas Lease K-2019, Assignment Number 4?

1 A My company, Murphy Operating Corporation
2 acquired record title by assignment dated effective Feb-
3 ruary 1st, 1989, and by assignment dated the same day we
4 conveyed an undivided 7/8ths of the operating rights under
5 the lease to our partner, American Energy Capital Corpora-
6 tion.

7 Q Okay. I refer you to what has been
8 marked Exhibits D, E, F and G, and ask you to quickly iden-
9 tify them.

10 A Exhibits D, E, F and G are various rati-
11 fications required to validate the support of various in-
12 terests in the unit.

13 Exhibit D is a ratification entitled
14 Ratification of Agreement of the unit agreement and this is
15 Murphy Operating Corporation's ratification for record
16 title under the proposed tract.

17 Q As record title owner of the (unclear)
18 tract.

19 A Exhibit E is the ratification of both
20 the unit agreement and unit operating agreement by Murphy
21 Operating Corporation as unit operator and working interest
22 owner in the proposed tract.

23 Exhibit F is the ratification of both
24 agreements by American Energy Capital Corporation as work-
25 ing interest owner under the proposed tract.

1 And Exhibit G is the ratification of the
2 agreement by Murphy Operating Corporation as overriding
3 royalty interest owner.

4 Q And Murphy Operating Corporation is the
5 only overriding royalty interest owner in the -- in the
6 unit?

7 A That's correct.

8 Q Either the original unit or as expanded.

9 A Yes.

10 Q You testified that the mineral estate
11 relative to all of the lands under the original unit and
12 the proposed expansion tract are owned by the State of New
13 Mexico.

14 Have you received preliminary approval
15 from the State Land Office as to the proposed expansion,
16 and I refer you to what has been marked Exhibit H.

17 A This is a copy of a letter from the Com-
18 mission -- Commissioner of Public Lands, dated January 9th,
19 1989, whereby the Commissioner grants preliminary approval
20 for the unit and asks us to apply for final approval by
21 submitting what is Exhibit D through G and the approval of
22 the OCD.

23 Q What effect will your proposed expansion
24 have on the waterflood project as originally proposed and
25 as approved by Order R-8760 of the Division?

1 A None other than to increase the unit
2 size by 80 acres. Both of the 40-acre tracts which will be
3 included, will be designated producing locations as opposed
4 to injection locations and therefore the proposed injection
5 plan that was previously approved by the OCD would not be
6 changed at all.

7 Q So since these are not injection loca-
8 tions there is no additional area of review wells for which
9 you would be required to submit C-108 data to the Commis-
10 sion?

11 A No, all of the data required has already
12 been submitted at the time of our original hearing.

13 Q Are there any wells located on the lands
14 to be added to the unit?

15 A Yes.

16 Q Are they properly classified as stripper
17 wells?

18 A Yes. One of the wells is a stripper
19 well. It's producing. The other well is plugged and aban-
20 doned.

21 Q Does your unit agreement use a formula
22 for the allocation of unit production and cost to the
23 various tracts?

24 A Yes, it does.

25 Q What is that formula?

1 A The formula is the formula that was
2 originally approved by the OCD and it's based on 80 percent
3 primary production and a weighted 20 percent factor for a
4 usable well.

5 Q Do you feel that this formula represents
6 a fair and equitable division of production among the
7 royalty owners and working interest owners of the various
8 tracts?

9 A Yes, I do.

10 Q Has this formula been accepted and ap-
11 proved by all of the working interest owners?

12 A Yes, it has.

13 Q Based on this formula what is the tract
14 participation factor for the proposed Tract 5, and I refer
15 you and the Examiner to Exhibit I.

16 A Exhibit I shows the new tract participa-
17 tion factors for the original unit tract adjusted by the
18 addition of the Tract 5 land.

19 Tract 5 has one usable well and 171,757
20 barrels of allocable primary production, so based on a
21 participation factor of 20 percent usable wells, plus 80
22 percent primary recovery, proposed Tract 5 would have a
23 4.696542 percent tract participation factor.

24 Q I now refer you to Exhibit J and ask you
25 to identify it.

1 waterflood project new Tract 5 would be a producing loca-
2 tion rather than an injection location. In any event all
3 the offset operators received notice of the original unit-
4 ization effort and the surface of Tract 5 lands are owned
5 by the State of New Mexico, and as I've testified, notice
6 was sent to the State Land Office in a timely fashion.

7 Q Okay, I refer you to Exhibit K and ask
8 you to identify and explain it.

9 A Exhibit K is essentially the revision to
10 Exhibit C to the unit operating agreement. It sets forth
11 the names of the unit interest owners and the percentage
12 unit participation as revised to include Tract 5.

13 Q What is the effective date that you seek
14 for your proposed expansion?

15 A We seek to have the effective date Feb-
16 ruary 1st, 1989, which is the effective date of our acqui-
17 sition of Tract 5, of the Tract 5 lease.

18 Q Do you seek a project allowable for the
19 unit as expanded?

20 A Yes. We would ask the OCD that any pro-
21 ducing wells located on the new Tract 5 be included within
22 the project allowable as originally granted by the Commis-
23 sion.

24 Q In your opinion does your proposed ex-
25 pansion have a reasonable expectation of increasing recov-

1 ery from the field?

2 A Yes, we believe it will.

3 Q In your opinion will the approval of the
4 application in these cases promote conservation of oil or
5 gas and the better utilization of energy reserves?

6 A Yes.

7 Q Would you -- in your opinion would you
8 say that the expansion is in the best interest of the State
9 and will the State and each beneficiary of the lands invol-
10 ved receive its fair share of the recoverable oil or gas in
11 place under the lands affected?

12 A Yes.

13 Q Would the granting of the applications
14 prevent waste and protect the correlative rights of all
15 parties?

16 A Yes, it would.

17 Q Were the exhibits that we've submitted
18 prepared by you or under your direct supervision?

19 A They were, except for Exhibit H, which
20 was provided to us by the State Land Commissioner's office.

21 Q And you received Exhibit H through the
22 mail?

23 A Yes.

24 MR. EZZELL: I'll now offer
25 what we've marked Exhibits One-A through K into evidence.

1 MR. LYON: Exhibits One-A
2 through K will be admitted into evidence.

3 MR. EZZELL: And I have no
4 further questions of this witness.

5
6 CROSS EXAMINATION

7 BY MR. LYON:

8 Q Mrs. Ezzell, the -- I was trying to find
9 the exhibit here -- apparently the four original tracts,
10 the working interest ownership was common to all those
11 tracts, is that correct?

12 A That's correct.

13 Q And apparently American Energy Capital
14 Corporation now owns the percentage of interest that Amer-
15 ican -- or that PHAW --

16 A I'd like to explain that. When we pro-
17 posed the original unit we had three partners and normally
18 PHAW liked to own about a third of these projects but be-
19 cause of certain budgetary limitation they declined to par-
20 ticipate in this additional tract at this time and I think
21 from the letter that they have included, I believe it's
22 Exhibit B or C, you'll see that they have been well inform-
23 ed and we offered their percentage in this but they felt
24 they couldn't do it at this time and they may at some point
25 later acquire part of that by contract.

1 Q So that the interest in the unit will
2 vary from the original only to the extent that PHAW does
3 not participate in Tract 5.

4 A That's correct, sir.

5 MR. EZZELL: And they have
6 contractual rights to do so and couldn't exercise those at
7 this time.

8 MR. LYON: Sure. I don't
9 think I have any other questions.

10 MR. EZZELL: Well, then in
11 summary, I'd like to move that the Commission act favorably
12 on these applications and grant the applicant's expansion.

13 MR. LYON: We will take the
14 case under advisement and the witness may be excused.

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16 (Hearing concluded.)
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C E R T I F I C A T E

I, SALLY W. BOYD, C. S. R. DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSE

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 958969590 heard by me on March 1989.

W. Boyd, Examiner
Oil Conservation Division