1	STATE OF NEW MEXICO ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION
2	STATE LAND OFFICE BLDG. SANTA FE, NEW MEXICO
3	17 October 1984
4	EXAMINER HEARING
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6	
7	IN THE MATTER OF:
8	Application of TXO Production Com- CASE pany for compulsory pooling, Lea 8383 County, New Mexico.
10	
11	BEFORE: Gilbert P. Quintana, Examiner
12	TRANSCRIPT OF HEARING
13	TRANSCRITT OF HEARING
14	
15	APPEARANCES
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18	For the Oil Conservation Jeff Taylor Division: Attorney at Law
19	Legal Counsel to the Division State Land Office Bldg.
20	Santa Fe, New Mexico 87501
21	For the Applicant.
22	For the Applicant:
23	
24	
25	

## CERTIFICATE

SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY I. that the foregoing Transcript of Hearing before the Oil Conservation Division 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.

July W. Boyd COR

I do hereby comported that the foregoing is a complete many with the protectings in the Examiner Fluiding of Juse No. 8383. heard by me on Oct. 17

mana Examiner Oil Conservation Division

1	STATE OF NEW MEXICO ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION
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3	SANTA FE, NEW MEXICO
4	31 October 1984
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7	IN THE MATTER OF:
8	Application of TXO Production Cor- CASE
9	poration for compulsory pooling, 8383 Lea County, New Mexico.
10	
11	BEFORE: Michael E. Stogner, Examiner
12	beroke: Michael E. Stogher, Examiner
13	MDANICEDIDE OF HEADING
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16	
10	APPEARANCES
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19	For the Oil Conservation Jeff Taylor Division: Attorney at Law
20	Legal Counsel to the Division State Land Office Bldg.
21	Santa Fe, New Mexico 87501
22	
23	For the Applicant: W. Thomas Kellahin Attorney at Law
	KELLAHIN & KELLAHIN P. O. Box 2265
24	Santa Fe, New Mexico. 87501
25	

1		2	
2			
3	INDEX		
4			
5	DAVID M. HUNDLEY		
6	Direct Examination by Mr. Kellahin	3	
7	Cross Examination by Mr. Stogner	12	
	TOUN MIMMI		
8	JOHN TITTL	1.4	
9	Direct Examination by Mr. Kellahin	14	
10			
11			
12	EXHIBITS		
13			
14	TXO Exhibit One, Plat	5	
15	TXO Exhibit Two, Correspondence	8	
16	TXO Exhibit Three, Memo	10	
17	TXO Exhibit Four, AFE	11	
18	TXO Exhibit Five, Production Map	15	
19	TXO Exhibit Six, Contour Map	17	
20	TXO Exhibit Seven, Contour Map	19	
21	TXO Exhibit Eight, Contour Map	20	
22	TXO Exhibit Nine, Cross Section	20	
23			
24			
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[	2	
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	MR. STOGNER: We will now call	
3	Case Number 8383.	
4	MR. TAYLOR: The application of	
5	TXO Production Corporation for a compulsory pooling, Lea	
6	County, New Mexico.	
7	MR. KELLAHIN: If the Examiner	
8	please, I'm Tom Kellahin of Santa Fe, New Mexico, appearing	
9	on behalf of the applicant and I have two witnesses to be	
10	sworn.	
11	MR. STOGNER: Are there any	
12	other appearances in this matter?	
	If not, will the witnesses	
13	please stand to be sworn?	
14		
15	(Witnesses sworn.)	
16		
17	DAVID M. HUNDLEY,	
18	being called as a witness and being duly sworn upon his	
	oath, testified as follows, to-wit:	
19		
20	DIRECT EXAMINATION	
21	BY MR. KELLAHIN:	
22		
23	Q Mr. Hundley, for the record would you	
	please state your name and occupation?	
24	A My name is David Hundley. I'm a landman	

for TXO Production Corp., Midland, Texas.

Q Mr. Hundley, have you previously testified before the Oil Conservation Division as a landman and had your qualifications accepted and made a matter of record?

A Yes, I have.

Q Pursuant to your employment as a landman with TXO Production Corporation, have you made a study of the land matters that are relevant to this compulsory pooling application?

A Yes, I have.

Q Would you describe generally for the Examiner what TXO proposes to accomplish with this compulsory pooling application?

A TXO seeks an order pooling all the mineral interests in the Drinkard and Strawn formations underlying the east half southeast quarter, and all mineral interests in all other formations from the surface to 11,500 feet underlying the northeast quarter southeast quarter of Section 33, Township 16 South, Range 37 East, Lea County, New Mexico.

Q In order to form the necessary spacing and proration units for the various pools involved in the application, Mr. Hundley, have there been interest owners that have as of today failed to agree to participate in the drilling of the well or otherwise made some agreement with TXO as the operator?

A Yes.

qualified.

Q And have you been in contact with, or attempted to notify those companies and individuals of TXO's application?

A Yes, we have.

MR. KELLAHIN: At this time, Mr. Stogner, we tender Mr. Hundley as an expert petroleum landman.

MR. STOGNER: Mr. Hundley is so

I'd to like to interject at this time, if I may, the docket and the advertisement both said the northeast half of the southeast quarter. This was a typographic error; fortunately, however, most people that read our ads understand our descriptions and we see no problem with this having to readvertise and delaying the process any longer.

So we will continue .

MR. KELLAHIN: Thank you.

Q Let me refer to Exhibit Number One, Mr. Hundley, which is the land plat, and have you simply identify for us the east half of the southeast quarter of the section, and tell us generally where this property is located.

A Okay. The proposed location is the circle in red on the yellow colored tract, which is, of course, the east half of the southeast quarter of Section 33, 16 South, 37 East.

This is about a mile from the stateline to the east and we are several miles east of the City of Lovington. In the event the operator is able to obtain production out of the Lovington Paddock Pool, what acreage would be dedicated to the well? Α the southeast quarter, Section 33. well? reage colored yellow on the exhibit. plicant in this case? Α Yes, I do. MR. tember 28th, --

The spacing for the Paddock formation is 40 acres and for this well would be the northeast quarter of In the event the operator obtains production out of either the West Knowles Drinkard or the Casey Strawn Pools, what will be the acreage dedication to the The proration unit for both the Drinkard and Strawn formations is 80 acres and will be the east half of the southeast quarter of Section 33, or all of the ac-All right. Mr. Hundley, do you have a copy of the amended application that was filed for the ap-MR. STOGNER: Mr. Kellahin, the 21 amended application that you're referring to --22 KELLAHIN: Was filed Sep-23 24 MR. STOGNER: Thank you, sir. MR. KELLAHIN: -- 1984. 25

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2	Q	Mr. Hundley, if you'll refer to page two	
3	of the amended app	lication, all of the companies and indivi-	
4	duals named on pa	age two and then going on to page three,	
	will those compani	les' and individuals' interest change be-	
5	tween a 40-acre	proration unit and an 80-acre proration	
6	unit?		
7	A	No, they will not.	
8	Q	When we go down the list of individuals	
9	and companies, Mr	. Hundley, let's have you indicate for us	
10	what is the status	with regards to those companies or indi-	
11	viduals participating in this well, starting off with Sun		
12	Oil Company?		
13	А	Okay. Sun Oil Company has agreed to	
	lease to TXO.		
14	Q	All right, sir, Moncor?	
15	A	They've also decided to lease.	
16	Q	Shipp?	
17	A	Mr. Shipp's interest, we believe, is not	
18	applicable to this	tract of land	
19	Q	All right, sir.	
20	А	for further study.	
21	Q	Cleroy?	
22	A	Both Cleroy and Lanroy have agreed to	
	lease.		
23	Q	McGinley?	
24	A	Mr. McGinley has not agreed to anything	
25	and requested that	he be force pooled.	

1 All right, and Sohio? Q 2 Α Sohio, to be frank, could not make a de-3 cision in time and said go ahead and force pool us and we 4 will try to participate before you drill the well. 5 All right. Petco? 6 Α Petco did not want to lease or partici-7 pate and asked to be force pooled. 8 0 All right. James Woods? Α Mr. Woods did not wish to participate, 9 either. 10 Getty Oil? Q 11 Α Getty Oil Company wishes to lease. 12 O Felmont Oil? 13 Felmont is like Mr. Shipp. We believe 14 that they are not involved in this. 15 All right, Mr. Hundley, let's turn to Ex-16 hibit Number Two, which is a package of correspondence to the various parties to be subject to the pooling order, and 17 if you'll simply identify for us the party, the date of the 18 correspondence, and the purpose of your letter. 19 Okay. The first one is a letter dated 20 September 13th, 1984, to Cleroy, Inc., Lanroy, Inc., and J. 21 R. McGinley, notifying them of the hearing, giving them the 22 opportunity to lease or participate and also attached are 23 the copies of the certified receipts. 24 With this letter we sent an Authority for 25 Expenditure form should the addressee want to participate.

9 1 Q And what, if any, response did you re-2 ceive from Mr. Cleroy or Lanroy, Inc.? 3 Cleroy and Lanroy, Inc. have both signed 4 oil and gas leases. 5 Mr. McGinley has elected not to lease. 6 0 Okay. 7 Or participate. Α 8 All right, sir, let's go to the next let-0 ter, which is Sohio Petroleum. 9 A Okay, it's the same form letter dated 10 September 13th, 1984, giving Sohio the opportunity to lease 11 or participate and enclosing an AFE. 12 And you have attached to that the return 13 receipt card indicating that Sohio has received the letter. 14 Α Yes. 15 All right, and what, if any, response did 16 you receive from Sohio? 17 Α Sohio indicates a willingness to do somebut they asked that we go ahead and force pool their 18 interest. 19 Q All right, sir, and the Petco, Limited, 20 letter. 21 0 Petco, Limited's letter, the same date, 22 on the same form with the certified receipts attached. Petco 23 has reponded that they wish to be force pooled. 24 0 All right, sir, and finally, Mr. Woods. Another letter on the same form dated Α 25

September 13th, 1984, certified receipts. Mr. Woods has not responded to any of our correspondence and so he does not choose to lease or participate.

Q All right, Mr. Hundley, let's turn to what is marked as Applicant Exhibit Number Three and have you identify this document.

This is an interoffice memorandum from TXO Production Corp. Accounting Department. It reflects the overhead rates that our Accounting Department has instructed us to use in preparation of operating agreements.

As you can see, on the left side of the page, various areas of operation that TXO's involved in.

In the middle of the page is the well depth and on the right side of the page is the -- are the rates we'd like to use beginning April 1, 1984, through March 31, 1985.

Q Is the Lea County, New Mexico property that's the subject of this case in the West Texas District?

A Yes, it is.

Q And would this be a well at a depth between 4000 and 12,000 feet?

A Yes.

Q And what is the overhead charge you would propose to include, then, in the forced pooling order on a monthly basis while drilling and then during operations?

A The drilling well rate would be \$5,233. The operating or producing well rate would be \$524 per

1 month. 2 Based upon your experience, Mr. Hundley, Q 3 in your opinion is that a fair and reasonable rate to in-4 clude in the pooling order? 5 Yes, it is. 6 All right, sir, let's turn then to Exhi-7 bit Number Four and have you identify that exhibit for us. 8 Α Exhibit Number Four is an Authority for Expenditure, or AFE, for the drilling of the Carter F No. 1 9 Well, to be located 1980 from the south and 660 from the 10 east of Section 33, Township 16 South, Range 37 East, Lea 11 The proposed total depth is 11,500 County, New Mexico. 12 feet. 13 Is this the proposed Authority for Expen-14 diture that has been circulated among the various parties 15 involved in this well? 16 Yes, it is. Α And is it one that's been found accept-17 able by those parties? 18 Several of the parties we've sent it to 19 have signed it and returned it. 20 All right, sir, in your opinion is the Q 21 Authority for Expenditures as estimated on this Exhibit Four 22 fair and reasonable? 23 Yes. Α 24 0 All right, sir. Mr. Hundley, when does TXO propose to commence the drilling of this well? 25

1	12
2	A Well, as soon as we would receive an or-
3	der.
	Q All right. Do you have any time con-
4	straints on you with regards to the commencement date in
5	terms of expiring farmouts or any other kinds of scheduling
6	problems, such as that?
7	A Yes, we do. The majority of the inter-
8	ests in this tract of land is being acquired on a farmout
9	from Texaco, Inc., and the farmout will expire in January,
10	1985.
11	Q In order to hold the term of the farmout
Ì	experience would you have to have a well drilling prior to
12	the expiration of the farmout or must you have a completed
13	well by the end of the farmout term?
14	A Drilling.
15	Q Were Exhibits One through Four compiled
16	by you or prepared under your direction and supervision, Mr.
17	Hundley?
18	A Yes, they were.
19	MR. KELLAHIN: Mr. Examiner,
20	that concludes my examination of Mr. Hundley.
21	CROSS EXAMINATION
22	BY MR. STOGNER:
23	Q Mr. Hundley, on Exhibit Number Three how
24	were these figures how were these figures on all cases
25	figured out on the overhead charges?

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A Are you familiar with the COPAS attachment to operating agreements?

Q Is that going to be submitted as part of the evidence today?

A No, COPAS is an acronym for an accounting organization that sets out standards for the oil and gas industry, and we attach, as do most other companies, an accounting procedure to our operating agreement that is prepared by or under the direction of COPAS.

Q How thick is this COPAS?

MR. KELLAHIN: Mr. Examiner, we'll be happy to bring you a copy of the COPAS attachment this afternoon.

It's a model form used by, I believe, virtually all operators in handling their accounting procedures, one of the provisions of which includes the calculations of what we characterize as overhead.

I'd be happy to submit one of those to you.

MR. STOGNER: Please do and we will just make that a part of Exhibit Number Three.

MR. KELLAHIN: All right, sir.

Q Mr. Hundley, I'm somewhat confused also on your statements about the interest of Mr. Shipp and Felmont Oil Corporation. You have these on the list but you stated that they are not included in that. For what reason?

A Okay. When we received the farmout

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2	agreement from Texaco, Texaco also allowed us to examine	
3	their title opinions which they had prepared on this tract	
4	of land. The title opinion was dated May of 1982.	
5	Subsequent investigations into the title	
6	and curative work revealed that the interest of Mr. Shipp	
	would not be applicable to forced pooling hearing, and the	
7	same with Felmont Oil Corporation.	
8	Q Okay.	
9	MR. STOGNER: I have no further	
10	questions of Mr. Hundley.	
11	Are there any other questions	
12	of this witness? If not, he may be excused.	
13		
14	JOHN TITTL,	
15	being called as a witness and being duly sworn upon his	
16	oath, testified as follows, to-wit:	
17	DIRECT EXAMINATION	
18	BY MR. KELLAHIN:	
19	Q Mr. Tittl, will you please state your	
20	name and occupation?	
21	A My name is John Tittl. I'm a geologist	
22	for TXO Production Corporation in Midland, Texas.	
23	Q Mr. Tittl, have you previously testified	
24	before the Oil Conservation Division as a geologist?	
25	A Yes, sir, I have.	
23	Q And pursuant to your employment as a geo-	

1.5 1 logist have you made an examination of the various geologic 2 and producing facts involved in this application? 3 Yes, sir. 4 MR. KELLAHIN: Mr. Examiner, we 5 tender Mr. Tittl as an expert geologist. 6 MR. STOGNER: He is so quali-7 fied. 8 Q Let me refer you, Mr. Tittl, to what we have marked as Applicant Exhibit Number Five and have you 9 identify that for us. 10 Yes, sir. That's a production map for 11 approximately one mile, a one mile radius around our pro-12 posed drill location. 13 It's been color coded as to production, 14 starting shallow or going deeper, Paddock formation is 15 colored in green and production is given in cumulative pro-16 duction of oil and gas over current production as of June or 17 average daily rate as of March, 1984. Next is the Drinkard in pink and finally 18 the Strawn in blue. 19 The Paddock wells are spaced on 40 acres? Q 20 Yes, sir. Α 21 And the Strawn and Drinkard are on 0 0.8 22 acres. 23 Uh-huh, that's correct. Α 24 All right, let me direct your attention Q 25 first of all to the Paddock wells, Mr. Tittl.

A Uh-huh.

letter A of Section 4.

Q There's a Mesa Petroleum Hightower well

you'll look to the south in the

A Yes, sir.

Ιf

Q -- with a dry hole symbol? Would you describe for us what that well, what formation that well penetrated?

A Yes, sir. The Mesa Hightower was drilled to the Drinkard and both the Paddock and Drinkard formations were tested with DST's. I've got the DST data.

Mesa decided after DSTing both of those formations that the well was uneconomic and thus it was plugged.

Q All right, sir, let's look to the north of the proposed location to the Texaco Carter Well and have you describe for us generally the quality of that well in all three of these pools.

A Yes, sir, the Texaco Carter Well was drilled recently to the Strawn formation as a west offset to the Casey Strawn Pool.

Upon completion, Texaco completed in the Strawn, made 565 barrels and the well went inactive. They could not make their production expectations and they plugged back to the Drinkard formation, which has cumed only 4000 barrels of oil and was making 6 barrels of oil a day.

It's almost a stripper rate.

Q All right, let's go to Exhibit Number Six, Mr. Tittl, and have you describe that one for us.

A All right. Exhibit Six is mapped on the top of the Paddock formation. You can see the Paddock producers are colored in green on here.

There are a number of significant wells on here.

The Mesa Hightower, earlier described on the letter A of Section 4, is a dry hole in the Paddock.

The Mesa Meyers No. 2, location C of Section 3, just to the east of there, was also dry in the Paddock, and the Texaco Carter, another significant well, as per this request, just north of the tract was not tested in the Paddock. Log analyses indicates it to be unproductive.

I can give DST data on this Mesa Hightower or the Mesa 2 Meyers in Section 3, but it would almost suffice to say neither one indicated a productive horizon in the Paddock.

Q As a geologist, Mr. Tittl, do you have an opinion with regards to the risk factor penalty percentage that ought to be included in the forced pooling order when we're discussing the possibility of a successful commercial well in the Paddock formation?

A Yes, sir, I believe we should receive the maximum penalty of 200 percent.

Q Upon what do you base that opinion?

A Well, the fact that the three wells I just mentioned, the two Mesa wells and the Texaco well, all are unproductive in the Paddock formation.

The Mesa Petroleum Meyers Well has cumed 38,000 barrels from the Paddock and I believe we would require just a bit more oil from the Paddock to -- to meet our economics on that well, so there is quite a bit of risk.

As you can see, we're going down dip from the main Paddock production which extends from the Cox wells in the north half of 33 back toward the west in the Lovington Paddock Pool.

Q All right, sir, let me direct your attention to the Drinkard Pool now and have you identify for us and describe Exhibit Number Seven.

A All right, Exhibit Number Seven is also mapped on the top of the Drinkard formation; contour interval 100 feet. The Drinkard producers are outlined in pink. A number of wells here also penetrated the Drinkard and proved to be unproductive.

The two good examples again drilled to -for a Drinkard test were the Mesa Hightower, Letter A,
Section 4, Mesa Meyers No. 2, Letter C, Section 3, and the
Texaco Carter, which had been plugged back to the Drinkard
and is proving to be uneconomic, having cumed only 4000
barrels of oil.

The wells, the Hightower and the Mesa No. 2 again were DST tested when drilled by Mesa and were quite

I've got a DST result on the C&K No. 1 Shipp, which is 1980 south and west of Section 34, a real good well. It's cumed 314,000 barrels of oil in the Drinkard and the DST data from that well and the cumulative production suggest that these wells were dry and there was no bypass production, establishing a risk to the south and to the north of our location with an unproductive oil, seemingly unproductive cumulative production of the Texaco Carter.

Q When you look at the Mesa Petroleum Meyers No. 1 Well in the far northwest quarter of Section 3, you find both a dry hole above and below the structural position of the Meyers No. 1 Well in the immediate offsets on each side.

A Uh-huh.

Q In terms of assessing the penalty risk factor for purposes of the Drinkard production, Mr. Tittl, what is your opinion?

A I believe the Drinkard in there results, production results primarily from fractures, and the Mesa No. 1 Meyers has ben completed in the Drinkard. It's only making 5 barrels of oil a day and now it's cumed 7000; quite uneconomic considering the depth to drill.

And the fractures are on the flank of this structure that are on the 42 -- -4200 contour and possibly the limited production may be explained by a very limited fracture system resulting in a small amount of poro-

sity in that well and a lack of it in the two offsetting dry holes.

Q What percentage, then, concerning the risk factor penalty would you recommend for the Drinkard?

A Again I would like to ask for the 200 percent penalty. Looking at our production map we see the best Drinkard wells are the four wells in the eastern area of Section 34; the C&K No. 2 Shipp in location M of Section 34 has cumed 55,000 barrels of oil and is just barely economic by our corporation economics.

Q All right, sir, let's turn your attention now to the Strawn production and Exhibit Number Eight.

A All right. The Strawn map is again mapped on top of the Strawn. You can see most of the wells weren't drilled deep enough. There is three dry holes on the map, Getty Meyers, Section 33; Mesa No. 7, West Knowles, location G in 34 and location P in 34, also drilled by Mesa, No. 1 West Knowles.

Q In terms of assessing the penalty factor fo the Strawn potential, Mr. Tittl, do you have an opinion as to that percentage?

A I'd like to ask for the maximum penalty in this case, also. This can be demonstrated most effectively by looking at the cross section, the next exhibit.

Q All right, let's go to Exhibit Number Nine.

A Okay, you can see this well goes between

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the best Strawn producer in the Casey Strawn Pool, the Mesa West Knowles No. 4, location B of 34. The well has cumed 706,000 barrels of oil, 680-million cubic feet of gas, and it was making 320 barrels a day in March.

And you'll note the Texaco well, which was drilled in '82, the other side of the cross section.

This is hung stratigraphically on this Strawn marker at the base. You'll note the top of the Strawn is interpreted as an erosion horizon up here.

And what I'd like to demonstrate from this cross section is you see the perforations on the West Knowles Unit from 11,350, approximately, down to 11,400; the porosity indicated by the CNL-FDC log on here I think is correlative with the porosity perforated in the Texaco Lea Carter No. 1, correlating straight across.

This well was opened in all these zones, acidized, flowed some oil, 41 barrels of oil, evenutally was IPed for pumping 43 barrels of oil a day, but it only cumed 565 barrels of oil. It appears either, which is always possible in a well, Texaco had a difficulty in their completion attempt, or just the porosity there has either been drained by the Casey Strawn Pool or the permeability is limited and would only surrender 500 barrels of oil to that wellbore.

Q Mr. Tittl, were Exhibits Five through Nine prepared by you?

A Yes, sir, they were.

Q In your opinion, Mr. Tittl, will approval

1 of this application allow TXO to have an opportunity to pro-2 duce oil and gas that might not otherwise be produced? 3 Yes, sir, I believe so. A 4 MR. KELLAHIN: Mr. Examiner, we 5 move the introduction of TXO's Exhibits One through Nine. 6 Exhibits One MR. STOGNER: 7 through Nine will be admitted into evidence. have no questions of this 8 witness. 9 Are there any further questions 10 of Mr. Tittl? If not, he may be excused. 11 Mr. Kellahin, is there anything 12 further that you have in this case? 13 MR. KELLAHIN: Just the submit-14 tal of the COPAS procedure and we'll do that, Mr. Examiner. 15 MR. STOGNER: Will that be done today sometime? 16 MR. KELLAHIN: Yes. 17 MR. STOGNER: Does anybody else 18 have anything further in Case Number 8383? 19 If not, this case will be left 20 open pending the receival of the COPAS. 21 22 (Hearing concluded.) 23 24 25

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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 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.

They be Boyd COR

Miles Topheniner