

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO

3 February 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Pennzoil Company for           CASE  
for an unorthodox oil well location,       9304  
Lea County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For Pennzoil:

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MR. STOGNER: Call next Case  
Number 9304, which is the application of Pennzoil Company  
for an unorthodox oil well location, Lea County, New Mexico.

We'll call for appearances.

MR. KELLAHIN: If the Examiner  
please, I'm Tom Kellahin, Santa Fe law firm of Kellahin,  
Kellahin & Aubrey.

I'm appearing on behalf of  
Pennzoil Company and I have two witnesses to be sworn.

Q Are there any other appearances in this  
matter?

There being none, will the wit-  
nesses please stand?

(Witnesses sworn.)

Mr. Kellahin.

JIM L. BARR,  
being called as a witness and being duly sworn upon his  
oath, testified as follows, to-wit:

## DIRECT EXAMINATION

BY MR. KELLAHIN:

Q All right, sir, would you please state your name and occupation?

A My name is Jim Barr and I'm a Senior Explorationist with Pennzoil Company.

A Mr. Barr, have you previously testified before the Oil Conservation Division as a geologist?

A Yes, I have.

Q And did you make a geologic presentation with regards to your interpretation of the geology for the Maude Medlin Well No. 1, located in Section 22 of 16 South, Range 37 East, in the Northeast Lovington Pennsylvanian Pool?

A Yes, I have.

MR. KELLAHIN: Mr. Examiner, at this time we tender Mr. Barr as an expert petroleum geologist.

MR. STOGNER: Mr. Barr is so qualified.

Q Mr. Barr, let me direct your attention to what we've marked as Exhibit Number One. First of all, would you identify for us the section that the well is to be located in?

A The well is to be located in Section 22,

1 16 South, 37 East, and it will be in the northeast of the  
2 southeast quarter of that section.

3 Q This display does not show all of Section  
4 26, does it?

5 A Not show all of Section 22.

6 Q I'm sorry, all of Section 22.

7 A Correct. It shows primarily -- the cen-  
8 ter of the exhibit is essentially the southeast quarter of  
9 Section 22.

10 Q The stippled area contained in the north  
11 half of the southeast quarter is an 80-acre tract?

12 A Yes, 80-acre proration unit.

13 Q Would you give the Examiner the history  
14 behind Pennzoil's proposal for this well, commencing with  
15 the original request in the forced pooling case that was  
16 file by Pennzoil and that resulted in Order R-8555, that was  
17 entered on November 24th of 1987?

18 A Okay. At that time we had requested a  
19 location 810 feet from the east line and 1980 feet from the  
20 south line.

21 Subsequent to our appearance at the hear-  
22 ing back in November, we have drilled an additional well, an  
23 additional two wells, as a matter of fact, and the informa-  
24 tion that we gained from those wells necessitates that we  
25 have come back before the Commission and request to move the

1 location 180 feet further west. This is based upon the  
2 geology, primarily the petrophysical part of the information  
3 gained from those two holes and integrated with other data  
4 that we have in the area that -- in the best interest and to  
5 optimize our location we are requesting that we move this  
6 location 180 feet further west, which would put it in 990  
7 from the east line and still a 1980 from the south line.

8 MR. KELLAHIN: Mr. Examiner,  
9 I'd like to show you a copy of Order R-8555. It was entered  
10 in Case 9267 and also I'll give you my copy of Mr. Barr's  
11 Isopach of the Strawn from that hearing date so that you can  
12 see the exhibits to which he refers.

13 This is the original pooling  
14 order and this is his original display.

15 MR. STOGNER: Okay, Mr. Kella-  
16 hin, this copy that you give me with the red markings on it  
17 --

18 MR. KELLAHIN: Yes, sir.

19 MR. STOGNER: -- this is the  
20 proposed location as it is now?

21 MR. KELLAHIN: No, sir, that  
22 was the original requested location.

23 MR. STOGNER: And this is the  
24 proposed one now?

25 MR. KELLAHIN: Yes, sir.

1 MR. STOGNER: Okay, and it is  
2 990 from the east line?

3 A Correct.

4 MR. KELLAHIN: And 1980 from  
5 the south line.

6 MR. STOGNER: What is your pro-  
7 posed acreage dedication?

8 MR. KELLAHIN: it would be the  
9 north half of the southeast quarter. It would be a laydown.  
10 Originally it was approved as a  
11 standup.

12 What we're seeking is an order  
13 vacating the pooling order because all parties have now  
14 agreed to participate in the well, to the re-orientation of  
15 the spacing unit, and to the adjust of the location of the  
16 well.

17 MR. STOGNER: Now, let's see,  
18 before we go any further, are the interest owners the same  
19 throughout that southeast quarter of this section?

20 MR. KELLAHIN: I have a landman  
21 who will testify. I believe --

22 MR. STOGNER: All right, I'm  
23 jumping ahead of myself.

24 MR. KELLAHIN: I believe that  
25 is correct.

1 MR. STOGNER: Okay, I'm jumping  
2 ahead of myself now.

3 MR. KELLAHIN: No, but the an-  
4 swer is they are the same.

5 MR. KELLAHIN: Okay.

6 A Uh-huh.

7 MR. STOGNER: Okay, please con-  
8 tinue, Mr. Kellahin.

9 Q Now that Mr. Stogner has those two dis-  
10 plays before him, Mr. Barr, describe for us the methodology  
11 used to pick locations and that method that was originally  
12 used for the Maude Medlin location that resulted in a com-  
13 pulsory pooling order.

14 A Essentially the methodology that we used  
15 is integration of well date within the area and seismic  
16 data, and everytime that we do drill a new hole, we evaluate  
17 and integrate the data, and in this particular case we find  
18 out that it would be in our best interest to optimize our  
19 location by moving it 180 degrees west.

20 Q 180 feet.

21 A Excuse me. 180 feet west.

22 Q What was the additional development of  
23 information subsequent to the pooling hearing upon which you  
24 have based your re-interpretation of the location for the  
25 Maude Medlin Well?



1           A           Well, the primary, the main interest was  
2 the drilling of the Pennzoil No. 1 State in Section 2, 17  
3 South, 37 East, in which case we felt we had a very good  
4 location. As it turned out, we ended up with a dry hole.  
5 Re-evaluating the information gained from that hole and the  
6 seismic, take that information and in this particular case,  
7 looking at the seismic across this location, we feel that it  
8 necessitates the moving of the location.

9           Q           Would you summarize for the Examiner, Mr.  
10 Barr, the type of Strawn formations and reservoirs encoun-  
11 tered in here and why it is so critical to move even 180  
12 feet in a particular direction?

13           A           These are algal mound-like structures  
14 which typically are considerably thicker than the surround-  
15 ing Strawn lime section and they're characterized by --

16                               MR. STOGNER: Excuse me, Mr.  
17 Barr.

18           A           Yes.

19                               MR. STOGNER: What kind of --  
20 repeat that last sentence that you said.

21           A           Okay. What they are, they are algal  
22 mound structures that the primary constituents are algal  
23 material; also have corals in it.

24           Q           What is the areal extent generally of  
25 these algal mounds?

1           A           That's what we're still trying to decide  
2 as to the exact areal extent.

3           Q           All right, they tend to be small, irreg-  
4 ular, steep-sided mounds, do they not?

5           A           They are small but the interest is that  
6 they are very steep-sided and this is where you can be 180  
7 feet off and you can have the difference between a dry hole  
8 and a producer.

9           Q           Mr. Barr, you use seismic information to  
10 help you locate and identify the mound structures?

11          A           Yes, we do.

12          Q           And you attempt to confirm the seismic  
13 interpretation with the actual drilling of wells?

14          A           Correct, but it's not infallible.

15          Q           The encroachment of this well has to do  
16 with the spacing for the pool and we're dealing with the  
17 Northeast Lovington Pennsylvanian Pool?

18          A           Yes.

19          Q           And that's an 80-acre spaced Strawn Pool,  
20 is it not?

21          A           Correct.

22          Q           Those pool rules provide that wells at a  
23 standard location will be drilled within 150 feet of the  
24 center of either 40.

25          A           Correct.

1 Q And in this instance you will be 330 from  
2 the side boundary as opposed to 510 from the side boundary.

3 A Correct.

4 Q And you're encroaching upon acreage that  
5 Pennzoil also controls?

6 A Correct.

7 Q And would be dedicated to the well.

8 A Correct.

9 Q In your opinion is there a geologic jus-  
10 tification that's sufficient to cause you to recommend the  
11 relocation of this well?

12 A Yes, there is.

13 Q And to the best of your knowledge, have  
14 the other participants in the well agreed to relocate the  
15 well?

16 A To the best of my knowledge, they have.

17 MR. KELLAHIN: That concludes  
18 my examination Mr. Barr, Mr. Stogner. We would move the  
19 introduction of his Exhibit Number One.

20 MR. STOGNER: Exhibit Number  
21 One will be admitted into evidence.

22 I assume, Mr. Kellahin, that  
23 your next witness will present testimony on the notification  
24 and agreement of the other partners?

25 MR. KELLAHIN: Yes.

## CROSS EXAMINATION

1  
2 BY MR. STOGNER:

3 Q Mr. Barr, you're talking about this move  
4 was instigated because of the completion of another well  
5 within the area, is that correct?

6 A We got a dry hole.

7 Q Okay, and where was this dry hole?

8 A That would be -- that well was the Penn-  
9 zoil No. 1 State 2, which is in Section 2, 17 South, 37  
10 East, and it would have been in the northwest quarter of the  
11 southwest quarter.

12 Q How far away was that well?

13 A From this well here?

14 Q Yes.

15 A Let's see here, by the way the crow flies,  
16 about four miles.

17 Q Are there any other wells between this  
18 old dry and abandoned well and your proposed well today?

19 A Oh, yes, there's wells in there. There's  
20 other mound structures. There is a well that you see there  
21 in the southeast -- or excuse me, southwest part of the ex-  
22 hibit, the Yates, et al, and think that is part of the mound  
23 there that sometimes is referred to as Casey.

24 Q Is that within the Casey Strawn or the  
25 Northwest?

1           A           I think it's in the -- within the Casey  
2 Strawn.

3           Q           Okay. But you have -- does seismic show  
4 or indicate that these two mounds, or the mound that you're  
5 proposing to drill into and the mound that the Yates Shipp  
6 Well is in are not connected or --

7           A           To the best of our knowledge, they are  
8 not connected.

9           Q           Are mounds usually about this small, as  
10 you indicate on Exhibit Number One?

11          A           For the most part, yes. They're about  
12 this areal extent. I would say this would be more of an  
13 average size. There are, you know, maximum and minimum.

14          Q           So with moving your proration unit you'll  
15 just be offsetting yourself.

16          A           Correct.

17          Q           And being more centered within the 80-  
18 acre proration unit.

19          A           Correct.

20          Q           Other than offsetting anybody else.

21          A           Correct.

22          Q           Okay, I have no further -- wait, how do  
23 you spell algal?

24          A           Beg pardon?

25          Q           How do you spell algal?

1 A Algal?

2 Q Yeah.

3 A A-L-G-A-L, algal.

4 MR. STOGNER: Okay, I have no  
5 further questions for Mr. Barr. He may be excused.

6 Mr. Kellahin?

7 MR. KELLAHIN: Thank you. I  
8 have one more witness, Mr. Examiner.

9

10 GREG DAVIS,

11 being called as a witness and being duly sworn upon his  
12 oath, testified as follows, to-wit:

13

14 DIRECT EXAMINATION

15 BY MR. KELLAHIN:

16 Q Mr. Davis, for the record would you  
17 please state your name and occupation?

18 A My name is Greg Davis and I'm a land  
19 specialist with Pennzoil Company.

20 Q Mr. Davis, have you testified on behalf  
21 of your company as a petroleum landman before the Division  
22 on previous occasions?

23 A I have.

24 Q And were you involved with the land trans-  
25 actions concerning the compulsory pooling case previously

1 presented to the Division in Case 9267 that resulted in Or-  
2 der R-8555?

3 A Yes, I was. I prepared most of the exhi-  
4 bits but did not testify.

5 Q Okay. subsequent to the entry of that  
6 order, have you negotiated with other working interest own-  
7 ers in order to obtain a voluntary agreement for the drill-  
8 ling of the Maude Medlin No. 1 Well?

9 A Yes.

10 MR. KELLAHIN: We tender Mr.  
11 Davis as an expert petroleum landman.

12 MR. KELLAHIN: Mr. Davis is so  
13 qualified.

14 Q Mr. Davis, let me direct your attention  
15 to Exhibit Number Two. Would you take a moment and identify  
16 for the Examiner the relationship between Pennzoil Company  
17 and these other working interest owners or offset operators  
18 with regards to the Maude Medlin Well?

19 Let me first of all start, sir, with the  
20 offset operators. Can you generally identify for us where  
21 each of those offset operators has an interest?

22 A Yes. Yates Petroleum, et al, have offset  
23 acreage to the east in the south half of Section 23, and al-  
24 so in the southwest quarter of Section 22, and I believe  
25 they've got some hbp acreage in the north half of Section

1 27.

2 Rio Pecos Corporation farmed out their  
3 interest in the drill site, the southeast quarter of 22, to  
4 Yates Petroleum and also owns a leasehold position in the  
5 northwest quarter of 23 and the north half of Section 22.

6 Wes Perry, who I have now been informed  
7 is buying these leases for Sun Exploration, but it's not of  
8 record, so he was the party we notified, owns some leases in  
9 the northeast quarter of Section 27.

10 Wolverine Exploration and E. M. Nominee  
11 Partnership own the interest, record title interest in the  
12 northwest quarter of Section 22.

13 Q Have you received any objection from any  
14 of the offset operators to Pennzoil's application today?

15 A No, I haven't.

16 Q Let's talk about what has occurred  
17 concerning the forced pooling case in which it was proposed  
18 that the east half of the southeast quarter be dedicated to  
19 this well.

20 A Subsequent to the entry of the order for  
21 forced pooling we did gain approval of all parties who own  
22 an interest in the drill site to enter into an operating  
23 agreement for the drilling of the No. 1 Maude Medlin, and we  
24 subsequently dismissed that order through the Commissioner,  
25 requested it be dismissed.



1           Q           Have you also obtained unanimous consent  
2 of the working interest owners to orient the spacing unit so  
3 it is now the north half of the southeast quarter?

4           A           Yes, we have.

5           Q           In addition have all appropriate parties  
6 approved the relocation of the well to the now proposed un-  
7 orthodox location?

8           A           Yes, they have.

9           Q           Did you have lease expiration concerns  
10 with regards to the leases that Pennzoil controlled that  
11 would be dedicated to this spacing unit?

12          A           Yes, we did. We had leases expiring on  
13 January 24th.

14          Q           As a result of the lease expiration prob-  
15 lems, did you obtain verbal approval from the Oil Conserva-  
16 tion Division Director to spud this well prior to the ter-  
17 mination of any of your leases?

18          A           Yes, we did.

19          Q           Approximately when did you commence the  
20 well?

21          A           January 23rd, I believe.

22          Q           And was it spudded at the unorthodox lo-  
23 cation?

24          A           Yes, it was.

25          Q           And that approval was conditioned upon us

1 coming forward at an Examiner Hearing to present evidence as  
2 to the voluntary consent of all parties in the participation  
3 in the well?

4 A Yes.

5 Q Let's look at the balance of Exhibit Num-  
6 ber Two.

7 A letter of January 11th shows return re-  
8 ceipt cards for all the offset operatorss. Have you re-  
9 viewed that exhibit and satisfied yourself, mr. Davis, that  
10 those in fact are all the offset operators that might be af-  
11 fected by this application?

12 A Yes, I have.

13 Q And are they?

14 A Yes, sir.

15 Q Let's turn now, sir, to Exhibit Number  
16 Three and have you identify and describe Exhibit Number  
17 Three.

18 A Exhibit Number Three is a letter that we  
19 sent to Yates Petroleum, et al, requesting approval to move  
20 the location of the No. 1 Maude Medlin, and also to approve  
21 the location, the unorthodox location, and we needed to  
22 amend our operating agreement to change the spacing in the  
23 proration unit to the north half of Section -- the north  
24 half north -- southeast quarter of Section 22.

25 Q And what was the result of your request

1 to those parties?

2 A We got unanimous approval.

3 Q And those are indicated by the signatures  
4 contained on the second page of that exhibit?

5 A Yes, sir.

6 Q And those are indicated by the signatures  
7 contained on the second page of that exhibit?

8 A Yes, sir.

9 Q Do you -- do you no longer need the  
10 operation of the forced pooling that was entered as Order R-  
11 8555?

12 A No, sir.

13 Q And you're request that the Examiner  
14 enter an order that dismisses that order?

15 A Yes.

16 MR. KELLAHIN: That concludes  
17 our presentation of Mr. Davis' testimony.

18 We would move the introduction  
19 of Exhibits Two and Three.

20 MR. STOGNER: Exhibits Two and  
21 Three will admitted into evidence at this time.

22

23 CROSS EXAMINATION

24 BY MR. STOGNER:

25 Q Mr. Davis, so who are the parties in the

1 initial compulsory pooling, --

2 A Okay.

3 Q -- all entities --

4 A It was Rio Pecos Corporation, Yates  
5 Petroleum Corporation, Yates Drilling Company, MYCO  
6 Industries, Inc., and Abo Petroleum Corporation, the in-  
7 house corporations of Yates Petroleum, basically.

8 Q Okay, as your Exhibit Number Three, I  
9 don't see that Rio Pecos was included in that; however, they  
10 --

11 A Well, they -- they had made -- subsequent  
12 to our order they assigned all their interest to Yates Pet-  
13 roleum, et al.

14 Q Now, when you say "et al", did they give  
15 them -- did they give it all to Yates or did they let all  
16 the --

17 A Well, they --

18 Q -- Yates, et al's (sic) take care of  
19 their particular acreage?

20 A They made proportionate assignments to  
21 the parties.

22 Q Okay.

23 A I don't --

24 Q It's a pretty well known fact that Yates  
25 Petroleum Corporation is acting party on all --

1 A Right.

2 Q -- on using all of these parties, is that  
3 correct?

4 A Right.

5 Q So, essentially, by moving this applica-  
6 tion, you're moving into a better position geologically-wise  
7 (sic). You're not crowding anybody except yourself. Every-  
8 body has agreed and the reason for the hearing today is to  
9 really have this cancelled out or when you made application  
10 for the -- to come today, were you expecting some sort of  
11 opposition or anything?

12 A No.

13 MR. KELLAHIN: We're requesting  
14 now the approval of the location and the dismissal of the  
15 prior order.

16 MR. STOGNER: I have no further  
17 questions of Mr. Davis, either.

18 Are there any other questions?  
19 He may be excused.

20 Does anybody else have anything  
21 further in Case Number 9304?

22 The case will be taken under  
23 advisement.

24

25 (Hearing concluded.)

## 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 CSR

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 9304.  
heard by me on 3 February 1988.

William E. Rogers, Examiner  
Oil Conservation Division