

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

6 25 July 1984

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Robert E. Chandler  
10 Corp. for compulsory pooling, Lea  
11 County, New Mexico.

CASE  
8243

12 BEFORE: Michael E. Stogner, Examiner

13  
14 TRANSCRIPT OF HEARING

15  
16 A P P E A R A N C E S

17  
18  
19 For the Oil Conservation  
20 Division:

W. Perry Pearce  
Attorney at Law  
Oil Conservation Commission  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

21  
22 For the Applicant:

W. Thomas Kellahin  
Attorney at Law  
KELLAHIN & KELLAHIN  
P. O. BOX 2265  
Santa Fe, New Mexico 87501

23  
24  
25

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

I N D E X

BRIAN MURPHY

Direct Examination by Mr. Kellahin	3
Cross Examination by Mr. Stogner	11

JOHN D. SAVAGE

Direct Examination by Mr. Kellahin	13
Cross Examination by Mr. Stogner	18

E X H I B I T S

Chandler Exhibit One, Correspondence	5
Chandler Exhibit Two, Receipts	12
Chandler Exhibit Three, Structure Map	14
Chandler Exhibit Four, AFE	17

(To be submitted following hearing)

1  
2 MR. STOGNER: We'll call the  
3 hearing to order and we will now call Case Number 8243.

4 MR. PEARCE: That case is on  
5 the application of Robert E. Chandler Corporation for com-  
6 pulsory pooling, Lea County, New Mexico.

7 MR. KELLAHIN: Mr. Examiner,  
8 I'm Tom Kellahin of Kellahin and Kellahin, Santa Fe, New  
9 Mexico, appearing on behalf of the applicant, and I have two  
10 witnesses in this case.

11 MR. PEARCE: Are there other  
12 appearances in this matter?

13 (Witnesses sworn.)

14 BRIAN MURPHY,  
15 being called as a witness and being duly sworn upon his  
16 oath, testified as follows, to-wit:

17  
18 DIRECT EXAMINATION

19 BY MR. KELLAHIN:

20 Q Mr. Murphy, would you please state your  
21 name and your occupation?

22 A I am Brian Murphy. I'm an independent  
23 petroleum landman.

24 Q Mr. Murphy, have you previously testified  
25 as a petroleum landman before the Oil Conservation Division  
on a prior occasion?

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

A I have not.

Q Would you explain to the Examiner for his benefit what has been your experience as a petroleum landman?

A Certainly. I have a degree in accounting and I have five years working under the auspices of a Division Landman as an independent landman.

Q And you do business in Midland, Texas?

A That's correct.

Q Does your employment as a consulting petroleum landman include land title matters in Lea County, New Mexico?

A Certainly.

Q And pursuant to practicing your profession, Mr. Murphy, have you been retained by Mr. Chandler and Mr. Savage to determine the land ownership underlying the 40-acre spacing and proration unit that's the subject of this hearing?

A I have.

Q And have you done so?

A I have.

Q All right.

MR. KELLAHIN: We tender Mr. Murphy as an expert petroleum landman.

MR. STOGNER: He is so qualified.

Q Mr. Murphy, let me have you describe for

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

the Examiner what type of well the applicant proposes to drill.

A I understand it to be a House Drinkard, approximately 7200 foot level.

Q And this is a House Drinkard oil well for which 40 acres are required to be dedicated to that well?

A As I understand.

Q With regards to the ownership of the 40-acre tract, Mr. Murphy, have you been able to obtain a voluntary agreement that involves all of the working interest, mineral owners or royalty owners for this tract?

A I have not to date.

Q What percentage of the interest owners of this tract have voluntarily agreed at this point to participation?

A Seventy-five percent.

Q Let me direct your attention to what we've marked as a package of correspondence, as Exhibit Number One, and have you describe for us what the cover sheet to Exhibit Number One is.

A The cover sheet is a letter to Mr. Tom Kellahin, dated July 10th, this year, outlining the ownership of the remaining outstanding 25 percent of the mineral ownership.

Q Is the 25 percent mineral ownership unleased minerals or is that Federal or State minerals?

A It is fee minerals unleased.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

Q With regards to a tabulation of the individuals and percentages with regards to the 25 percent --

A Yes.

Q -- does this letter to me indicate the correct ownership and percentage for those individuals?

A As I understand it, it does.

Q As of the date of the hearing, Mr. Murphy, have any of these individuals or entities agreed to participate in some way in the drilling of this well?

A They have not.

Q Let me have you describe for the Examiner, Mr. Murphy, what efforts you have made in order to obtain the voluntary agreement from these various individuals and the trust involved.

A On page three of the exhibit is an activity summary.

On January 13 this year I called the -- what I understood to be the lady representing this interest, a Mrs. Dreessen in California. She outlined to me the steps I should take to lease this interest, which would be to contact the bank in California, San Francisco.

Q Would you generally describe for the Examiner the relationship, if any, between all these individuals and this 25 percent interest?

A Certainly. Priscilla Kyte, owner one, individually and as a conservator of the Estate of David Kyte, husband and wife, David Kyte is sister -- is brother,

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

rather, to Betty Dreessen.

Betty Dreessen and David Kyte are son and daughter of a Cecil Kyte and a Marie Kyte, both deceased.

Edward Dreessen, Junior, Craig or Ingrid Powell, rather, Craig is her husband, are daughters of Betty Dreessen. The Bank of California, acting for Betty Kyte Dreessen Trust comes from the Betty Dreesen interest, as well.

The Kyte -- Priscilla and David Kyte represent half the 25 percent. Betty Dreesen, Everett Dreesen, Ingrid Powell, and the bank represent the other half of that 25 percent.

Q In efforts to obtain voluntary joinder, have you had contacts with all of those individuals that you've related to us?

A No, I've not been able to reach Edward Dreessen.

Q All right. With the exception of Edward Dreessen you've had conversations with all the rest?

A Yes, I have.

Q All right, continue with describing for us your efforts to get them to voluntarily participate.

A Mrs. Dreessen suggested that I contact the bank with my proposal. The bank would forward my proposal to a consultant, she would not name the consultant, in Roswell for his appraisal. The consultant would then return to the bank their recommendations. The bank would then for-

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

ward it to Mrs. Dreessen, who would then identify the correct ownership of this interest for us to put on the lease.

I called the bank and confirmed that.

Sent out on the 20th of January, seven days later, a sample lease, rental division order. They were going to put on the lease the correct names. And our offer.

On the 22nd of February, approximately one month later, called Mr. Cronyn, a trust officer at the bank; did not get a -- an answer from him, satisfaction. They had not heard from their consultant.

Again on the 15th of March I called. The 12th I called, of April. April 25th I called. May 3rd I called. May 17th I called. May 18th I called. May 29th I called. June 4th I called. To all of these calls, I got no answer.

June 5th I called and he was out. Finally I spoke to another trust officer and I explained that we were a little bit frustrated and we had the option to force pool, so please get back to us, and I said I would confirm that with a letter, which I did.

Q All right, sir, and the date of the letter confirming the possibility of force pooling if they did not deal with you in good faith over this property was sent to the bank on -- approximately when?

A June 5 this year.

Q All right, sir.

1  
2           A           Six months, approximately, from the ini-  
3 tial letter.

4           Q           All right. Without going into specific  
5 detail about all these efforts and attempts, Mr. Murphy,  
6 have you been able to reach agreement with the bank or any  
7 of these individuals concerning the possibility of leasing  
8 their various interests as of today?

8           A           I have not.

9           Q           All right, sir. Let me have you go ahead  
10 beyond the chronologic summary and have you briefly identify  
11 for us the other documents that are contained within Exhibit  
12 Number One.

13          A           Okay. The first instrument following  
14 that is a letter to the bank, January 23rd.

15          Q           In which you made a specific proposal  
16 with regards to lease terms?

16          A           That's correct.

17          Q           All right, sir, and following that, what  
18 else is attached?

19          A           There's a purchase report on which shows  
20 our draft, the lease that we sent, a copy of my handwritten  
21 notes.

22                        The next is the June 5 letter to Mr. San-  
23 toya (sic) outlining what we wish to do.

24                        We sent with that letter to Mr. Santoya  
25 certified copies, or copies, rather, by certified mail to  
all of the other owners that we could identify.

1  
2 The next is a letter I received from the  
3 Bank of California dated June 14th, outlining what they  
4 thought they should lease for.

5 Q All right. In June and July, then,  
6 you've been dealing at least with the Trust Department in  
7 terms of a lease.

8 A That's correct.

9 Q And have you been able to reach an  
10 agreement with regards to any proposal they have made to you  
11 concerning lease terms or any counter proposals on behalf of  
12 your client to the bank?

13 A No. June 28th I sent a final letter to  
14 the bank outlining -- we had increased our offer and said  
15 this is what we will lease for, we hoped that they would  
16 accept it. I did not hear from them.

17 Q All right, sir, and the specific terms of  
18 the lease proposal was a 20 percent royalty.

19 A That's correct.

20 Q 100 percent per net acre for a --

21 A \$100.

22 Q I'm sorry, a \$100 per net acre for two  
23 years lease.

24 A That's correct.

25 Q And then rentals of \$1.00 per acre per  
year.

A We did not hear from the bank on that  
letter. On the 20th of July I called them to find out if

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

they had decided to accept it or not. They said they declined.

Q All right. In your opinion, Mr. Murphy, were -- was that proposed offer to lease, were those terms fair and reasonable?

A Absolutely.

MR. KELLAHIN: That concludes my examination of Mr. Murphy at this point, Mr. Stogner.

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Murphy, I have two letters from the Bank of California.

A That's correct, sir.

Q One received June 28th. I'm sorry, let me back up. Received the 18th. That is the letter that you spoke of --

A Yes, sir.

Q -- dated June 14th.

A That's correct.

Q And what is the letter received June 19th, dated June 15th?

A It is another -- it's a confirming letter of a telephone conversation that we had on the 15th, Mr. Cronyn and I, in which he said that his consultant had recommended a sixth month no bonus quarter royalty lease. I told him that was going to be unacceptable in light of the

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

type of prospect it was and told him that we would go to \$75.00, 1/5th, two years.

He said he would contact his consultant and let me know.

Q Would you please go over again -- okay, this is 25 percent that has not joined, is that correct?

A Leased or joined, yes.

Q Okay, the other 75 percent makes up of Federal government and --

A No, sir, all fee owners.

Q All fee owners and --

A Oil companies, other owners.

Q Was the same 25 percent --

A Yes, sir.

Q -- offered to them as these people?

A Yes, sir.

Q Thank you, Mr. Murphy.

MR. STOGNER: I have no further questions of this witness.

Are there any other questions of Mr. Murphy?

MR. KELLAHIN: No, sir.

MR. STOGNER: If not, he may be excused.

MR. KELLAHIN: Mr. Examiner, for purposes of the record, Exhibit Number Two are copies of the return receipts certified mail cardss showing that we,

1  
2 at the time that we filed the forced pooling application,  
3 sent copies of the same application to all the individuals.

4 We'd like to put that in the  
5 record.

6 MR. STOGNER: Thank you, Mr.  
7 Kellahin.

8 MR. KELLAHIN: At this time,  
9 Mr. Examiner, we'll call Mr. Savage.

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

13 DIRECT EXAMINATION

14 BY MR. KELLAHIN:

15 Q Mr. Savage, would you please state your  
16 name and occupation, sir?

17 A John D. Savage is my name and I'm a pet-  
18 roleum engineer.

19 Q Mr. Savage, would you describe briefly  
20 for the Examiner when and where you obtained your degree in  
21 engineering?

22 A I obtained a degree of engineer of mines,  
23 a professional degree, at the University of Minnesota in  
24 1937.

25 I subsequently took further work at Cam-  
bridge University in England.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

Q Subsequent to graduation, would you describe generally what has been your experience as a practicing petroleum engineer?

A Well, I went to work for Shell in Romania in 1938 and worked with the Shell Group pretty well all over the world for thirty-one years and I was -- had the position of Chief Petroleum Engineer when I retired.

Since then I've been an independent engineer in Midland, Texas, associated with Mr. Chandler.

Q You and Mr. Chandler are partners in this project to drill this proposed Drinkard well on this 40-acre tract?

A Yes, sir.

Q And pursuant to that project have you made a study of the geology and the producing wells in the area?

A Yes. I prepared the map, which I believe is --

Q Exhibit Number Three.

A -- Exhibit Number Three.

Q All right, sir.

MR. KELLAHIN: At this point we tender Mr. Savage as an expert petroleum engineer.

MR. STOGNER: He is so qualified.

Q Mr. Savage, I want to ask you some questions concerning your opinion of the proposed location in

1  
2 terms of the statutory risk factor penalty that the Commis-  
3 sion assesses against the nonconsenting mineral owners. As  
4 I've told you before, that maximum penalty is a 200 percent  
5 number.

6 In relation to that percentage do you  
7 have an opinion as a petroleum engineer as to what the risk  
8 factor the Division ought to apply in this pooling case?

9 A Well, I believe they ought to apply the  
10 200 percent. The map shows that the lease is down structure  
11 from present or prior production and with that is the accom-  
12 panying somewhat greater Morrow well risk that would be en-  
13 tailed.

14 Q Let's have you describe for a moment, in  
15 addition to the down structure position, have you describe  
16 for us generally the kinds and quality of production that  
17 currently exist in the House Drinkard Field.

18 A Well, the field is well out on -- toward  
19 its last days. The one well to the north and west is a 7-  
20 barrel a day producer. It has produced 147,000 barrels of  
21 oil.

22 The south, direct south offset no longer  
23 produces from the Drinkard nor in the San Andres, and was  
24 plugged back after 55,000 barrels of oil production.

25 Q Do you have an opinion as to whether or  
not the 40-acre spacing unit may have been subject to drain-  
age from any of these offsetting wells?

A Well, I think it's likely there's been

1  
2 some. There's been substantial production both to the  
3 northwest and to the southeast, and somewhat lesser immedi-  
4 ately south.

5 I think it just stands to reason that  
6 some of the oil that's been recovered to date probably came  
7 from underneath that proration unit.

8 Q In addition to your opinion on the penal-  
9 ty risk factor, Mr. Savage, let me ask you if you have an  
10 opinion as to what ought to be a fair and reasonable over-  
11 head rate to charge in the pooling order while drilling and  
12 then after production?

13 A For a drilling well \$3000. For a produc-  
14 ing well, \$300.

15 These are monthly figures. Those figures  
16 are well in line with common practice in this area.

17 Q Would you describe for us the depth of  
18 the well, any unique problems you may have in the drilling  
19 or completion of this well, and also the cost involved in  
20 your opinion for drilling this well?

21 A Well, the well would be drilled to ap-  
22 proximately 7200 feet to the base of the Drinkard. I don't  
23 think there should be any unusual or difficult problems.

24 I think the cost of the well, including  
25 tank and the pumping unit, would approximate \$375,000.

Q Would the \$375,000 figure, Mr. Savage, be  
for a completed well?

A Producing into the tanks.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

Q All right, sir.

MR. KELLAHIN: Mr. Examiner, as a result of an oversight on my part, I neglected to have Mr. Savage bring the estimated AFE to the hearing today. We would appreciate the opportunity to leave the record open and let us submit subsequent to the hearing the estimated itemized schedule of well costs for the well.

Mr. Savage, however, is an expert and can discuss with us, if you like, in some detail the cost involved in drilling the well and I will go into that if you so wish, but we would propose to submit the AFE following the testimony today.

MR. STOGNER: I don't think that will be necessary to go into detail today. If you would, please submit that as an Exhibit Four, do you propose?

MR. KELLAHIN: All right, sir, we'll do that.

Q Mr. Savage, let me ask you this. In your opinion is approval of this application by you and Mr. Chandler necessary in order to prevent waste and protect correlative rights?

A Yes. I think that there is oil to be obtained there and by drilling the well everyone would really be protected.

MR. KELLAHIN: That concludes my examination of Mr. Savage.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

We move the introduction of Exhibits One, Two, and Three.

MR. STOGNER: Exhibits One, Two, and Three will be admitted into evidence.

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Savage, where do you reside at this time?

A 2301 Shell Street in Midland, Texas, 79705.

Q Thank you.

MR. STOGNER: I have no further questions of Mr. Savage.

Is there any other questions of this witness? If not, he may be excused.

Anything further in Case Number 8243 this morning, Mr. Kellahin.

MR. PEARCE: If I may, Mr. Examiner, I'd like the record to reflect that the Oil Conservation Division has received a Western Union telegram this morning directed to the Attention of Mr. J. Ramey. I will for the record read the contents of that.

Mr. Ramey. We attempted to negotiate with Mr. Brian Murphy, representing the operator, Robert E. Chandler Corporation, over the past several months for a royalty interest and a short term lease due to the de-

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

pletion of the area by four other producing wells.

Operator declined to purchase.

We strongly protest and object to the forced pooling. End quote.

That is signed Kenneth R. Cronyn, Trust Real Estate Officer, Breessen Trust, Bank of California, P. O. Box 769, San Francisco, California, 94120.

I have nothing further at this time.

MR. KELLAHIN: Mr. Examiner, we've already had Mr. Murphy's testimony on his numerous and consistent efforts with Mr. Cronyn in order to work out a voluntary agreement. If there are any questions of Mr. Murphy, he certainly can be asked those. He's here today.

We have nothing further to submit in this case, however.

MR. STOGNER: That will be so shown in the record as will the telegram will be made part of the record shown in this case.

Is there anything further in Case Number 8243 this morning?

If not, this case will be left open pending the receipt of the Exhibit Number Four, which is the AFE.

(Hearing concluded.)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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 Con-  
servation Division was reported by me; that the said tran-  
script 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 correct and true copy of the proceedings in  
the examination hearing of Case No. 8243,  
heard by me on July 25, 1984.  
Michael J. Stogner, Examiner  
Oil Conservation Division

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

6  
7 11 July 1984

8 EXAMINER HEARING

9 IN THE MATTER OF

10 Application of Robert E. Chandler  
11 Corp. for compulsory pooling, Lea  
12 County, New Mexico.

CASE  
8243

13 BEFORE: Richard L. Stamets, Examiner

14 TRANSCRIPT OF HEARING

15  
16  
17 A P P E A R A N C E S

18  
19 For the Oil Conservation  
20 Division:

W. Perry Pearce  
Attorney at Law  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

21  
22 For the Applicant:  
23  
24  
25

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

MR. STAMETS: We'll call next  
Case Number 8243.

MR. PEARCE: That case is on  
the application of Robert E. Chandler Corporation for com-  
pulsory pooling, Lea County, New Mexico.

Mr. Examiner, that case is to  
be continued until July 25th, 1984.

MR. STAMETS: The case will be  
so continued.

(Hearing concluded.)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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.

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. 8243 heard by me on 7-14 1984.

Richard R. [Signature], Examiner  
Oil Conservation Division