

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

28 November 1984

EXAMINER HEARING

IN THE MATTER OF:

Application of Conoco, Inc. for  
compulsory pooling, a nonstandard  
proration unit and an unorthodox  
gas well location, Lea County, New  
Mexico.

CASE  
8415

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

Jeff Taylor  
Attorney at Law  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant:

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

## I N D E X

## HUGH INGRAM

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## JEFF MARSHALL

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3 MR. STOGNER: We will now call  
4 Case Number 8415.

5 MR. TAYLOR: The application of  
6 Conoco, Inc. for compulsory pooling, a nonstandard proration  
7 unit and an unorthodox gas well location, Lea County, New  
8 Mexico.

9 MR. KELLAHIN: If the Examiner  
10 please, I'm Tom Kellahin of Santa Fe, New Mexico, appearing  
11 on behalf of the applicant and I have two witnesses to be  
12 sworn.

13 MR. STOGNER: Are there any  
14 other appearances in Case Number 8415?

15 If not, will the witnesses  
16 please stand to be sworn?

17 (Witnesses sworn.)

18 HUGH INGRAM,  
19 being called as a witness and being duly sworn upon his  
20 oath, testified as follows, to-wit:

21 DIRECT EXAMINATION

22 BY MR. KELLAHIN:

23 Q Mr. Ingram, for the record would you  
24 please state your name and your occupation?

25 A My name is Hugh Ingram and I'm Conserva-

tion Coordinator for Conoco for the State of New Mexico.

Q Where do you reside, Mr. Ingram?

A I live in Hobbs, New Mexico.

Q And as Conservation Coordinator for Conoco in Hobbs, is one of your areas of responsibility examining the land ownership with regards to efforts to obtain voluntary approval by the working interest owners for the drilling of wells?

A            Yes, it is.

Q And with regards to the compulsory pooling application of Conoco in this case have you made such an effort?

A Yes, I have.

Q Have you previously testified before the Oil Conservation Division of New Mexico, Mr. Ingram, in that capacity?

A Yes, I have.

MR. KELLAHIN: Mr. Examiner, we tender Mr. Ingram as an expert in petroleum land matters.

MR. STOGNER: Mr. Ingram is so qualified.

Q For the benefit of the Examiner, Mr. Ingram, would you summarize for us what Conoco seeks to accomplish with this application?

A Conoco seeks authority to initiate production of gas from its recently completed Skaggs "B" Well No. 7, completed in the Skaggs Abo Gas Pool and dually com-

1  
2 pleted in the Skaggs Drinkard Oil Pool.

3 Q If you'll refer to Exhibit Number One,  
4 Mr. Ingram, would you identify for us, first of all, the Abo  
5 gas proration unit that is the subject matter of the compul-  
6 sory pooling application?

7 A The Skaggs "B" Well No. 7 is located 990  
8 feet from the north line and 1980 feet from the east line of  
9 Section 12, Township 20 South, Range 37 East, Lea County,  
10 New Mexico.

11 This well has -- was drilled as a dual  
12 Drinkard-Tubb oil well at a standard location for an oil  
13 well with an Abo tail. The Abo was found to be productive.  
14 The well is within the northern limits of the Skaggs Abo Gas  
15 Pool and the north half of the north half of Section 12,  
16 containing 160 acres, is -- will be dedicated to this well.

17 Q When we look at the north half of the  
18 north half of the section, Mr. Ingram, are we dealing with  
19 Federal, fee, or State acreage?

20 A This is Federal acreage with the excep-  
21 tion of the northeast quarter of the northeast quarter,  
22 which is fee acreage.

23 Q The northeast quarter of the northeast  
24 quarter, that 40-acre tract, what is the majority working  
25 interest ownership in that 40-acre tract?

A The majority interest working interest  
ownership is owned by Alan B. Antweil and there are, I be-  
lieve, eleven other working interest owners or unleased min-

1  
2 eral interest owners in that tract.

3 Q When we talk about the compulsory pooling  
4 order and that portion of the order that affects working in-  
5 terest owners that have not yet agreed to participate on a  
6 voluntary basis, where will we find their interest located?

7 A There is one party in that 40-acre tract,  
8 being the northeast quarter of the northeast quarter, that  
9 Antweil has been unable to locate. That owner is named Mil-  
10 lie B. Jones and that party owns 1/320th unleased mineral  
11 interest in that 40-acre tract.

12 Q So when we talk about the compulsory  
13 pooling order, we need the order for the gas zone in the Abo  
14 and not for the oil in the Drinkard?

15 A That's correct.

16 Q And it affects Ms. Jones' interest as it  
17 applies to that 40-acre tract.

18 A That's correct. Her interest will only  
19 be in the Abo gas pool.

20 Q The two other things you've requested in  
21 the application are an unorthodox gas well location and then  
22 approval of the nonstandard gas proration unit.

23 If you'll turn to Exhibit Number Two, Mr.  
24 Ingram, would you explain for us how we came to request a  
25 nonstandard gas proration unit?

A Some time ago Texaco sought to form two  
160-acre gas proration units in the middle of Section 12.  
They requested Conoco's approval and it was given. They

1 subsequently came for hearing, I believe, or it was either  
2 approved administratively or by hearing by the NMOCD, ap-  
3 proving those two 160-acre proration units shown outlined in  
4 green on Exhibit Number Two.

5 Consequently, the north half of the north  
6 half is the only acreage in that section that's available to  
7 us for an Abo gas proration unit.

8 Q A standard Abo gas proration unit would  
9 be 160 acres entirely contained within a quarter section.

10 A Correct.

11 Q And Texaco's approval, the Commission's  
12 approval of the two Texaco nonstandard proration units iso-  
13 lates, then, the north half of the north half of this sec-  
tion.

14 A Yes, it does.

15 Q All right. With regards to the unortho-  
16 dox location of the Abo gas portion of the well, Mr. Ingram,  
17 why is that unorthodox?

18 A Because it's 990 feet from the north line  
19 of Section 12, placing it 330 feet from the Texaco lease  
20 line, thereby making it unorthodox for 160-acre proration  
unit.

21 Q It will be a standard location for the  
22 oil well --

23 A That's right.

24 Q -- yet it's unorthodox for the gas por-  
25 tion.

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A That's right.

Q All right, sir, let's go to Exhibit Number Three at this point and have you again identify for us and explain the exhibit in terms of the working interest and unleased mineral interest owners.

A Exhibit Number Three is a map of -- showing Section 12 and the offsetting sections, as well, and it also lists the working interest owners or the unleased mineral interest owners in the north half of the north half of Section 12.

Now, Conoco, Amoco, ARCO, and Chevron own one-fourth interest each in the north half of the northwest quarter and the northwest quarter of the northeast quarter, which is outlined in red, and we're not asking for compulsory pooling of any of these interests. These parties jointly engaged in drilling this well.

Alan J. Antweil is operator and joint owner in the northeast quarter of the northeast quarter.

There are eleven other owners of working interest or unleased mineral interest in this 40-acre tract and they are shown in the lower lefthand corner of that page.

Now all of these owners have executed our communitization agreement except Millie B. Jones who owns 1/320th unleased mineral interest. Mr. Antweil force pooled that interest under Order Number R-7061, dated August 30th, 1982, for a well in his tract because he could not locate



1 Millie B. Jones.

2  
3 MR. KELLAHIN: If the Examiner  
4 please, we'd like you to take administrative notice of the  
5 record upon which Commission Order R-7061 is based to show  
6 the efforts that Mr. Antweil has made to try to find, unsuc-  
cessfully, Ms. Jones.

7 MR. STOGNER: The record will  
8 so show.

9 Q Mr. Ingram, has Conoco or you been suc-  
10 cessful in trying to locate Ms. Jones?

11 A Our attempts have been made through Alan  
12 Antweil and I have spoken recently with a representative of  
13 Mr. Antweil and he stated to me that they were still unable  
to locate that party.

14 Q Can you give us some idea of the magni-  
15 tude in dollars of the impact on Ms. Jones for her interest  
16 in the Abo well?

17 A Yes, the total cost of the interest own-  
18 ers in that 40-acre tract, their total participation in this  
19 will be something in the vicinity of \$87,000. That will be  
20 their share of the Abo participation of that well.

21 Now Ms. Jones, Ms. Jones or her interest  
22 in the Abo portion of that well, when you take the 40-acre  
23 tract that she has a small interest in, apply that to the  
24 total 160-acre proration unit, then her interest becomes  
25 something like 7800ths of one percent, which would make her  
interest about \$250.

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Q In the cost of the well?

A In the cost of the well.

Q Mr. Ingram, let me ask you how Conoco is handling the overhead charges that are being charged for the well.

First of all, give us the overhead charges, the drilling well rate and then the producing well rate. What are those numbers?

A Conoco has submitted an operating agreement to all of the working interest owners in this well, including the owners in the Antweil tract, using our standard drilling well and producing well rate of \$5700 a month drilling well, and \$570 a month for a producing well.

Those are the figures that we use on all of our operating agreement contracts.

Q Has Mr. Antweil, Amoco, ARCO, Chevron, or any of these other working interest owners objected to the overhead rates?

A No, they have not. We have received some returns on the operating agreement from some of the owners in the Antweil tract. They have not raised any questions as yet. It's only been out to them a short time.

Q In your opinion are those charges fair and reasonable?

A Yes, they are. They're the rates that we use on the standard for all wells.

Q All right. Let's go now, Mr. Ingram, to



1  
2 interest fair and reasonable costs?

3 A Yes. We have come to an agreement with  
4 Antweil, the major interest owner, as to what is fair and  
5 reasonable for those owners in that 40-acre tract. As I  
6 stated a few minutes ago, it's something in the neighborhood  
of \$87,000, give or take.

7 Q And those same -- those same costs that  
8 Mr. Antweil has agreed to, then, Ms. Jones would bear her  
9 proportionate share of those costs.

10 A That's correct. After we completed the  
11 well and it was found that the Abo was potentially produc-  
12 tive, at that point Antweil had no interest in the well, but  
13 in order to complete the 160-acre proration unit I called  
14 Antweil and told him that it appeared that we might have a  
15 completion possibility in the Abo gas pool there and asked  
16 them if they would be interested in participating in that  
well, and they chose to participate.

17 MR. KELLAHIN: I have no fur-  
18 ther questions of Mr. Ingram.

19  
20 CROSS EXAMINATION

21 BY MR. STOGNER:

22 Q Mr. Ingram, just for the record, and I  
23 will also take administrative notice of the previous order  
24 alluded to, but for the record, though, when did -- when was  
Ms. Jones heard from last?

25 A Mr. Examiner, my understanding talking

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2 with Antweil's landman, they have never been able to contact  
3 that party. They have no address and no real strong leads  
4 as to how to contact that party.

5 Q Do they have any record of when she was  
6 last heard from?

7 A No, not to my knowledge.

8 Q Mr. Ingram, have you been in here pre-  
9 viously on a compulsory pooling case for Conoco?

10 A Yes, I have.

11 Q When was the last one, do you recall?

12 A Oh, let's see, I guess it was probably --  
13 I suppose it was probably our Dagger Draw No. 4, about, oh,  
14 two or three years ago. I don't remember exactly. We have-  
15 n't had too many compulsory pooling cases.

16 Q For the record, do you remember approxi-  
17 mately how much the overhead charges were at that time?

18 A To the best of my recollection they were  
19 something in the range of \$450. Our overhead charges are  
20 escalated April 1 of each year according to the terms of the  
21 COPAS accounting procedure and so they've started, you know,  
22 that -- our rate was established some several years ago and  
23 then each year on April 1 it escalates by the percentage of  
24 inflation as figured by the National Council, and so it's --  
25 it's a rate that was established several years ago and has  
escalated to this point according to national average.

26 Q You're out of Hobbs, are you not, Mr. In-  
gram?

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A That's correct.

Q You have a new office building down there in Hobbs, don't you?

A Oh, we've been in it about two and a half years.

Q So the overhead charges have gone up considerably since you've moved into your new office building.

A Not at all.

Q Thank you.

A That has nothing at all to do with our overhead rates. Our overhead rates and combined fixed rates are established by headquarters for all -- for all of our Division and we really have very little control over that overhead rate in Hobbs.

Q Thank you, Mr. Ingram.

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

Are there any other questions of Mr. Ingram?

MR. KELLAHIN: Yes, Mr. Examiner.

MR. STOGNER: Mr. Kellahin.

REDIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Ingram, in fact it would be inappropriate under the COPAS accounting procedures to charge back

1  
2 to working interest owners capital expenditures for such as  
3 buildings and whatnot in Hobbs, would it not?

4 A That's right.

5 Q All right, sir.

6 A Those are not direct charges. Those are  
7 charges that are built into the combined fixed rate.

8 Q Thank you.

9 MR. STOGNER: If there are no  
10 other questions of Mr. Ingram, he may be excused.

11 Mr. Kellahin, is your next wit-  
12 ness going to testify on the risk penalty?

13 MR. KELLAHIN: Yes, he is, Mr.  
14 Examiner.

15 MR. STOGNER: Okay, I just won-  
16 dered if I had missed something.

17 MR. KELLAHIN: No, sir, you  
18 haven't, nor have I. He'll testify for about ten minutes.

19 MR. STOGNER: Okay.

20 JEFF MARSHALL,  
21 being called as a witness and being duly sworn upon his  
22 oath, testified as follows, to-wit:

23 DIRECT EXAMINATION

24 BY MR. KELLAHIN:

25 Q Mr. Marshall, for the record would you  
please state your name and occupation?

1  
2 A Jeff Marshall, and I'm an engineer with  
3 Conoco.

4 Q Mr. Marshall, have you previously testi-  
5 fied before the Oil Conservation Division as an engineer?

6 A Yes, I have.

7 Q Pursuant to your employment, would you  
8 describe what you have done with regards to this application  
9 and this well, in a general way?

10 Have you reviewed the geology and the  
11 production tests on this well and are you generally familiar  
12 with Abo production in this area?

13 A Yes, I am.

14 Q Have you made an analysis of the log for  
15 the subject well and have you provided us with a wellbore  
16 schematic for this well from which you have prepared your-  
17 self?

18 A Yes.

19 MR. KELLAHIN: We tender Mr.  
20 Marshall as an expert engineer, Mr. Examiner.

21 MR. STOGNER: He is so quali-  
22 fied.

23 Q Mr. Marshall, let me refer you to Exhibit  
24 Number Four and have you identify that for us, sir.

25 A All right. Exhibit Number Four is a  
structure map on the top of the Abo formation and we  
submitted just the structure map of the Abo. The Drinkard  
and Tubb structure in that area is similar to the Abo



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structure.

Q When Conoco was planning the drilling of the subject well what are the principal target formations, Mr. Marshall?

A The initial zones of interest were the Drinkard and Abo. We intended to drill the well as a Drinkard, excuse me, a Drinkard-Tubb dual completion.

Q What has caused Conoco, to the best of your knowledge and information, to go ahead and drill down to the Abo formation?

A Offsetting us to the south and southwest were two Texaco wells on the Abo horizon. The wells were not producing as well as the offset Tubb producers were, so when we drilled the well we intended to drill the well as a Drinkard-Tubb dual and drill a tail to the Abo to see if it would be commercially productive.

Q When we look at the Texaco Abo wells, would you help us identify those on Exhibit Number Four?

A Okay. Directly one location south of us is Texaco C. H. Weir "A" Well No. 12, and then two locations southwest of us is Texaco C. H. Weir "A" No. 14.

Q What is the current status of the well now, Mr. Marshall?

A It's shut in.

Q Would you go now to Exhibit Number Five and identify that exhibit for us?

A Number Five, Exhibit Number Five is a log

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section of the Abo horizon in the Skaggs "B" No. 7 with the perforations marked with the arrows.

Q Mr. Marshall, the Commission provides in their pooling orders with regards to the Abo formation and to Ms. Jones' interest that they may assess a risk factor penalty of up to 200 percent.

With regards to that risk factor penalty do you have an opinion for the Examiner as to what percentage risk factor he ought to apply in this case?

A 200 percent penalty.

Q All right, sir, upon what do you base that opinion?

A On the risk involved in completing, drilling and completing an Abo well.

Q At this point, even though the well has been drilled and tested, can you as an engineer express an opinion that this well will be economically commercial in the Abo formation as a gas well?

A It appears it will. Typically an Abo producer has a very steep initial decline, so we are -- therefore -- and we haven't got a stabilized producing rate from the well as yet.

Q So at this point you will -- you do not know whether the well will pay -- the Abo production will pay for the Abo costs for this well.

A No, we don't.

Q How -- describe for us generally, Mr.

1 Marshall, based upon your knowledge, what we might expect  
2 with the Abo production?

3 A As I say, typically the first years of  
4 the Abo production is a very steep decline and then later in  
5 the life it tends out to a flatter decline.

6 Q Could this well have been drilled and  
7 will it support itself as a single Abo test?

8 A No, it would not.

9 Q And the location was picked because it is  
10 the optimum location to drill an oil well for the Drinkard  
11 and the Tubb?

12 A Correct.

13 Q Would you go now to the schematic, which  
14 is Exhibit Number Six, Mr. Marshall, and identify that for  
15 us?

16 A Exhibit Number Six is a wellbore schematic  
17 of the Skaggs "B" No. 7 dual completion.

18 Q Is the method for the dual completion one  
19 that is consistent and in accordance with the rules of the  
20 Oil Conservation Division?

21 A Yes, it is.

22 Q And are you and Conoco getting approval  
23 for the dual -- the dual completion on administrative basis?

24 A Yes, it has been approved.

25 Q All right, it's already been approved?

A Yes.

Q In your opinion, Mr. Marshall, will ap-

1  
2 proval of Conoco's application, including a provision for a  
3 200 percent risk factor penalty against Ms. Jones' interest,  
4 be one that prevents waste and protects correlative rights?

5 A Yes, it would.

6 Q Were Exhibits Four, Five, and Six pre-  
7 pared by you or compiled under your direction and supervi-  
8 sion?

9 A Yes, they were.

10 MR. KELLAHIN: Mr. Examiner, we  
11 move the introduction of Conoco's Exhibits One through Six.

12 MR. STOGNER: Exhibits One  
13 through Six will be admitted into evidence.

14 CROSS EXAMINATION

15 BY MR. STOGNER:

16 Q Mr. Marshall, in your opinion is a dual  
17 completion more risky than a single completion?

18 A No, a single completion would be more  
19 risky.

20 Q A single completion would be more risky  
21 than a dual completion?

22 A Yes. Drilling and completing a single  
23 completion would be more risky.

24 Q Let me rephrase my question here.

25 In completing a dual well with packers,  
dual strings of tubing, such as that, do you feel the risk  
is higher for something to go wrong with one of the packers

1  
2 or a string of tubing than, say, a dual -- a single comple-  
3 tion?

4 A Yes, there is greater risk since you have  
5 two strings of tubing instead of one.

6 Q Thank you.

7 MR. STOGNER: I have no further  
8 questions of Mr. Marshall.

9 Are there any other questions  
10 of this witness?

11 MR. KELLAHIN: Yes, Mr. Exami-  
12 ner.

13 REDIRECT EXAMINATION

14 BY MR. KELLAHIN:

15 Q Let me make sure I understood your an-  
16 swers to Mr. Stogner.

17 When we talk about the mechanical risk of  
18 drilling a well, the mechanical risk of a single completion  
19 versus a dual completion, which is more risky?

20 A Neither is more risky.

21 Q All right. When we talk about the speci-  
22 fic risk involved in drilling this well as a single Abo test  
23 versus producing that Abo gas as a dual completion with the  
24 Drinkard oil, how do you assess the risk?

25 A Economically drilling a single Abo com-  
pletion would be risky.

Q All right, sir, thank you.

1  
2 MR. STOGNER: I have no further  
3 questions.

4 If there are no other questions  
5 of Mr. Marshall, he may be excused.

6 Mr. Kellahin, do you have any-  
7 thing further in Case Number 8415?

8 MR. KELLAHIN: No, sir, I do  
9 not.

10 MR. STOGNER: If not, this case  
11 will be taken under advisement.

12 (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 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  
a complete record of the proceedings in  
the Examiner hearing of Case No. 8415  
heard by me on November 28 19 34.

Michael P. Stenger, Examiner  
Oil Conservation Division