

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
JUNE 22, 1960

IN THE MATTER OF:

CASE 1994 Application of Intex Oil Company for approval:
of a unit agreement. Applicant, in the above-
styled cause, seeks approval of its Puerto-
Chiquito Unit Agreement, which unit will em-
brace approximately 12,721 acres of Federal
and fee land in Township 26 North, Range 1
East, Rio Arriba County, New Mexico.

BEFORE:

Daniel S. Nutter, Examiner

T R A N S C R I P T O F P R O C E E D I N G S

MR. NUTTER: We will take next Case 1994.

MR. PAYNE: Case 1994. Application of Intex Oil Com-
pany for approval of a unit agreement.

MR. CORNELL: Dudley Cornell of Albuquerque, attorney
for Intex. We have three witnesses. I may not put them all on.
We might just as well have them all sworn, however.

MR. PAYNE: Yes, sir.

(Witnesses sworn)

MR. CORNELL: I would like to have these marked as Ex-
hibits 1, 2 and 3.

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(Thereupon, Applicant's Exhibits 1, 2 and 3 were marked for identification.)

WILLIAM H. LAIRD,

called as a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. CORNELL:

Q Will you state your name, occupation and address?

A William H. Laird, vice-president in charge of lands for Intex Oil Company, Bakersfield, California.

Q You have Exhibit 1, which is the unit agreement, or the Puerto-Chiquito unit agreement, Mr. Laird. Has the preparation of this agreement been under your direction?

A Yes, sir, it has.

Q Referring to this agreement, will you state whether or not it has been approved by the U.S.G.S.?

A Yes, sir, it was approved on May 27, 1960 by the acting director of the U.S.G.S. in Washington.

Q Referring to Exhibit 2, is that a true and correct copy of the letter of approval?

A It is, yes, sir.

Q Referring to this unit agreement, would you state the number of acres involved in the unit?

A There are a total of 12,721 acres in the unit, 11,332 acres of which is Federal or public domain land, and 889 acres of

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fee land.

Q Are any leases State of New Mexico?

A No, sir, there are no state lands.

Q What percentage of interests in the unit have executed the unit agreement?

A Between ninety-one and ninety-two percent.

Q Calling your attention to Paragraph 10 of the agreement, what is the obligation for the unit operator with reference to the drilling of wells?

A We had an obligation originally to the U.S.G.S. to drill three Greenhorn tests and one Dakota test. Of those tests, one Greenhorn has been drilled so far, and another one is in the process of being drilled to the Greenhorn; maybe two. The Dakota test has not been drilled as yet.

Q Is that in process?

A No, it is not.

Q How many producing wells do you have on the unit at this time?

A On the unit at the present time there are three producing wells, a fourth one of which would be capable of producing, I believe, in the shallower zones, but which is in the process of going to the Greenhorn.

Q How many drilling wells do you have now?

A There are three drilling wells at the present time.

Q With reference to the wells that are producing wells,

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have you established a participation area within the unit for those?

A Yes, there has been a participating area established for two of the wells, none for the third well. The participating area for the Alto and Abajo Well is the 40-acre parcel on which the well is located.

Q In your opinion, Mr. Laird, will the approval of this unit contribute to the efficient production from the unit area and the elimination of waste?

A I would think so, but I would prefer--that would be a question, I think, that either the engineer or the geologist would more properly answer.

MR. CORNELL: Does the Examiner care to ask any questions of this witness?

MR. NUTTER: I think we probably will. Does anyone have any questions of Mr. Laird?

CROSS-EXAMINATION

BY MR. PAYNE:

Q This unit agreement does provide for expansion and contraction, does it not?

A Yes, sir.

Q Who does it provide has to approve the participating area, just the Director of the U.S.G.S.?

A Yes, sir, plus the people in the participating area itself.

Q They also have to approve it?



A Yes, sir, a percentage of them have to prove that, yes, sir.

Q Is the participating formula based on acreage of those in the participating area?

A Yes.

Q And a separate participating area will be established for each of the formations encountered?

A Right, yes, sir. The participating area that we're speaking about at this time, I'm not sure of the nomenclature, but I think it's the Puerto-Chiquito Niobrara. You might have additional participating area for the Dakota which might overlap this. The participating areas that I'm referring to refer only to the Puerto-Chiquito Niobrara unit.

Q This is a standard form used by the U.S.G.S.?

A Yes, sir.

Q This unit agreement does contain a segregation clause not only as to the Federal land, but as to the fee land; is that right?

A I beg your pardon.

Q This unit agreement provides or contains a segregation clause as to both Federal and fee land?

A I believe so, yes, sir.

BY MR. NUTTER:

Q Does this unit agreement have provisions for plans of development after an initial discovery in the area? What paragraph?



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A I might state this, that at the time, originally, when we went down and attempted to get this area approved for a unit, it was stated that they would not do that unless we agreed to drill a certain amount of wells. We went ahead and drilled two wells, and at that time went back and asked for approval of the unit, and, consequently, when the unit was approved, it was already a producing unit by virtue of the fact that the original well on there was producing at the time the request was made. Then, at the second go-round with the U.S.G.S., they made the proviso that we would agree to drill; take a commitment to drill at least three Greenhorn tests and one Dakota test besides the wells which had already been drilled on there, which we agreed to do. We have been to the U.S. G.S. for the next step, and we have two drilling blocks at the present time set up, one for a well which will be nearly offsetting the original well, the Alto Well, and a second drilling block which will be for the Dakota test. The idea, as we understand it from the U.S.G.S., is that as we get each program approved by them, then prior to that we must go back to the U.S.G.S. with our proposed program for the next stage; that is, it might be a two or three-well program for a six months' period, or it might be a six-well program for a year's period, depending.

Q This is it. That requirement is found starting with line 27 on Page 6, I think.

A Yes, sir.

Q This plan of development which you would file with the



U.S.G.S. would be for wells to be drilled within the unit area on Federal lands?

A On any lands.

Q On any lands?

A For new wells that are outside of the participating area, you are requested to set up a drilling block which can be a maximum, I believe, of 640 acres. Most of the drilling blocks are less than that. And you set up a drilling block, and at that time you inquire of your partners as to whether or not they're willing to go along. If sixty-five percent of them agree to it, the drilling block is set up, and then you drill your well and by virtue of that well, if it is a producer, then presumably your participating area would be expanded to take in additional lands.

Q You stated that you have established a participating area for the Abajo--

A And the Alto, which is up in the very north.

Q And that participating area for each of the wells is the 40-acre tract on which the well is located?

A Yes, sir, but it is one participating area of 80 acres.

Q Now, how about the Casa well? Is there a participating area established for that?

A Not as yet. The reason there is not, as I understand it, is there is a question as to whether or not that well would pay to drill another well like that and pay to operate it as well; whether or not it could be a commercial well. I think the U.S.G.S.

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has asked for additional information on that.

Q Now, I note that this Abajo Well, if the participating area is established as 40 acres, contains some fee land; is that correct?

A Yes.

Q What are you doing, assigning the royalty there on the basis of the acreage that is yellow, compared with what is white?

A Yes. First, we had to communitize under the communitization agreement that the Government had, and under the lease with the fee owner you have the right to communitize in 40-acre parcels. So, we prepared a communitization and filed that, which was approved, and then the party owning the fee land and the Government each participate in the production from that.

Q This is all based on percent of the total acreage that's in the 40-acre tract, which is fee or Federal?

A Yes, sir, that is correct.

BY MR. PAYNE:

Q I notice the unit area contains some unleased Federal acreage; is that right?

A You mean unleased by anyone or not committed to the unit?

Q Well, unleased by anyone, apparently?

A No, sir. I believe that all of the Federal--oh, there is a parcel that was--there is one parcel that expired by virtue of the lease termination, but that was put up for application and has been again taken by someone else. We have approached them



to come in.

Q They may or may not come into the agreement?

A Yes, sir.

BY MR. NUTTER:

Q You stated that ninety-one percent of the working interest is committed?

A Of the entire interest, between ninety-one and ninety-two percent of the entire working and royalty interest in the unit.

Q How much of the fee royalty has been committed to the unit?

A None of the fee royalty as of this time.

Q So, this ninety-one percent of royalty that's committed is the Federal Government's?

A Well, plus overriding royalties on the Government land, yes, sir.

MR. NUTTER: Does anyone else have any questions of Mr. Laird? He may be excused.

(Witness excused)

MR. CORNELL: I call Mr. Turner.

ROY TURNER,

called as a witness, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. CORNELL:

Q Will you state your name and residence and occupation?

A Roy Turner, geologist for the Intex Oil Company, Santa



Paula, California.

Q What experience have you had as a geologist, Mr. Turner?

A I've worked for the Intex Oil Company for eleven years.

Q What was your education in that line?

A I was graduated from the College of Mining at the University of California in petroleum engineering.

Q Referring to Exhibit 3, was that prepared by you or under your direction?

A It was prepared by a geologist who works for the company who was formerly working on this project, and I came into it later.

Q Will you state what that represents?

A It's a map depicting the surface geology in the area together with some subsurface contours on top of the Niobrara formation.

Q Is this the basis for the selection of the unit area?

A In part, yes.

Q Based on the geological conditions reflected here, is it your opinion that this unit will contribute to the efficient production from this unit area and the elimination of waste?

A I believe it will.

Q Do you have any explanation of your testimony with reference to the geological conditions that you would like to make to the Commission?

A I believe that the structural conditions existing in the

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area plus the wells that have been drilled in the area rather well outline the reasonableness of the boundaries of the area. We have found, in the wells that we have drilled, oil in the north part of the area and the south part of the area. A well near the west boundary of the area has had substantial shows and perhaps under different drilling conditions could have made a well, and just east of the east boundary of the area the objective horizons outcrop.

Q What are the producing formations in the area?

A It's the Niobrara shale, a member of the Mancos formation.

Q What is the depth?

A The depths range from about 1900 feet down to about 2650 feet.

Q Have you had production from other formations in the Niobrara?

A From several members of the--several zones of the Niobrara member, but all within the Niobrara member.

MR. CORNELL: You may have the witness.

MR. NUTTER: Any questions of Mr. Turner?

MR. CORNELL:

CROSS-EXAMINATION

BY MR. NUTTER:

Q On your Exhibit No. 3 here, Mr. Turner, I note several shades of green and yellow. Are these the zones that this formation is outcropping in? Is this the area of outcrop?



A Yes, that's right.

Q You are producing the No.1 Abajo from the Niobrara?

A Yes, sir.

Q And the No. 1 Alto from the Niobrara; is that correct?

A Yes.

Q You stated that you thought one other well was probably capable of producing if it had been completed a little differently?

A That's the Texsota well on the west in Section 17.

Q Is the Casa capable of producing from the Niobrara?

A The Casa is producing from the Niobrara now, and the Dura well is also.

Q In your opinion as a geologist, is this unit area, as outlined, I believe it's outlined by the little dotted line?

A Yes, by the hashed line.

Q Is it sufficiently large, this unit area, to afford Intex, the unit operator, adequate control of the structure, as you know it today?

A Yes.

Q Is the unit unduly large?

A I don't believe so.

MR. NUTTER: Any further questions of Mr. Turner? He may be excused.

(Witness excused)

MR. CORNELL: Unless the Commission desires any further information, we will rest.



MR. NUTTER: I think we have sufficient evidence here.
Do you have anything further, Mr. Cornell?

MR. CORNELL: No, sir.

MR. NUTTER: Does anyone have anything further for Case
1994? We'll take the case under advisement and recess the hearing
until one o'clock.

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