

DEARNLEY-MEIER REPORTING SERVICE, Inc.

FARMINGTON, N. M.
PHONE 325-1182

ALBUQUERQUE, N. M.
PHONE 243-6691

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
September 11, 1962

IN THE MATTER OF:)

)
)
Application of S. P. Yates Drilling)
Company for approval of a unit agree-)
ment, Eddy County, New Mexico. Ap-)
plicant, in the above-styled cause,)
seeks approval of the Pecos River Deep)
Unit Agreement comprising 17,257.82)
acres, more or less, of State, Federal)
and Fee lands in Township 19 South,)
Ranges 26 and 27 East, and Township 20)
South, Range 26 East, Eddy County,)
New Mexico.)

Case 2629

BEFORE: Elvis A. Utz, Examiner.

TRANSCRIPT OF HEARING

MR. UTZ: Case 2629.

MR. DURRETT: Application of S. P. Yates Drilling
Company for approval of a unit agreement, Eddy County, New Mexico.

MR. WATSON: Neal E. Watson of Watson and Watson,
Artesia, New Mexico appearing for the applicant. I have Mr.
V. P. Sheldon, a witness, to be sworn.

(Witness sworn.)

MR. UTZ: Are there other appearances in this case?

You may proceed.



VILOS P. SHELDEN

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

DIRECT EXAMINATIONBY MR. WATSON:

Q State your name, residence and occupation, please.

A Vilos P. Shelden, Artesia, New Mexico, consulting geologist.

Q Have you testified before the Commission or an Examiner and have your qualifications been established at previous hearings?

A Yes. I have testified and I believe they have been accepted.

MR. UTZ: They have been accepted.

Q Mr. Shelden, it is stated in the application which you have signed that you have a property interest in the area and are agent for the owners of other property interest in the area. What property interest do you have in the area?

A I have a royalty interest in the area.

Q Do you also represent, as agent, Fair Oil Company, Estel H. Yates, James C. Miller, Hugh W. Perry, Martin Yates, III, S. P. Yates and others?

A Yes, sir.

Q Are you also authorized to represent Gulf Oil Corporation



for this hearing and with reference to this application?

A Yes, sir, I am.

MR. WATSON: At this time we would like to file corrected, three corrected copies of the Unit Agreement which is attached to the application and state that those copies have been corrected to comply with requirements from the Commissioner of Public Lands since the date the application was filed.

MR. UTZ: Let's have the reporter mark those. You want to make them exhibits, do you?

MR. WATSON: They're just to replace the exhibits that are attached to the application. Would you like to have them marked?

MR. UTZ: Yes.

(Whereupon, Applicant's Exhibit No. 4 was marked for identification.)

Q (By Mr. Watson) Mr. Sheldon, did you prepare the exhibit attached to the application which consists of a map of the proposed unit area?

A Yes, I did.

Q Did you also prepare Exhibit B which consists of a schedule showing the ownership interests in oil and gas properties in the area?

A Yes, sir.

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Q As shown by Exhibit A, are the lands within the unit area made up of contiguous tracts or adjoining tracts?

A Yes. They are contiguous. The lands are in three townships, but completely contiguous.

Q Is the proposed unit area in a designated field?

A No. No, it is not.

Q Under the proposed unit agreement, what formations are proposed to be unitized?

A All formations below the top of the San Andres.

Q Mr. Sheldon, can you state approximately the federal lands in the area, the state lands in the area and the fee lands?

A The federal lands, 88½%; state lands, 7½%; fee lands, the remainder, which is 4%. Those are approximate figures.

Q Have you submitted the proposed Pecos River Deep Unit Agreement to the United States Geological Survey for approval?

A Yes, it has been submitted to the Geological Survey and what they call tentative approval as to form and content has been received.

Q What is the date of that approval?

A May 3rd, 1962.

Q Have you also submitted the proposed unit agreement to the Commissioner of Public Lands of the State of New Mexico?

A Yes, sir, it has been submitted.



Q Do you have tentative approval from the Commissioner of Public Lands?

A Tentative approval is dated September 7, 1962.

Q Were there any requirements made in the tentative approval from the office of the Commissioner of Public Lands of the State of New Mexico?

A Yes. The office of the Commissioner of Public Lands required that the language be changed in several paragraphs of the unit agreement. All changes were completely satisfactory with my principal parties and they have been made and the revised unit agreement just handed in to the Commission.

Q The three copies of the revised unit agreement handed in and marked Exhibit 4 contain the changes required by the letter from the Commissioner of Public Lands giving tentative approval?

A Yes, sir, they do.

Q Who will be the unit operator in case this unit is approved?

A Yates Drilling Company.

Q At Artesia, New Mexico? A Of Artesia.

Q What development is provided under the unit agreement? What development requirements are there?

A The development requirement is the drilling of one test

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well to test the Pennsylvanian. It is set up to go approximately 10,750 feet, which should place it through the Pennsylvanian system rocks.

Q What are the further provisions of the unit agreement with reference to additional development?

A It has a provision, the unit agreement has a provision for the unit operator to file schedule of continuous development to the Commissioner and to the Director of the Geological Survey. After receiving approval to carry out the drilling, the unit will dissolve or be automatically terminated.

I might say that it is a standard form, or it is practically almost precisely a standard form unit agreement normally approved by the Director of the United States Geological Survey.

Q Mr. Sheldon, in your opinion will this agreement tend to promote the conservation of oil or gas and better utilization of reservoir energy in this area?

A Yes, sir, we think it will so do.

(Whereupon, Applicant's Exhibit No. 1 was marked for identification.)

Q I'll hand you Applicant's Exhibit No. 1 and ask you to state what that is, please.

A Exhibit 1 is a photostat of the general area of the Pecos River Deep Unit, having several geological features shown

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thereon, the main one being what we consider the hinge line marking the maximum thickness of Pennsylvanian sediments. The map also shows the unit area itself, with federal acreage colored yellow, state, blue and fee in a red color.

Q Do you have anything else you want to add from that exhibit?

A I believe not.

(Whereupon, Applicant's Exhibit No. 2 was marked for identification.)

Q I'll hand you Exhibit 2 and ask you to state what this is, please.

A Exhibit 2 is a cross section which I prepared for practically the sole purpose of determining at what position in the proposed test well the various formations would be encountered. Of course, it does show the geology of the area, but, as I say, the main purpose is to predict the depth and to enable the operator to work out a satisfactory casing program, and so forth.

Q Mr. Sheldon, are you familiar with the provisions of the proposed unit agreement?

A Yes, I am.

Q Under the proposed unit agreement, will the State of New Mexico and each person interested in the oil and gas in the area receive its fair share of the recoverable oil or gas?

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A Yes, sir, the unit agreement provides for each interest owner to receive fair share of the proceeds.

Q What are those provisions, in brief, as to establishing a fair division of the oil and gas that may be recovered?

A Upon the completion, or upon the discovery and completion of a well producing hydrocarbons, then the unit operator recommends and the Commissioner and the Director approve, after additions or changes that they may wish to make, a participating area in which area all owners of royalties, oil payments and so forth that have signed the unit agreement share in the oil and gas produced from the well. It further provides that as time goes on and more wells are drilled, the participating area expands or contracts as the circumstances merit, each in each instance.

(Whereupon, Applicant's Exhibit No. 3 was marked for identification.)

Q Mr. Sheldon, I will hand you Exhibit 3 and ask you to state what that is, please.

A Exhibit 3 has been submitted already in the application, but Exhibit 3 at this hearing is the map prepared with the unit agreement showing the outline of the unitized area, the lease numbers, the ownership and so forth, of the lands within the unitized area. This is, that is, Exhibit 3 is the revised current

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model of the thing, whereas Exhibit 1 we introduced some of the ownership is not correct. The outline is correct, and the features that we presented in them are right, but some of the ownerships have been changed.

Q Mr. Sheldon, in your opinion will the authorization of this unit agreement be for the best interests of the State of New Mexico with reference to the state land in the area?

A Yes, sir. In my opinion the unit agreement will be in the best interest of the State of New Mexico.

Q And for what reason?

A First, it allows them, if their acreage becomes reasonably close and within a reasonable participating area, it will allow them to share in the proceeds, it will promote the exploration for and development of crude oil production, crude oil and/or gas production. In the case of actually getting production, it provides a fair means for the state to share therein, and it further gives the Commissioner of Public Lands quite a decided voice in the plans for development of the unit.

Q That is by reason of the fact that the determination of the participating units must be submitted to the Commission?

A That is right, and the development program is to be carried out, also must be submitted to the Commissioner and approved by the Commissioner.

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MR. WATSON: At this time we will offer Exhibits 1, 2, 3 and 4, and this will close the applicant's testimony at this time.

MR. UTZ: Without objection, Exhibits 1, 2, 3 and 4 will be entered into the record.

(Whereupon, Applicant's Exhibits 1, 2, 3 and 4 were entered into the record.)

MR. UTZ: Are there questions of the witness?

MR. DURRETT: Yes, sir.

CROSS EXAMINATION

BY MR. DURRETT:

Q Mr. Sheldon, I believe you stated on direct examination that the Commissioner of Public Lands had required certain changes in the unit agreement?

A Yes.

Q Would I be correct in assuming that those changes were the inserts that we have in your Exhibit 4?

A You would be, specifically they occur on pages 2, 10, 11 and 12.

Q And has the Commissioner of Public Lands tentatively reapproved, or has he had this unit agreement submitted to him since the changes have been made?

A No, sir. It has not been submitted since the changes were made.



Q The change was just made in conformity with the requirements, but he hasn't seen it since then?

A Except very informally this morning Mrs. Rhea saw it.

MR. WATSON: Just one more question.

REDIRECT EXAMINATION

BY MR. WATSON:

Q Mr. Sheldon, the letter of September 7, 1962 from the Commissioner of Public Lands contains a statement I believe "If this unit form is resubmitted with these suggested forms, this office will approve it as to form and content", is that correct, is that in the letter?

A Yes, that is in the letter.

MR. WATSON: I believe there is a copy of the letter in your files.

Q Mr. Sheldon, referring again to the letter of September 7, 1962, is the unit agreement as filed this morning, the proposed unit agreement as filed this morning as Exhibit 4, does it reflect each and every change requested by the supervisor of the Unit Division of the Commissioner of Public Lands?

A Yes, sir, it does, word for word.

MR. UTZ: Are there other questions? The witness may be excused.

(Witness excused.)

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