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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
12 May 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Delta Drilling Company
for a unit agreement, Lea County, New
Mexico.

CASE
7565

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

<p>For the Oil Conservation Division:</p>	<p>Michael Cunningham, Pro Tem W. Perry Pearce, Esq. Legal Counsel to the Division State Land Office Bldg. Santa Fe, New Mexico 87501</p>
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<p>For the Applicant:</p>	<p>Conrad E. Coffield, Esq. HINKLE LAW FIRM P. O. Box 3580 Midland, Texas 79701</p>
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2 MR. STAMETS: We'll call next Case 7565.

3 MR. CUNNINGHAM: Application of Delta
4 Drilling Company for a unit agreement, Lea County, New Mexico.

5 MR. COFFIELD: Mr. Examiner, I'm Conrad
6 Coffield with the Hinkle Law Firm in Midland, Texas, appearing
7 on behalf of the applicant.

8 Before I present my witnesses to be sworn,
9 I would like to draw your attention to the fact that the manner
10 in which the application was filed for Delta indicated that
11 the unit area would comprise a total of 719.77 acres, and in
12 fact, after consultation with the United States Geological
13 Survey, the unit area has been increased to comprise 959.77
14 acres, still within the same townships and range.

15 I'd respectfully request permission to
16 amend the application to that extent, and that we be permitted
17 to present the case with the enlarged area.

18 MR. STAMETS: Mr. Coffield, let's go ahead
19 and put the case on and let me take a look at it. I am
20 hopeful that we would be able to amend the application as to
21 hearing; if not, it would have to be readvertised. But let's
22 take a look at the case and see if I can do that.

23 MR. COFFIELD: All right, sir, then I
24 have two witnesses to be sworn.

25 (Witnesses sworn.)

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RANDOLPH C. SMITH

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

DIRECT EXAMINATION

BY MR. COFFIELD:

Q. Mr. Smith, for the record would you please
state your name, address, occupation, and employer?

A. My name is Randolph Collins Smith. I'm an
exploration geologist for Delta Drilling Company in Midland,
Texas.

Q. Mr. Smith, have you previously testified
before the Division as a geologist?

A. Yes, sir, I have.

Q. And were your qualifications made a matter
of record and accepted by the Division?

A. Yes, sir.

Q. Are you familiar with Delta's application
in this case?

A. Yes, I am.

Q. And are you familiar with the property,
the proposed well location, and the geological features in-
volved here?

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A. Yes, sir.

MR. COFFIELD: Mr. Examiner, I tender Mr. Smith as an expert.

MR. STAMETS: He is considered qualified.

Q. Mr. Smith, would you please state briefly what it is that Delta seeks by this application?

A. Delta Drilling Company seeks approval for the North Mescalero Area, comprising 959.77 acres, more or less, of State, fee, Federal lands in Township 9 South, 10 South, Range 32 East, which would include drilling of a 9500 foot Permo-Penn test to be called the Delta No. 1 McGuffin Federal.

Q. Refer to what we've marked as Exhibit One, if you would, please, Mr. Smith, and describe that to the Examiner.

A. Exhibit One is a land plat of the North Mescalero prospect, showing the proposed unit outline in red, acreage colored in yellow, with the proposed well location a little red circle, highlighted by the red arrow. The original proposed location was to be 660 from the south line, 660 from the west line. Due to recent discoveries of topographic problems, we have been informed that it is necessary for us to change that proposed -- initial proposed location slightly to the north, and we're proposing to have the initial

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2 well be drilled at 860 feet from the south line and 660 feet
3 from the west line of Section 35, Township 9 South, Range 32
4 East. This is still within an orthodox location for a 40-acre
5 wildcat oil well.

6 Q. Okay, Mr. Smith, would you refer to Exhibit
7 Two, now, please, and describe that for the Examiner?

8 A. Exhibit Two is a structural -- structure
9 map of the North Mescalero prospect. The North Mescalero
10 prospect is a structural prospect based on subsurface data,
11 which is mapped and the values as well as the contours mapped
12 on top of the Wolfcamp marker, which is regionally extensive
13 over this area.

14 The proposed -- the map also shows the
15 proposed unit lies along strike with several fields along a
16 north/south trending structural axis. The primary objective
17 is to test the Permo-Penn potential reservoirs in this area.

18 There is one dry hole in the unit, which is
19 the Sinclair No. 1 Lea State in Section 3 of 10 South, Range
20 32 East, that was drilled in 1956 to a total depth of 11,175
21 feet to test the Devonian.

22 The proposed unit encompasses substantially
23 all of the Permo-Penn anomaly as shown on this map.

24 This exhibit also shows a north/south
25 stratigraphic cross section labeled A-A', which is referred

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to as Exhibit Three.

Q Okay, then let's go to Exhibit Three, if you're ready for that, and discuss that, please.

MR. COFFIELD: Mr. Examiner, do you want us to post that exhibit up there?

MR. STAMETS: Oh, we'll just open one up here and look at it.

A The purpose of Exhibit Number Three, which is the stratigraphic cross section, is to show the regional extensive and consistency of the Permo-Penn reservoirs in the area which are the primary objective and the relationship to Delta's proposed North Mescalero Unit.

On the righthand side there's an index map once again showing this north/south A-A' cross -- stratigraphic cross section, the proposed location, and the unit boundaries. It also shows that the proposed well is located between Well No. 7 and No. 8. This proposed location will go to a depth of 9500 feet, which we believe to be sufficiently -- sufficient to test all the Bough C and Cisco Canyon horizons of potential pay, within this area.

Q Anything further on this exhibit?

A The stratigraphic cross section also shows all of the surrounding wells to the north in the SRR Field, through the proposed location, proposed unit boundary, the

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dry wells adjacent to that, the wells to the south in the Mescalero -- North Mescalero Field, and the Mescalero Field to the south.

The cross section shows where DST's have been run throughout the Permo Penn reservoirs, with the completed intervals, showing the completed perforated intervals in red with initial production and cumulative production underlined in red at the bottom of the logs, along with all scout ticket information.

Q. Anything further on this exhibit, Mr. Smith?

A. No, sir.

Q. Okay, go then to what's been marked as Exhibit Four, please, and discuss that exhibit briefly.

A. Exhibit Four is a geologic summary, proposed unit descriptions of the North Mescalero Unit, along with zones of potential, and of the primary and secondary objective, with the primary objective being the Permo-Penn and the secondary objective being the San Andres- Slaughter zone.

Q. Mr. Smith, what contact have you made with the United States Geological Survey on the matter of this particular unit?

A. Within the last few weeks Mr. Stevens and I have presented our initial proposal to the USGS, and which

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2 they have recommended we make some minor changes to the pro-
3 posed unit, initial unit which we showed them.

4 These changes have been made and are re-
5 presented on the proposed unit which you have in front of you
6 today.

7 The USGS has also indicated orally to us
8 a preliminary favorable approval of the proposed unit.

9 Q As to those changes, Mr. Smith, the acreage
10 that has been added constitutes what portions of the unit?

11 A The reason there is a discrepancy in the
12 advertisement of the proposed unit is because we have changed
13 our initial unit based on recommendations of the USGS, and
14 they include in Section 2 of Township 10 South, 32 East,
15 which would be the southwest quarter, all of the southwest
16 quarter, and in all -- and in Section 34 of 9 South, 32 East,
17 we were recommended to include the south half of the northeast
18 quarter.

19 The addition of these two acreage blocks
20 has increased our proposed initial unit to what we are pro-
21 posing to be accepted today.

22 Q And with those increases, then, Mr. Smith,
23 it is your opinion that -- I believe you've already stated
24 this but we'll state it again -- that the unit area does en-
25 compass all or substantially all of the anomaly involved in

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in this particular unit.

A. Yes, sir, it does.

Q And what contact have you made with the Commissioner of Public Lands on this unit?

A. Mr. Stevens and I have also contacted the Commissioner of Public Lands, presented our initial proposal, stated the changes that would be needed by the USGS, and they have also indicated favorable approval of the unit, requiring that we follow the recommendations of the USGS.

Q Does Delta have a lease expiration problem in connection with this particular unit area?

A. Yes, sir, we do. We have two leases which expire on July 1, 1982, which are the south half of the north-west quarter and the southwest quarter of Section 35, Township 9 South, 32 East. The proposed location lies within one of these leases.

Q Were these exhibits prepared by you or under your supervision, Mr. Smith?

A. Yes, sir, they were.

Q And in your opinion would the approval of this application by Delta prevent the drilling of unnecessary wells and otherwise prevent waste and protect correlative rights?

A. Yes, sir.

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MR. COFFIELD: Mr. Examiner, I move admission of Exhibits One through Four.

MR. STAMETS: These exhibits will be admitted.

MR. COFFIELD: And I have no further questions of Mr. Smith on direct.

MR. STAMETS: Are there any questions of the witness? He may be excused.

BOB STEVENS

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

DIRECT EXAMINATION

BY MR. COFFIELD:

Q Mr. Stevens, would you please state your name, address, occupation, and employer?

A My name is Bob Stevens. I work for Delta Drilling Company as a petroleum landman in Midland, Texas.

Q Mr. Stevens, have you previously testified before the Division as a landman?

A No, I have not.

Q Then would you give a very brief resume of your educational background and work experience as a landman?

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A. I graduated from the University of Texas at Austin with a Bachelor's in business administration, specializing in petroleum land management.

Upon graduation I went to work for Phillips Petroleum Company in Tyler, where I was in charge of East Texas.

I left Phillips and went to work for Delta Drilling Company a little over a year ago, which most of my responsibility has been in southeast New Mexico.

Q. Are you familiar with Delta's application in this case?

A. Yes, I am.

Q. And are you likewise familiar with the land ownership matters and other land matters pertaining to this particular project?

A. Yes, I am.

MR. COFFIELD: Mr. Examiner, we tender Mr. Stevens as an expert landman.

MR. STAMETS: He is considered qualified.

Q. Mr. Stevens, please refer to what has been marked as Exhibits Five and Six and explain those to the Examiner.

A. Exhibit Five is a land plat which illustrates the unit boundary by the black dashed line. It encompasses

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State, Federal, and fee acreage. The State acreage comprises 50 percent of the unit; Federal acreage, 25 percent; and fee acreage 25 percent.

The yellow, solid yellow, represents acreage which is totally committed to the unit, while the slashed yellow lines illustrate acreage which is partially committed.

You'll down in the southwest quarter of Section 2 of Township 10 South, Range 32 East, Read and Stevens owns that lease, which they have -- they have informed us that they are not willing to join our unit. All the other acreage that you can see is owned by Delta Drilling.

Exhibit Six, which corresponds with Exhibit Five, shows the gross acreage in the unit, total amount of acreage which is committed to the unit, and at the bottom of the exhibit it sets out the landowners which have not committed to the unit.

Q Are you ready now for Exhibit Seven, Mr. Stevens?

A. Yes.

Q Let's go to that and discuss that, please.

A. Exhibit Seven is a package of copies of letters sent to mineral owners who have chosen not to lease. The letters offer the parties an opportunity to join our unit.

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Q Okay. The next Exhibits we have are Exhibit Eight. Would you discuss that exhibit, please?

A Exhibit Eight is our proposed unit agreement. It is preliminary, although the context of the agreement is final. The only changes which will be made will be on Exhibit B, which shows the lessees of record within the unit, and the potential working interest owners.

Changes have been incorporated into the agreement to suffice the Oil Conservation Division and the Commissioner of Public Lands.

Q Is the basic form which was utilized for this unit agreement, Mr. Stevens, is this the format normally required by the United States Geological Survey?

A Yes, sir.

Q And you state to that you have made changes to encompass the appropriate language required by the State Land Commissioner?

A Yes, sir.

Q And also the Oil Conservation Division?

A We have.

Q Would you refer to what's marked as Exhibit Nine?

A Exhibit Nine is our proposed unit operating agreement. It is preliminary. Changes are possible within

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the agreement due to future negotiations with other potential working interest owners.

Q. With respect to existing leases, Mr. Stevens, what percent or proportion of the royalty and overriding royalty interests within the unit are committed to the unit?

A. Approximately 91 percent.

Q. As to the balance, the ones -- the nine percent, or approximately 9 percent then which have not been committed, have these royalty interest owners been contacted and given an opportunity to join in the unit?

A. Yes, they have.

Q. And is it your opinion that virtually all interest owners within the unit area have been given the opportunity to commit their interests to this unit?

A. They have.

Q. Were these exhibits prepared by you or under your supervision?

A. Yes, they were.

Q. And in your opinion will the approval of this application by Delta prevent the drilling of unnecessary wells and otherwise prevent waste and protect correlative rights?

A. Yes, sir.

MR. COFFIELD: Mr. Examiner, I move the

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2 admission of Exhibits Five through Nine.

3 MR. STAMETS: These exhibits will be ad-
4 mitted.

5 MR. COFFIELD: And I have no other questions
6 of Mr. Stevens at this time.

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8 CROSS EXAMINATION

9 BY MR. STAMETS:

10 Q Mr. Stevens, what will be the effect of
11 Read and Stevens not joining this unit?

12 A We will still have effective control of
13 the unit. In fact, we'll be in a better position; if Read and
14 Stevens would have joined our unit, we would be -- we would
15 have approximately 73 percent of the working interest in the
16 unit. Excluding Read and Stevens we now have 88.2 percent
17 working interest on the initial well.

18 Q So that is not going to affect the unit
19 in any way, shape, or form? It is not going to affect the
20 Geological Survey's approval of the unit?

21 A No, sir.

22 Q In Section 34, all of that territory is
23 cross hatched or slashed. Why is part of that not committed
24 at this time?

25 A There is a -- some professionals in the

1
2 industry which own minerals in that acreage and at this time
3 they've been unwilling to -- to negotiate a reasonable lease
4 term, and do not desire to be a part of the unit agreement.

5 Q Okay.

6 MR. STAMETS: Any other questions of this
7 witness?

8 Oh, I had one other question.

9 Q Does the unit agreement provide for expansion
10 of the unit?

11 A As far -- would you explain that a little
12 more?

13 Q Okay. Many unit agreements have terms and
14 conditions under which the exterior boundary may be expanded.
15 Does this --

16 A Yes, sir, it does.

17 Q -- unit provide for that?

18 A Yes, sir.

19 Q What section of the unit agreement provides
20 for that?

21 A I don't have one in front of me to answer
22 that question.

23 It's covered under Section 29, Non-Joinder
24 and Subsequent Joinder.

25 Q Okay. Is that the type of provision which

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would have allowed you to expand the unit to include the acreage the Geological Survey wanted in there at a later date had we approved the original unit?

A. Yes, sir.

MR. STAMETS: In light of the testimony and this expansion provision, I believe we can go ahead and amend the application in this case to include the entire 959.77 acres, and we will do that.

MR. COFFIELD: Do you want -- excuse me, Mr. Examiner -- do you want us to submit an amended application?

MR. STAMETS: No.

Are there any other questions of Mr. Stevens?
He may be excused.

Anything further in this case?

The case will be taken under advisement.

(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 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 Oil Conservation hearing of Case No. 7565 held on 5-12 1982.

Richard L. Stame Examiner
Oil Conservation Division

SALL. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
28 April 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Delta Drilling Com-
pany for a unit agreement, Lea
County, New Mexico.

CASE
7565

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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

For the Applicant:

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MR. NUTTER: Call Case Number 7565.

MR. PEARCE: That is the application of Delta Drilling Company for a unit agreement, Lea County, New Mexico.

MR. NUTTER: Applicant in this case has requested continuance.

Case Number 7565 will be continued to the Examiner Hearing scheduled to be held at this same place at 9:00 o'clock a. m. May 12th, 1932.

(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 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

SALL. W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7565, heard by me on 4/28 1982.

[Signature], Examiner
Oil Conservation Division