

1 STATE OF NEW MEXICO
2 ENERGY AND MINERALS DEPT.
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BLDG.
5 SANTA FE, NEW MEXICO
6 11 April 1984

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of J. Cleo Thompson
10 and James Cleo Thompson, Jr., a
11 partnership, for statutory uniti-
12 zation, Eddy County, New Mexico.

CASE
7945

13 BEFORE: Richard L. Stamets, Examiner

14
15 TRANSCRIPT OF HEARING

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

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20 For the Oil Conservation
21 Division:

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22
23 For the Applicant:

Chad Dickerson
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A P P E A R A N C E S

For Joseph W. Foran: Scott Hall
 Attorney at Law
 CAMPBELL, BYRD, & BLACK P.A.
 Jefferson Place
 Santa Fe, New Mexico 87501

I N D E X

TOXIE EUGENE BEAVERS

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MR. STAMETS: We'll call next Case 7945.

MR. PEARCE: That case is on the application of J. Cleo Thompson and James Cleo Thompson, Jr., a partnership, for statutory unitization, Eddy County, New Mexico.

MR. DICKERSON: Mr. Examiner, I'm Chad Dickerson of Artesia, New Mexico, on behalf of the applicant and I will swear two witnesses; hopefully, just call one.

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

MR. HALL: Mr. Examiner, my name is Scott Hall from the law firm of Campbell, Byrd, and Black, P. A., Santa Fe, appearing on behalf of William Joseph Foran.

MR. PEARCE: Are you going to call any witnesses at this time, Mr. Hall?

MR. HALL: No, sir.

(Witnesses sworn.)

MR. DICKERSON: Mr. Examiner, I'd like to briefly summarize the proceedings which have gone on in this Division before.

On October 12th of 1983 in Case Number 7945 and subsequently under Order R-7375, the unit

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2 area which is the subject of this statutory unitization was
3 approved as a voluntary, cooperative unit.

4 The applicant in this case con-
5 trols 100 percent of the working interest in the entire
6 unit. The unit consists entirely of State and Federal lands
7 approximating 3300 acres in Lea County.

8 The proceedings in the previous
9 case last -- Lea County, excuse me, Eddy County, Mr. Examin-
10 er -- the proceedings in this previous case covered, we
11 think, adequately all requirements of statutory unitization
12 except for the fact that at that time the applicant had had
13 difficulty contacting because of many years time passage
14 many of the overriding royalty owners, and at that time had
15 not had an adequate opportunity to obtain voluntary consent
16 of those overriding royalty owners to the unit, and during
17 the October hearing the Examiner was requested to retain
18 jurisdiction of this cause to enable the applicant to come
19 back at a later date in order to supplement the record with
20 evidence as to his attempts at that time, which is now, to
21 obtain the voluntary joinder of these overriding royalty in-
22 terest owners.

23 The applicant is here to do
24 that today and we would ask that the Examiner take adminis-
25 trative notice of the previous proceedings in this case and
if it would be helpful, we have a transcript of the hearing
in that case.

MR. STAMETS: I don't think

1
2 this will be necessary, Chad. I can get our copy out of the
3 case file, but we will take note of that original case.

4
5 TOXIE EUGENE BEAVERS,
6 being called as a witness and being duly sworn upon his
7 oath, testified as follows, to-wit:

8 DIRECT EXAMINATION

9 BY MR. DICKERSON:

10 Q Mr. Beavers, will you please state your
11 name, your occupation, and where you reside, please?

12 A My name is Toxie Eugene Beavers. I re-
13 side in Dallas, Texas, Vice President with J. Cleo Thompson.

14 Q Mr. Beavers, are you familiar with the
15 West Square Lake Unit Area?

16 A Yes, I am.

17 Q Would you refer, Mr. Beavers, to what we
18 have marked as Exhibit Number One and tell the Examiner what
19 that is?

20 A Yes. Exhibit One is a --

21 MR. STAMETS: Before you do
22 that, is Mr. Beavers being qualified as an expert or just as
23 a vice president of the company?

24 MR. DICKERSON: No, Mr. Exami-
25 ner, he is just Vice President and he will testify as to the
mere mechanics of this.

A Exhibit One is a list of royalty interest

1
2 owners, their last known -- giving their last known address,
3 name and addresses in the first column. The center column
4 gives the tracts in which the interest would participate in
5 the unit. The third column indicates a "Y" for yes or "N"
6 for no regarding whether or not we received ratification
7 from each owner.

8 Q And the tract numbers refer back to Exhi-
9 bit B to the unit agreement on file in this case, do they
10 not?

11 A That's correct.

12 Q What efforts have you made to contact
13 these royalty interest owners and obtain their voluntary
14 consent to joinder of this unit, Mr. Beavers?

15 A For the last six to eight months we've
16 been making phone calls and also by mail to contact these
17 owners.

18 Q What is the status of approval of the
19 Commissioner of Public Lands as to the State royalty in this
20 unit and the BLM as to the Federal ownership?

21 A The Commissioner of Public Lands has
22 given us preliminary approval last summer.

23 The BLM has given us preliminary approval
24 either yesterday or today.

25 Both the BLM and the Commissioner of Pub-
lic Lands had some changes that we have made and are going
to resubmit those changes to them, and we don't anticipate
any problems.

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Q Resubmit the unit agreement for final approval.

A That's correct.

Q Refer to Exhibit Number Two, Mr. Beavers, and tell us what that is.

A This is a complete packet which shows all of the consent and ratifications that we have received that were sent out for forming this unit.

Q So the parties who executed these have voluntarily committed their overriding royalty interest to the West Square Unit.

A That's correct. All consent and ratifications that were received were voluntary.

Q Okay, turn to Exhibit Number Three and tell us what's shown on those papers.

A This is a schedule which sets out the royalty, overriding royalty, and production payment participation by tract in each and every tract, giving the tract participation.

Q That's the tract participation factor in the second column there, or the third column?

A On the second column.

Q From the unit agreement on file.

A That's correct, and the ratified in the fourth column, next column, next over, gives the percent that has been ratified for that tract.

The next column over gives the percent

1
2 that has not been ratified for that tract and that's fac-
3 tored on to total unit participation and the same ratifica-
4 tion and not ratified.

5 We go on to the second page, it continues
6 for all total twenty-five tracts giving the percentage rati-
7 fied, 89.00847 percent that has voluntarily ratified, per-
centage not ratified was 10.99153 percent.

8 Those that have not ratified, there have
9 been none that have objected. They have just not been lo-
10 cated. Their whereabouts are unknown. Those people are in-
11 dicated below those figures on page two. There are four in-
12 dividuals.

13 Q So to summarize, Mr. Beavers, of all roy-
14 alty, overriding royalty, and production payment owners, in-
15 cluding the government royalty, on a 100 percent basis 89
percent of the royalty has approved your proposed unit.

16 A That is correct.

17 Q And voluntarily joined.

18 Mr. Beavers, at the previous hearing on
19 this case the Examiner requested that the applicant submit
20 additional information regarding the next or the initial
21 plan of development and the economics in the proposed uniti-
zation.

22 Will you refer to Exhibit Number Four and
23 briefly summarize those factors for the Examiner?

24 A Exhibit Four is a letter written by Mr.
25 Thompson to Mr. Dickerson, dated March 7, 1984, and it gives

1
2 that information for the West Square Lake Unit, Eddy County,
3 New Mexico, that our first stage of development for the
4 first stage of the unit, we will contemplate drilling five
5 wells, average cost of \$160,000 per well.

6 Likewise, we plan on equipping these
7 wells for primary production initially and after a given
8 period of time, twelve to thirty months, approximately, four
9 other wells will be converted to injection at an additional
10 cost of \$20,000 per well, making a grand development cost of
\$880,000.

11 After -- we anticipate the five wells
12 producing 20,000 barrels of oil prior to conversion to water
13 injection, total of 100,000 barrels. A value based upon
14 \$25.50 after all taxes, which would equal \$2,550,000 gross,
15 less royalty and overriding royalties of 17 percent, or
16 \$433,500, leaving a gross revenue to the working interest
owners, \$2,116,500.

17 At this time it is expected that oper-
18 ating expenses are anticipated to be approximately \$800 per
19 well per month prior to the water injection. After water
20 injection is commenced on the four injection wells, it is
21 anticipated the five-spot pattern will ultimately produce an
22 additional 80,000 barrels of oil, using the same value
of \$25.50, or \$2,040,000 gross.

23 Q So based on that information the opera-
24 tion of the proposed unit area would be profitable both for
25 -- as to all working interest owners and as to all royalty

1 interest owners.

2 A That's correct.

3 Q Mr. Beavers, will you refer to Exhibit
4 Number Five and tell the Examiner what that is?

5 A Exhibit Number Five are replacement pages
6 to Exhibit B of the unit agreement correcting royalty inter-
7 est. These pages can be substituted in Exhibit B and those
8 corrections have been made.

9 Q Those corrections deal with the interest
10 of Joseph William Foran, et al, for whom or on whose behalf
11 Mr. Hall is appearing here today, does it not?

12 A That is correct.

13 MR. DICKERSON: Mr. Examiner,
14 at this time applicant moves admission of its Exhibits One
15 through Five.

16 MR. STAMETS: Without objec-
17 tion, these exhibits will be admitted.

18 MR. DICKERSON: And that con-
19 cludes our case, Mr. Examiner, unless you have questions.

20 MR. STAMETS: Are there any
21 questions of the witness?

22 MR. PEARCE: Excuse me, if I
23 may.

24 I'm a little unclear, Chad. On
25 Exhibit Number One, the column, Ratification Received, noted
"Y" or "N" for yes or no.

MR. DICKERSON: Right.

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2 MR. PEARCE: How -- how does
3 that match up with the summary on page two of Exhibit Three?

4 MR. DICKERSON: It would be the
5 same except for mistakes, if any, and you've obviously
6 caught one somewhere?

7 MR. PEARCE: Well, just looking
8 at this I find four names listed on the bottom of page two
9 of Exhibit Three.

10 MR. DICKERSON: Uh-huh.

11 MR. PEARCE: As not participat-
12 ing but there appear to be ten or fifteen entries marked "N"
13 on Exhibit Number one.

14 MR. STAMETS: Take, for ex-
15 ample, Max Coll on page one.

16 MR. DICKERSON: Uh-huh.

17 MR. STAMETS: Where is he re-
18 flected on Exhibit Number Three?

19 MR. DICKERSON: Let's see, you
20 have to -- it's -- Exhibit Number Three is on a tract basis
21 so you have to look for Mr. Coll's interest, let's see, Max
22 Coll, Tracts 5, 6, 7, 8, 13, 14, and 15, so in each one of
23 those tracts he has an interest of some type.

24 MR. STAMETS: So on Tract 5 on
25 Exhibit Three, Max would be reflected in the not ratified
column.

MR. DICKERSON: That's correct.

MR. PEARCE: And I'm still un-

1 clear on what the four names on the bottom of page two are.

2
3 MR. DICKERSON: Those are parties who are simply unlocated. They have not been heard
4 from since the early 1940's when this area was first developed and they are also included in the not ratified interest
5 and that, the purpose of that, Mr. Pearce, was simply to
6 point out that all -- this 10 percent of the royalty which
7 has not ratified, it's not the -- it would not be true to
8 say that they have refused to ratify. A large portion of
9 those who have not ratified have simply failed to respond to
10 any contact or correspondence or have not been able to be
11 located, and, as a matter of fact, not a single one has
12 said, no, we're not going to execute the ratification under
13 any instruments, and that was the purpose of that portion of
14 that exhibit.

15 MR. PEARCE: So then any not
16 ratified interest shown on Exhibit One would be reflected in
17 the difference between the not ratified column total on the
18 top of page two, being 1.93+ percentage and the total at the
19 bottom of page two for those four particular interest owners
20 who can't be found, which is something under 1 percent.

21 MR. DICKERSON: That's correct.

22 MR. PEARCE: Okay, thank you,
23 sir.

24 MR. STAMETS: Any other questions of the witness? He may be excused.

25 Anything further in this case?

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The case will be taken under
advisement.

(Hearing concluded.)

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

Richard J. [Signature]
Oil Conservation Division
Examiner
7945
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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
12 OCTOBER 1983

EXAMINER HEARING

IN THE MATTER OF:

Application of J. Cleo Thompson for CASE
statutory unitization, Eddy County, 7945
New Mexico.

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation W. Perry Pearce, Esq.
Division: Legal Counsel to the Division
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I N D E X

J. CLEO THOMPSON, JR.

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3 MR. STAMETS: Call Case 7945.

4 MR. PEARCE: That case is on
5 the application of J. Cleo Thompson for statutory unitiza-
6 tion, Eddy County, New Mexico.

7 MR. DICKERSON: Mr. Examiner,
8 I'm Chad Dickerson of Artesia, New Mexico, on behalf of the
9 applicant, and I will call one witness.

10 MR. PEARCE: Do we have other
11 appearances?

12 (Witness sworn.)

13 J. CLEO THOMPSON, JR.,
14 being called as a witness and being duly sworn upon his
15 oath, testified as follows, to-wit:

16 DIRECT EXAMINATION

17 BY MR. DICKERSON:

18 Q Will you please state your name, your
19 occupation, and where you reside?

20 A J. Cleo Thompson, Jr., I reside at
21 Dallas, Texas. My occupation is an oil producer, operator,
22 and I'm a reservoir engineer.

23 Q Mr. Thompson, have you previously testi-
24 fied before this Commission or one of its examiners and had
25 your credentials made a matter of record?

A I really -- I think I have but I'm not

certain. It's been a long, long time and a lot of water's gone under the bridge.

Q Why don't you just very briefly summarize your educational and work history for the Examiner?

A I was raised in Dallas. I attended Southern Methodist University where I studied geology and engineering.

I later attended Oklahoma University and later attended School of Mines in Colorado.

Q And what professional degrees do you have?

A Engineering and I'm also fully qualified as an Exxon reservoir engineer.

Q Now, Mr. Thompson, are you familiar with the application and the proceedings surrounding this case?

A Yes, sir.

MR. DICKERSON: I tender this witness, Mr. Examiner.

MR. STAMETS: He is considered qualified.

Q Mr. Thompson, would you briefly summarize the purpose of this proceeding for the Examiner?

A In Case 7945 J. Cleo Thompson and James Cleo Thompson, Junior, a partnership, has proposed a unit as proposed by -- as unit operator, seeks approval of the West Square Lake Unit, a statutory secondary recovery unit consisting of approximately 3320 acres of Federal and State

land in Townships 16 and 17 South, Range 30 East, Eddy County, New Mexico.

2760 acres are Federal, PLM, acreage, representing approximately 83.13 percent of the unit area, and 560 acres are State lands, representing 16.87 percent of the unit.

Q Mr. Thompson, is water injection currently authorized for this proposed unit area?

A Yes, it is, by Orders R-1354, R-2823, and R-3156. Our predecessors in title of the current owners instituted a secondary recovery program beginning back in 1959.

Numerous administrative expansions of the authorization are also in effect. These orders permit water injection into both the Grayburg and San Andres reservoirs, which is the same interval to be unitized here today.

Although the injection water has not been continuous, the secondary recovery program has been neglected -- excuse me -- although the water injection program has been continuous, but it has been neglected and it is not currently being operated in an efficient manner.

Q Mr. Thompson, would you refer to what is marked as Exhibit Number One and describe what's shown on that exhibit?

A This is a map of the unit area and the surrounding leases, located a few miles north and east of the Town of Loco Hills, New Mexico. The boundary lines are

are outlined in red.

As you can see from the map, the area is largely developed, most of which occurred in the 1940's. Ownership of the leases in the area is reflected on the exhibits -- exhibit. We and our associates own 100 percent of the working interest in the unit area.

Q Mr. Thompson, upon what factors was the geographical extent of your proposed unit area based?

A I'm going to need to elaborate in some detail on this matter and if you have any questions while I'm going through, please stop me.

First of all, the area to the south, southeast, east, as well as the southwest and west, are either under flood by a working interest owner agreement or by unit. I hope I'm clearly stating that. In Texas we call them working interest owner units and they're really not units.

This has been in progress for a number of years, dating back to the mid-sixties, and later development into the early seventies. Most of the development is in its primary -- in its latter stages of depletion at the present time.

For example, Newmont operates a flood immediately to the east of this area and they're in the process of plugging out at the present time; however, there are still some operations, but we would have to contend that they were probably in excess of 95 percent

depleted from secondary reserves.

The same thing is true in nearly all of the remaining area to the south and the southwest and west to somewhat lesser a degree. Consequently, we could not expect to form a unit here and encompass this acreage surrounding us to the -- from the northeast to the -- clear around into the west side, due to the fact that the working interest owners would not be interested in joining us on the development type program that we have planned.

Further still, Newmont Oil Company attempted to flood this immediate area and most particularly in Section 34, back in the mid-sixties and early seventies. They were somewhat successful but on a very limited scale.

Their, we feel the primary reason for their failure is due to their development program and the density of their development program, as well as their water injection pressures that they experienced, which was brought upon by a number of factors, one being the completion technique the wells were originally drilled; two, the density; three, the nature of the original stimulation, which in most cases was nitroglycerin; four, their lack of true knowledge of all the reservoir characteristics of this immediate area, due to lack of information.

As I stated earlier, most of these wells were drilled in mid-forties. I think there's two open hole logs that are of the quality that we're used to today. There's one core analysis in the entire area and it's not

truly, we don't consider it representative.

The area to the north of us, our proposed unit, is -- encompasses other zones of completion. Consequently a secondary recovery program including that acreage would not be, we wouldn't be flooding homogeneous reservoirs.

Q Mr. Thompson, would you refer to what are marked Exhibits Two and Three and state what they are?

A Exhibit Two is a draft of the proposed unit agreement. You'll note pencil changes are those requested by the Office of the Commissioner of Public Lands. We have not revised the form pending any changes required by the Bureau of Land Management with respect to the Federal lands.

When the unit agreement has been revised and executed by all parties, we will submit the required copies for final approval. This is a standard form for a combined State and Federal areas.

Exhibit Three is a unit operating agreement.

Q Mr. Thompson, what is the proposed unitized formation?

A The unitized formation is the Grayburg-San Andres formation, as identified by the bore hole compensated sonic gamma ray log in the Newmont Oil Company Etz "C" No. 1 Well, located in Section 34, 16 South, Range 30 East, Eddy County, New Mexico, with the top of the unitized formation being found at a depth of 2818 feet below the surface

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2 and the base of the unitized formation being found at a
3 depth of 3150 feet below the surface.

4 Q What is the status of participation by
5 the working interest owners?

6 A We have 100 percent participation by the
7 working interest owners, all of whom have executed the unit
8 agreement as well as the unit operating agreement.

9 Two-thirds of the working interest is
10 controlled by the Thompson family; the balance one-third is
11 owned by the Lett family of Dallas.

12 Q Mr. Thompson, refer to Exhibit Number
13 Four and tell us what is shown on that document?

14 A Exhibit Four is simply a schedule
15 reflecting the royalty and overriding royalty burden on each
16 tract. These burdens taken with the tract participation
17 factor are then expressed as percentage of the unit produc-
18 tion.

19 Q What is the status of participation by
20 the royalty interest owners?

21 A In early June we submitted the unit
22 agreement for preliminary approval to the New Mexico Commis-
23 sioner of Public Lands with respect to 18.91 percent of the
24 royalty in the unit area.

25 Mr. Graham, Director of the Oil and Gas,
requested the changes shown on Exhibit Two, and we will re-
submit the unit agreement and unit -- unit agreement and
unit operating agreement upon final revision.

1
2 The Bureau of Land Management has not
3 acted on our request for preliminary approval, although it
4 was submitted over four months ago.

5 We have been in consultation with -- with
6 them and believe that the Bureau of Land Management will ap-
7 prove the proposed unit area insofar as it applies to the
8 Federal lands, which represent 52.45 percent of the unit
9 royalty.

10 Overriding royalty interests, represent-
11 ing 28.64 percent of the unit royalty, we propose to con-
12 tact all owners whose whereabouts are known and invite them
13 to voluntarily join the unit. We believe that far in excess
14 of the required 75 percent will participate voluntarily in
15 the unit.

16 Q Mr. Thompson, in view of this situation,
17 what do you propose that the Oil Commission, or Oil Conser-
18 vation Division, do with regard to final written approval of
19 the unit agreement and unit operating agreement?

20 A We request the Division allow us a
21 reasonable period of time, not to exceed six months from the
22 date on which the order approving the unit operation is en-
23 tered, to obtain formal written approval by the persons
24 owning the required percentage of interest in the unit area,
25 and at such time, enter a supplemental order finding that
the plan of unit operations has been so approved.

In addition, we request that in the event
there are royalty owners who cannot be located or who refuse

1 to voluntarily join, that following notice to them the
2 hearing be reopened to determine whether their interests
3 will be subjected to the statutory unitization.
4

5 Q Mr. Thompson, would you refer now to the
6 provisions in the unit agreement and unit operating agree-
7 ment which covers and allocates to each separately owned
8 tract all of the oil and gas produced in the unit area?

9 A Exhibit 3 to the unit agreement and Sec-
10 tions 12 and 13 and 14 of the unit agreement cover the mat-
11 ter of tract participation.

12 Q Where in these documents appears a provi-
13 sion for credits and adjustments for the personal property
14 contributed by the working interests to the unit area?

15 A Article 10 of the unit operating agree-
16 ment covers these adjustments.

17 Q Where in these instruments is provided
18 for cost of unit operations, including capital investments
19 and related matters?

20 A Article 11 of the unit operating agree-
21 ment.

22 Q Is there a provision for carrying any
23 working interest owner who does not pay his share of costs
24 and related matters in these instruments?

25 A I sincerely -- it doesn't appear that
this will be any such a problem; however, Article 11 of the

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unit operating agreement covers this situation.

Q Where in these documents is it provided for the selection of the unit operator and providing for the supervision and conduct of the unit operations and replacement and removal of the operator?

A Sections 6, 7, and 8 of the unit agreement, as well as Article 6 of the unit operating agreement covers this matter.

Q Is there a procedure for the decision of matters to be decided by the working interest owners in these documents?

A Yes, Articles 3 and 4 of the unit operating agreement cover this procedure.

Q Where in these instruments is it provided as to when the unit operations shall commence and the manner in which the operations will terminate and the settlement of accounts upon such termination?

A Articles 19 and 20 of the unit operating agreement and Section 23 of the unit agreement provide for this matter.

Q Is there a provision for expansion of the unit area?

A Section 3 of the unit agreement provides for expansion of the unit area.

Q Mr. Thompson, in your opinion has the unit area sought to be unitized been reasonably defined by development?

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A Yes.

Q Would you briefly summarize your plan for operations on the unit area?

A Going back to your last question, it's been developed from a standpoint of primary means. As far as secondary means, we don't think it has been developed.

Now in answer to your question for the development of -- of the unit area for secondary, we contemplate a procedure that we have found to be very satisfactory in other similar reservoirs under similar circumstances and conditions, which is largely a 5-spot pattern developed on a 10-acre spacing. This allows contiguous reservoir conditions to exist that won't exist in this type of reservoir on 40-acre spacing.

At the same time it allows wells to be more homogeneous with one another that doesn't exist on 40 acres.

We feel like that we will be able to substantially reduce injection pressures to below -- a figure something in the order of 1100 psi, whereas Newmont experienced injection pressures in excess of 1850 psi.

Carrying our plan further, we plan on developing on 10-acre 5-spot pattern; completing the wells with a modern technique; taking advantage of logging equipment that's available today; selectively perforating said wells at desired intervals to control stimulation from primary means of production, as well as controlling the flow

1 of water once they're converted from primary production to
2 secondary by injection.
3

4 Carrying that point further, we would
5 place these wells on production by primary means for two
6 purposes; one, to establish a net cash flow; two, to with-
7 draw the reservoir pressure down in the vicinity of the
8 wellbore. This process will probably take in the order of
9 from 10 to 30 months to accomplish and it will depend upon
10 the reservoir conditions. It has been successfully tried
11 and done in a number of fields in west Texas, primarily the
12 Means Field in Andrews County, Levelland Field, Sundown
13 Field, McIlroy Field. The recoveries are better than what
14 we initially anticipated.

15 My organization has had quite a bit of
16 experience in development of these procedures and we feel
17 very proud of our accomplishments.

18 Q Mr. Thompson, in your opinion are the pro-
19 ducing wells located on the proposed unit area in an
20 advanced state of depletion by a primary means?

21 A Yes, sir, extremely advanced.

22 Q In your opinion will the proposed water-
23 flood operations substantially increase the amount of oil to
24 be recovered over primary methods alone?

25 A Very definitely.

Q In your opinion how much additional oil
will be recovered through the proposed secondary recovery
operations in excess of what would be recovered through pri-

1
2 many means alone?

3 A Approximately 30 to 33,000 barrels per 10
4 acres.

5 Q In your opinion, Mr. Thompson, will the
6 value of the estimated additional oil to be recovered exceed
7 all estimated costs of the project?

8 A Yes, sir.

9 Q And yield a reasonable profit?

10 A Yes, sir.

11 Q Will you now describe the method by which
12 the production is to be allocated to the various tracts?

13 A We arrived at a formula that doesn't have
14 a lot of scientific approach to it, because, the reason for
15 that is very simple: The information for a good, scientific
16 set of parameters isn't available. As I stated earlier,
17 some of these wells were drilled prior to World War II and
18 some were drilled during the war and a few shortly thereaf-
19 ter. The information that's available on them is very, very
20 poor. Most of them were drilled with cable tools and all we
21 have is cable tool, old cable tool drillers logs, which you
22 know what that consists of.

23 So we took what we thought was the best
24 parameters that we could truly hang our hat on that were re-
25 presentative of the -- of the recoverable oil hereafter,
which consists of one-third to cumulative production prior
to January the 1st, 1960.

We felt that a cumulative figure after

1
2 that date was not representative and had been influenced in
3 certain areas by water injection, where in other areas it
4 wasn't.

5 The second parameter used, which amounts
6 to one-third of the participation is surface acres. The
7 surface acres, we feel, from the information that we have,
8 which basically is old drillers logs, performance of the
9 wells, the surface acres has a tendency to strongly let show
10 the true productive capacity of the reservoir.

11 The third parameter is current oil
12 production for the last half of 1982. This was used due to
13 the fact that there were three new wells drilled during the
14 latter half of '82. Part of the time this lease, these
15 leases where the three wells were drilled had a good influx
16 of current production.

17 And this pretty well summarizes. It's
18 about the only parameters that we have available to us un-
19 less we go to counting fenceposts.

20 Q Mr. Thompson, in your opinion does that
21 participation formula which you've described allocate the
22 produced and saved unitized substances to each separately
23 owned tract on a fair, reasonable, and equitable basis?

24 A We have looked at this very closely and I
25 feel like that it does.

Q In your opinion is the unitized manage-
ment, operation and further development of the West Square
Lake Unit reasonably necessary to carry on secondary

1
2 recovery operations in order to increase the recovery of
3 oil?

4 A Very definitely.

5 Q In your opinion, then, is the proposed
6 unitized method of operation feasible and will it with
7 reasonable probability result in increased recovery of sub-
8 stantially more oil and gas from the unitized portion of the
pool than would otherwise be recovered?

9 A Yes, sir.

10 Q In your opinion will the granting of
11 these applications and the adoption of the proposed unitized
12 method of operation benefit the owners of working interests
13 and royalty interests in the area to be unitized?

14 A Yes, sir, very much.

15 Q In your opinion will granting the appli-
16 cations in these cases have any adverse effect on other por-
tions of the pool?

17 A No, sir.

18 Q Mr. Thompson, finally, in your opinion
19 will the granting of the application for unitization prevent
20 waste and protect correlative rights of all owners of
21 interest within the unit area?

22 A Yes, sir, it will.

23 Q Exhibits One through Four were prepared
24 under your supervision, were they not?

25 A Yes, sir.

MR. DICKERSON: Move admission

1
2 of Applicant's Exhibits One, Two, Three, and Four, Mr.
3 Examiner, and that concludes our direct testimony.

4 MR. STAMETS: These exhibits
5 will be admitted.

6 MR. STAMETS: Is Exhibit Four,
7 is the participation there shown in the one, two, three,
8 four, fifth column, is that participation in the project as
a whole?

9 MR. DICKERSON: No, that's the
10 participation of the tract, Mr. Examiner, and then by multi-
11 plying the royalty interest by that, then the participation
12 as a percentage of the total unit income is expressed in the
13 columns on the right.

14 MR. STAMETS: The two righthand
15 columns and here's one that says participation.

16 MR. DICKERSON: Uh-huh.

17 MR. STAMETS: Is that the
18 participation --

19 MR. DICKERSON: That's the
20 participation factor from Exhibit A to the unit agreement.

21 MR. STAMETS: So these would
22 all add up to one?

23 MR. DICKERSON: No, Mr.
24 Examiner, these add up to the figure shown at the bottom of
25 each column. For instance, under the royalty interest column
total Federal royalty is 9.21 percent of unit production.
Total overriding royalty on the Federal leases is 3.32

1 percent.

2
3 MR. STAMETS: And the partici-
4 pation column doesn't have a total on it.

5 MR. DICKERSON: That's -- it's
6 100 percent.

7 MR. STAMETS: Okay. So if we
8 go back and talk about the participation column, then, and
9 assuming that it's 100 percent of Tract No. 1, which is
10 Lease NM-02425, their participation in income and cost of
11 the unit would be 6.1402 percent.

12 MR. DICKERSON: That's correct.

13 MR. STAMETS: Okay, and those
14 participation factors are based on the one-third production
15 to 1-1-60; one-third surface acreage; and one-third produc-
16 tion for the last half of 1982.

17 A That's correct.

18 MR. STAMETS: All right.

19 CROSS EXAMINATION

20 BY MR. STAMETS:

21 Q Now, Mr. Thompsons, you haven't told us
22 about the costs involved in all of this. We have a rough
23 idea of what the additional recovery is but what are the
24 costs going to be? Seems like there's going to have to be a
25 lot of wells drilled and a lot of start up costs.

A We anticipate development program on a
pilot basis probably two 5-well pilots within the first 10

1
2 to 12 months. They would -- one would be located in Section
3 34 and one would be located in Section 35.

4 Development will amount to, on each
5 program, approximately \$700,000.

6 After -- in order to make this work in a
7 manner which would be economical from the operator's -- from
8 the working interest standpoint, timing will be of great im-
9 portance. We feel like that after approximately, after both
10 programs are initiated, that we'll be able to operate on a
11 cash flow basis.

12 Have I answered your question?

13 Q Well, partly, but you indicated that you
14 already have 100 percent of the working interest signed up.

15 A That's correct.

16 Q So the people who are going to pay the
17 bills have all agreed to join.

18 A That's correct.

19 Q And so those folks must think that
20 they're going to get more money than they're putting in.

21 A That's correct.

22 Q You're not running a charitable --

23 Where were we? All right. Mr. Thompson,
24 why is it necessary to have a unit in here in order to con-
25 duct this type of operation?

26 A In our opinion it's very necessary due to
27 the fact that eventually we will want to do some development
28 on lease lines. Now I realize that that's -- it can't be on

1
2 a flat lease line in New Mexico, but 10 feet off, or
3 whatever the required distance is off the lease line will be
4 a necessary part of our program.

5 MR. DICKERSON: Mr. Examiner,
6 another reason is, obviously, that certain tracts may be
7 converted to injection wells and no oil will be physically
8 produced from those tracts and the royalty interest owners
9 on those tracts in the absence of unitization would receive
no income.

10 A In other words, it would help protect
11 correlative rights.

12 Q I believe you've indicated this area has
13 been developed on primary production and also has had water-
14 flooding in it, and what you're doing is, even though it's
15 not tertiary recovery, it's the third trip around for much
of this territory.

16 A That's correct.

17 Q Okay. Anything you get out will be
18 gravy.

19 A Hopefully so.

20 Q Okay.

21 A I say that jokingly. We've got quite a
22 bit of confidence that this program will work and work
23 satisfactorily. Again, I call your attention to the fact
24 that it's not just a pipedream. We have been doing it in
25 the Means Field and in the McIlroy Field for in excess of
ten years. Levelland, about four and a half, five years.

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MR. STAMETS: Well, let's go off the record a minute, Sally.

(Thereupon a discussion was had off the record.)

MR. STAMETS: Are there any other questions of Mr. Thompson?

QUESTIONS BY MR. QUINTANA

Q The injection program you're going to have on that field, are you going to have a central battery to utilize the current injection system? What are you going to do about that, and what pressures do you plan to inject it in?

A First of all, in regard to a centralized battery, yes, sir, we'll probably have one central battery with three satellites.

Do we, the next question was do we plan on utilizing the present injection. No, sir, in all likelihood, no.

We're trying to allow -- there's only -- only one well that's truly being injected into at the present time. We're trying to let the reservoir come back to a natural state as much as possible and feel like, and all indications are, that it's doing it more rapidly than we anticipated.

Q Let me, excuse me, let me interrupt you, I'm sorry, but let me, in order to save time, let me get, I

1
2 guess, straight to the point and have my question in a dif-
3 ferent way.

4 Will you be able to control individual
5 wells, will you have one central pump that sets out a cer-
6 tain pressure, pumps at a certain pressure, set pressure, or
7 will it be a variable type that can be controlled?

8 A Variable type.

9 Q Okay, that's basically what I want to
10 know.

11 MR. STAMETS: I think, too, we
12 probably would be treating this as a new project and
13 probably would require the submittal of the same forms, and
14 what not, we would on a brand new waterflood, if you're not
15 going to be using the same wells.

16 A Well, we'll be using the same, part of
17 the same system, sir. Let me defer that in response to you
18 definitely, if could defer that to a later date.

19 Q The only thing I would be concerned about
20 would just be new wells that were converted over. Old wells
21 would be under the grandfather clause.

22 MR. STAMETS: Well, I'm not
23 sure about that. We'll want to think about it.

24 Q Yeah.

25 A Actually we hope to be able to utilize
some of the former injection wells as producing wells.

MR. STAMETS: Any other
questions of Mr. Thompson at this time? He may be excused.

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2 Anything further in today's
3 case?

4 We'll take the case under
5 advisement.

6 (Hearing concluded.)
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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.E., 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. 7945
heard by me on 10/12 1983.
Richard P. [Signature] Examiner
Oil Conservation Division

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
31 August 1983

EXAMINER HEARING

IN THE MATTER OF:

Application of J. Cleo Thompson for	CASE
a unit agreement, Eddy County, New	7945
Mexico.	

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

For the Applicant:

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MR. STOGNER: We'll call next
Case Number 7945.

MR. PEARCE: That case is on
the application of J. Cleo Thompson for a unit agreement,
Eddy County, New Mexico.

Mr. Examiner, applicant
requests that that matter be continued until September the
14th, 1983.

MR. STOGNER: Case Number 7945
will be continued to the next hearing, September 14th, 1983.

(Hearing concluded.)

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 and true transcript of the proceedings in
the Examiner hearing of case No. 7945.
heard by me on August 31, 1983.

Michael E. Stogner Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
14 September 1983

EXAMINER HEARING

IN THE MATTER OF:

Application of J. Cleo Thompson for CASE
a unit agreement, Eddy County, New 7945
Mexico.

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

For the Applicant:

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MR. STAMETS: We'll call next
Case 7945.

MR. PEARCE: That case is on
the application of J. Cleo Thompson for a unit agreement,
Eddy County, New Mexico.

Mr. Examiner, applicant has re-
quested continuance of this matter until September the 28th,
1983.

Case 7945 will be so continued.

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
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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. 7945
heard by me on 9-14 19 73
Richard L. [Signature] 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 28 September 1983

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of J. Cleo Thompson for CASE
10 statutory unitization, Eddy County, 7945
11 New Mexico.

12 BEFORE: Michael E. Stogner, Examiner

13 TRANSCRIPT OF HEARING

14 A P P E A R A N C E S

15
16 For the Oil Conservation Division: W. Perry Pearce, Esq.
17 Legal Counsel to the Division
18 State Land Office Bldg.
19 Santa Fe, New Mexico 87501
20

21 For the Applicant:
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3 MR. STOGNER: We'll call next
4 Case Number 7945.

5 MR. PEARCE: That case is on
6 the application of J. Cleo Thompson for statutory unitiza-
7 tion, Eddy County, New Mexico.

8 Mr. Examiner, applicant has re-
9 quested continuation until October the 12th, 1983.

10 MR. STOGNER: Case Number 7945
11 will be continued to October 12th, 1983.

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 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. 7945,
heard by me on Sept. 28 1983.

Michael E. Stogner Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
14 March 1984

EXAMINER HEARING

IN THE MATTER OF:

Application of J. Cleo Thompson and
James Cleo Thompson, Jr., a Partner- CASE
ship, for statutory unitization, Eddy 7945
County, New Mexico.

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

For the Applicant:

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3 MR. STAMETS: Call next Case
4 7945, being the application of J. Cleo Thompson and James
5 Cleo Thompson, Junior, for statutory unitization, Eddy
6 County, New Mexico.

7 MR. PEARCE: Mr. Examiner,
8 applicant requested continuance of that matter until April
9 the 4th, 1984. I'm sorry, April the 11th. I apologize,
10 sir.

11 MR. STAMETS: Okay, that case
12 will be so continued.

13 (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 correct and true transcript of the proceedings in
the Oil Conservation Division of Case No. 7945
heard by me on 3-14 1984
Richard L. [Signature] Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
29 February 1984

EXAMINER HEARING

IN THE MATTER OF:

Application of J. Cleo Thompson
and James Cleo Thompson, Jr. a
Partnership, for statutory unit-
ization, Eddy County, New
Mexico.

CASE 7945

BEFORE: Michael E. Stogner, Examiner

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. STOGNER: Call next Case
Number 7945.

MR. PEARCE: That case is on
the application of J. Cleo Thompson and James Cleo Thompson,
Junior, a Partnership, for statutory unitization, Eddy
County, New Mexico.

MR. PEARCE: Mr. Examiner, ap-
plicants have requested this matter be continued until March
the 14th, 1984.

MR. STOGNER: Case Number 7945
will be continued to the Division hearing on March 14th,
1984.

(Hearing concluded.)

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. 7945
heard by me on February 29 1984.

Michael E. Slagter Examiner
Oil Conservation Division