

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

9 November 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Exxon Corporation for      CASE  
Compulsory pooling, Lea County, New      9520  
pooling, Eddy County, New Mexico.

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:                      Robert G. Stovall  
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For the Applicant:                      James Bruce  
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## I N D E X

## BEN GREGSON

Direct Examination by Mr. Bruce 3

Cross Examination by Mr. Catanach 9

## JOE B. THOMAS

Direct Examination by Mr. Dickerson 10

Cross Examination by Mr. Catanach 17

## E X H I B I T S

Exxon Exhibit One, Map 5

Exxon Exhibit Two, Plat 5

Exxon Exhibit Three, Type Log 6

Exxon Exhibit Four, Structural Map 7

Exxon Exhibit Five, Isopach 8

Exxon Exhibit Six, Data 13

1 MR. CATANACH: Call this  
2 hearing back to order and call Case 9520.

3 MR. STOVALL: Application of  
4 Exxon Corporation for compulsory pooling, Lea County, New  
5 Mexico.

6 MR. CATANACH: Are there ap-  
7 pearances in this case?

8 MR. BRUCE: Mr. Examiner, my  
9 name is Jim Bruce from the Hinkle Law Firm, representing  
10 Exxon Corporation. I have two witnesses to be sworn.

11 MR. CATANACH: Any other ap-  
12 pearances?

13 Will the witnesses please  
14 stand and be sworn in at this time?

15  
16 (Witnesses sworn.)

17  
18 BEN GREGSON,  
19 being called as a witness and being duly sworn upon his  
20 oath, testified as follows, to-wit:

21  
22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q Would you please state your name and  
25 city of residence?

1                   A           My name is Benjamin P. Gregson. I live  
2 in Midland, Texas.

3                   Q           And who are you employed by and in what  
4 capacity?

5                   A           I'm a geologist for Exxon Corporation in  
6 Midland.

7                   Q           Have you previously testified before the  
8 OCD as a geologist.

9                   A           No, I have not.

10                  Q           Would you briefly describe your work and  
11 educational background?

12                  A           Okay. I have a Bachelor of Science de-  
13 gree in geology from the University of Lowell in Massachu-  
14 setts.

15                               I also have a Master of Science degree  
16 in geology from the University of Massachusetts at Amherst.

17                               I began work as a geologist with Exxon  
18 in 1984. For three years after that date I worked various  
19 production assignments in southeast New Mexico and in west  
20 Texas.

21                               For the last year I've been prospecting  
22 for the Morrow formation in southeast New Mexico.

23                  Q           And have you previously testified before  
24 the Texas Railroad Commission?

25                  A           Yes, I have.

1 Q And are you familiar with the geologi-  
2 cal matters involved in Case 9520?

3 A Yes, I am.

4 MR. BRUCE: Mr. Examiner, are  
5 the witness' credentials acceptable?

**6** MR. CATANACH: They are.

7 Q Mr. Gregson, would you please refer to  
8 Exhibit Number One and briefly describe it?

9                   A                   Exhibit Number One is a location map for  
10 Exxon's acreage in this hearing.

11                               On the lefthand side of the exhibit a  
12 map of the State of New Mexico. On the right edge of the  
13 exhibit is an enlargement of the south portion of Lea  
14 County.

15                               Towards the left -- left edge of this  
16 map I've indicated the boundary of the Little Eddy Unit and  
17 Exxon's adjacent acreage to this unit.

18 Q Moving on to the land plat marked  
19 Exhibit Two, would you describe in more detail Exxon's  
20 acreage?

21                   A                   Exhibit Number Two is a land plat for  
22 the proposed location. Exxon's proposed location is indi-  
23 cated by the red dot in the northwest quarter of Section  
24 32, Township 20 South, Range 33 East.

25 The 320-acre Morrow proration unit gas

1 boundary surrounding this location is indicated by the  
2 light dashed line in the west half of Section 32.

3 The Little Eddy Unit boundary west of  
4 this acreage is indicated by the heavy dashed line predom-  
5 inantly surrounding Section 31 and the north part of  
6 Section 5 and the west half of the southwest and the  
7 southwest of the northwest of Section 32.

8 The green dot in the southeast quarter  
9 of Section 30 is the location of the type log for the  
10 prospect.

11 Q Would you please now move on to that  
12 type log marked Exhibit Three and discuss it?

13 A Exhibit Number Three is a type log for  
14 the proposed location. The log is from the Belco Petroleum  
15 Corporation Bass Federal No. 2. The well is located in  
16 Section 30 of 20 South, 33 East. The log is an acoustic  
17 velocity neutron and gamma ray log. The vertical scale is  
18 2-1/2 inches per 100 feet.

19 On the lefthand track is the gamma ray  
20 curve in the solid line. Over on the righthand track we  
21 have the acoustic log in the solid line and the neutron  
22 reading is in the dashed line.

23 The horizons that I've marked on this  
24 log from -- going from top to bottom, are the top of the  
25 Atoka formation; moving down is the top of the Morrow lime-

1 stone; below that is the top of the Morrow clastics; and  
2 finally at the base of the log is the base of the Middle  
3 Morrow Shale.

4 Between the top of the Morrow Clastics  
5 and the Middle Morrow Shale marker are what we call the  
6 Morrow B Sandstones. These have been highlighted in yellow  
7 below a 40 percent gamma ray cutoff.

8 Over on the acoustic velocity track I've  
9 highlighted in red porosity above an 8 percent cutoff.

10 Q Please move on to Exhibit Four.

11 A Exhibit Number Four is a structure map  
12 on top of the Morrow Clastics horizon. The scale for this  
13 map is one inch equals 2000 feet. The contour interval is  
14 100 feet for this map. The 320-acre Morrow proration unit  
15 boundary is again highlighted by the light dashed line and  
16 the Little Eddy Unit boundary is highlighted by the dark  
17 dashed line. Exxon's proposed location again is in the red  
18 dot. Productive Morrow gas wells are indicated by the gas  
19 symbols and Morrow dry holes are indicated by the dry hole  
20 symbols.

21 The predominant structural feature con-  
22 trolling production in this field is an up-thrown block  
23 trending northwest/southeast. Morrow gas production is  
24 present both up dip on this block from our proposed loca-  
25 tion and in a down dip direction from our proposed loca-

1 tion; however, as you move to the east, for instance, the  
2 well in the west half of Section 33 on the downthrown side  
3 of the fault had Morrow sandstone present but because it  
4 was on the downthrown side of the fault it was nonproduc-  
5 tive.

6 Q Please move on to Exhibit Five and dis-  
7 cuss the porosity.

8 A Exhibit Five is a net porosity isopach  
9 map for the Morrow "B" interval. Again the Little Eddy  
10 Unit and proration unit boundaries have been indicated, as  
11 have the Exxon proposed location and Morrow gas producers  
12 and dry holes in the area.

13 The contour interval for this map is 10  
14 feet and I used a 40 percent gamma ray and 8 percent poro-  
15 sity cutoff to make this map.

16 Looking at the control in the map area,  
17 I've identified two distinct northwest/southeast trending  
18 porosity trends roughly paralleling the faults in the  
19 region. If we look around the Exxon proposed location, to  
20 the south we have a well, the No. 1 SL, which encountered 8  
21 feet of porosity; however, as you move to the east to the  
22 well in the west half of Section 33, that well encountered  
23 30 feet of porosity, but as I mentioned before, because it  
24 was on the downthrown side of the fault, this porosity was  
25 nonproductive.



1                   We are expecting to get on the upthrown  
2 side of the fault and to encounter roughly 35 feet of  
3 porosity in our proposed location.

4                   Q           Based on your exhibits, in your opinion  
5 what penalty should be assessed against nonconsenting  
6 interest owners in this well?

7                   A           The penalty should be cost plus 200 per-  
8 cent.

9                   Q           And were Exhibits One through Five pre-  
10 pared by you or under your direction?

11                  A           Yes, they were.

12                  Q           And in your opinion is the granting of  
13 this application in the interest of conservation, the pre-  
14 ventation of waste, and the protection of correlative rights?

15                  A           Yes, it is.

16                               MR. BRUCE:   Mr. Examiner, I  
17 move the admission of Exhibits One through Five.

18                               MR. CATANACH:   Exhibits One  
19 through Five will be admitted as evidence.

20

21                               CROSS EXAMINATION

22 BY MR. CATANACH:

23                  Q           Mr. Gregson, what's the closest well  
24 producing from the Morrow?

25                  A           The closest well would be the well which

1 the type log is taken from. It encountered 16 feet of por-  
2 osity. That well has produced 1.2 GCF of gas -- or excuse  
3 me, BCF of gas.

4 Q Mr. Gregson, what -- what is the propos-  
5 ed location? Do you know the actual footage for that well?

6 A The footage we're proposing is 1980 from  
7 the north line and 1420 from the west line.

8 Q Did you know that was a nonstandard lo-  
9 cation?

10 A Yes.

11 MR. CATANACH: I have no fur-  
12 ther questions at this time.

13  
14 JOE B. THOMAS,  
15 being called as a witness and being duly sworn upon his  
16 oath, testified as follows, to-wit:

17  
18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q Will you please state your name and city  
21 of residence?

22 A It's Joe B. Thomas, Midland, Texas.

23 Q And what is your occupation and who are  
24 you employed by?

25 A I'm a landman employed by Exxon Corpora-

1       tion.

2                   Q           And have you previously testified before  
3 the New Mexico OCD?

4                   A           No, sir.

5                   Q           Would you please describe your educa-  
6 tional and work background?

7                   A           I have a BBA in petroleum land manage-  
8 ment from Oklahoma University.

9                               I have a Master's of business adminis-  
10 tration from Oklahoma University.

11                               I was employed by Humble Oil and Refin-  
12 ing Company in 1964, which has been merged into Exxon  
13 Corporation in '71.

14                               From 64 to '77 I worked in various  
15 offices as a landman with Exxon.

16                               In 1977 I moved to Midland and I've  
17 worked since '77 to the present in west Texas, Permian  
18 Basin, and New Mexico areas in all matters of land work.

19                   Q           And are you familiar with the land  
20 matters involved in this case?

21                   A           Yes, sir.

22                               MR. BRUCE:   Mr. Examiner, is  
23 the witness acceptable?

24                               MR. CATANACH: He is.

25                   Q           Mr. Thomas, would you please state

1 briefly what Exxon seeks in this application?

2           A           Exxon Corporation seeks an order pooling  
3 all mineral interests from the surface to the base of the  
4 Morrow formation underlying the west half of Section 32,  
5 Township 20 South, Range 33 East, in Lea County, New  
6 Mexico, to form a standard 320-acre gas spacing and prora-  
7 tion unit.

8                   The unit will be dedicated to the Salt  
9 Lake Com No. 1 Well, which well will be drilled at a stand-  
10 ard location.

11                   Exxon also requests consideration of the  
12 cost of drilling and completing the well and allocation of  
13 costs thereof, as well as actual operating costs and  
14 charges for supervision.

15                   Exxon asks that it be designated as  
16 operator of the well and that a charge for the risk invol-  
17 ved in drilling the well will be assessed.

18           Q           Referring back to Exhibit Two, who are  
19 the interest owners Exxon seeks to force pool?

20           A           Exxon seeks to force pool Texaco, who's  
21 the owner of record of the southwest northwest and the west  
22 half southwest of Section 32. Texaco's tract is part of  
23 the Little Eddy Unit. The unit agreement grants certain  
24 privileges regarding drilling and OCD appearances to Bass,  
25 the unit operator, and as a result we also seek to force

1 pool Bass.

2 Exxon owns 62.5 percent of the working  
3 interest in this unit.

4 Q Referring to Exhibit Six, would you  
5 please describe your efforts to get the interest owners to  
6 commit to this well?

7 A Okay. On the first page is a chronology  
8 from August to October of our attempts to get this matter  
9 resolved.

10 On August the 30th I wrote a letter to  
11 Texaco asking for a farmout or joinder. I also included an  
12 AFE with this letter.

13 On September 7th Curtis Smith with  
14 Texaco called and said Texaco had sent a bid package out on  
15 the Little Eddy. I asked for a copy of their bid package.

16 On September 16th I called Smith with  
17 Texaco again and asked for Texaco to either join or farm-  
18 out. I also reminded Smith that Exxon would have to force  
19 pool their interest if no decision was reached in a timely  
20 manner.

21 Smith said he found out the bid package  
22 had not gone out to industry yet. Smith also said it would  
23 be inappropriate to force pool at the present, which was  
24 September 16th.

25 On September 20th I asked Doug Shutes

1 (sic) of Santa Fe to send me a copy of the Little Eddy unit  
2 agreement, which he did the next day. That allowed me to  
3 find out who the unit operator was.

4 On September 21st I called Jens Hanson  
5 of Bass, and that is Bass Enterprises Production Company,  
6 and confirmed that Bass was the unit operator.

7 Hanson said that Texaco should handle  
8 negotiations for this interest.

9 On September 23rd I sent Bass a letter  
10 similar to the August 30 correspondence with Texaco asking  
11 Bass to either join or farmout with a proposed joint oper-  
12 ating agreement attached; also a copy of that letter and  
13 the JOA was sent to Texaco.

14 On September 26th Hanson with Bass  
15 called and we discussed the proposal. Bass would not want  
16 to join in the well for just the Morrow formation but con-  
17 cluded it would be easier for them to be force pooled, that  
18 a force pooling would be better for Bass than a farmout.

19 On October 3rd I met with Hanson with  
20 Bass at Santa Fe at the New Mexico Oil & Gas Association  
21 meeting. Bass still believed it would be easier for Bass  
22 to be force pooled.

23 On October 10th I called Smith with  
24 Texaco and told him we were proceeding with the forced  
25 pooling hearing.

1                   October 11th I sent an informal letter  
2 to both Texaco and Bass notifying them that we were going  
3 to apply for forced pooling.

4                   On the 17th of October Hanson called and  
5 asked if Exxon would be interested in a farmout. I replied  
6 yes, we would be very interested in a farmout.

7                   On October 18th I sent the formal notice  
8 of the forced pooling hearing to be held in Santa Fe, New  
9 Mexico on Wednesday, November 9th at 8:15, certified, re-  
10 turn receipt requested, to both Texaco and Bass.

11                   On November 7th I called Hanson with  
12 Bass and he said Bass would farmout. As of now Bass has  
13 not yet signed a farmout agreement so we ask that they be  
14 force pooled. If and when they do farmout, we would like  
15 -- we will notify the OCD of their decision and release  
16 them from the forced pooling order.

17                   On November 8th I called Smith with Tex-  
18 aco and he said Texaco would not farmout or join but would  
19 not object to being force pooled.

20                   Q           Thank you. What is the cost of the pro-  
21 posed well?

22                   A           Our AFE cost is \$839,500 dry and  
23 \$1,032,000 completed.

24                   Q           And is this proposed cost in line with  
25 those normally encountered by Exxon in drilling wells of

1 this type in this area?

2 A Yes, sir.

3 Q And do you have a recommendation as to  
4 the amount Exxon should be paid for supervision and admin-  
5 istrative expenses?

6 A Exxon's give or take rates are \$6068 per  
7 month allowed for a drilling well and \$606 a month for a  
8 producing well.

9 Q And are these amounts you've just recom-  
10 mended similar to those normally charged by Exxon for wells  
11 of this type in Lea County?

12 A That is correct.

13 Q And do you have an opinion as to the  
14 penalty which should be assessed again nonconsenting inter-  
15 est owners?

16 A Yes, cost plus 200 percent. This is in  
17 line with Exxon's operating agreements used in this area of  
18 New Mexico.

19 Q And were all interested parties notified  
20 of this hearing?

21 A Yes, sir, and a copy of the notice  
22 letter and certified return receipts were submitted  
23 attached as the last pages of Exhibit Number Six.

24 Q And was Exhibit Number Six prepared by  
25 you?



1           A           Yes, sir.

2           Q           And in your opinion will the granting of  
3 this application be in the interest of conservation and the  
4 prevention of waste?

5           A           Yes, sir.

6                       MR. BRUCE:   Mr. Catanach, I  
7 move the admission of Exhibit Number Six.

8                       MR. CATANACH:   Exhibit Number  
9 Six will be admitted as evidence.

10                      MR. BRUCE:   And I have nothing  
11 further at this time.

12  
13                               CROSS EXAMINATION

14 BY MR. CATANACH:

15           Q           Mr. Thomas, as I understand it, Texaco  
16 holds the -- holds the lease but it's included in the unit?

17           A           Yes, sir.

18           Q           Well, who actually would speak for that  
19 acreage?

20           A           It's a divided type unit so basically  
21 the operator said that Texaco should make the decision as  
22 to what should be done on that. It's their interest, or  
23 that tract.

24           Q           So why would you have to force pool  
25 Bass?

1           A           Because they have an interest in it due  
2 to the operating agreement.

3           Q           And at this point it doesn't look like  
4 Texaco's going to voluntarily join the unit?

5           A           That is correct.

6           Q           Do you know what formations are covered  
7 within the operating agreement?

8           A           It's the Morrow formation.

9           Q           It is the Morrow formation?

10          A           Right.

11          Q           What did -- how did you arrive at the  
12 proposed overhead rates that you --

13          A           These are -- overhead rates are both  
14 give or take that the company uses for standard operating  
15 agreements in areas in this part of New Mexico and Texas.

16          Q           And these are rates that you are cur-  
17 rently charging for similar wells in the area?

18          A           That is correct. We both give them or  
19 take them.

20                               MR. CATANACH: I believe  
21 that's all the questions that I have of the witness. The  
22 witness may be excused.

23                               Mr. Bruce, how do you propose  
24 to handle the nonstandard well location?

25                               MR. BRUCE: Mr. Duncan

1 informs me it was previously approved administratively.  
2 Let me check on that right now and I'll get back to you  
3 later.

4 MR. CATANACH; Okay. Is there  
5 anything further in this case?

6 If not, it will be taken under  
7 advisement.

8

9 (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 (Commission) 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. 950,  
heard by me on November 9, 1988.

David R. Citanach, Examiner  
Oil Conservation Division