

CASE 5026: Application of THE  
SUPERIOR OIL CO. FOR COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO.

CASE No.

5026

Application,  
Transcripts,  
Small Exhibits

ETC.

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
OIL CONSERVATION COMMISSION CONFERENCE ROOM  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO  
Wednesday, July 11, 1973  
EXAMINER HEARING

IN THE MATTER OF:

Application of The Superior  
Oil Company for compulsory  
pooling, Eddy County, New  
Mexico.

Case Number 5026

BEFORE: Daniel S. Nutter  
Examiner

TRANSCRIPT OF HEARING

dearnley, meier & associates

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 MR. NUTTER: The Hearing will come to order, please.  
2 The next case is Case 5026.

3 MR. CARR: Case 5026, application of The Superior Oil  
4 Company for compulsory pooling, Eddy County, New Mexico.

5 MR. MORRIS: Mr. Examiner, may the record show the  
6 same appearance and the same witness as in the previous  
7 application.

8 MR. NUTTER: The record will show that he is still  
9 under oath.

10 MR. KELLAHIN: If the Examiner please, Jason  
11 Kellahin, Santa Fe, appearing for Pennzoil Oil Company.

12 MR. NUTTER: Are there any other appearances in  
13 Case 5026? Would you proceed, Mr. Morris.

14 MR. MORRIS: Yes.

15 TERRY CLAY,  
16 was called as a witness, and having been previously sworn  
17 according to law, testified as follows:

18 DIRECT EXAMINATION

19 BY MR. MORRIS:

20 Q Mr. Clay, you identified yourself in the previous matter  
21 before the Commission and established the fact that you  
22 have previously been qualified before the Commission.

23 What does Superior Oil Company seek by its application  
24 in this case, Case 5026?

25 A Case 5026, Superior seeks to pool all mineral-interest



1 owners in the North half of Section 7, Township 23 South,  
2 Range 27 East, South Carlsbad Field, Eddy County, New  
3 Mexico. This pooling also includes the Canyon, Atoka,  
4 Strawn, and Morrow formations.

5 Q Does Superior also seek to have charges for supervision  
6 established and a risk charge established in connection  
7 with the nonconsenting interest owners involved in this  
8 proration unit?

9 A Yes, we do.

10 Q Please refer to the various letters which have been  
11 grouped together as Exhibit Number 1 and briefly review  
12 the content of this correspondence with regard to the  
13 efforts that have been made to form this unit by voluntary  
14 consent.

15 A Starting on March 22, 1973, a letter was submitted to all  
16 working-interest owners in the North half of Section 7 of  
17 Township 23 South, 27 East, whereby they were invited to  
18 participate in a well to be drilled at either location of  
19 1980 from the North and West line or 1980 from the  
20 North and East line of said section.

21 This letter was submitted by the District Land Man  
22 along with an attached AFE again inviting all parties to  
23 participate and pay their proportionate share of the well.

24 May the 16th, 1973, a reply was received from  
25 Wainoco, Incorporated, one of the working-interest owners

1 and also an AFE, signed an AFE representing their approval  
2 or consent to participate in the proposed well.

3 Q Does this AFE that is attached to the Wainco letter, is it  
4 the same AFE that was sent out to all working-interest  
5 owners with your letter of March 22nd?

6 A That's correct. That is AFE Number F-312-1 which will  
7 be noted at the top of the AFE.

8 Q All right.

9 A Corresponds to that number. On April the 23rd, a letter  
10 was received from Mobil Oil Corporation signed by John  
11 Howard and also attached an AFE indicating their consent  
12 to participate in the proposed well.

13 On March the 28th of this year, a letter was  
14 received from Pennzoil Company wherein they indicated  
15 that they would prefer to wait until a well that was  
16 currently drilling in the South half of Section 7, wait  
17 until it had gotten the TD and they looked at the  
18 information before making a reply to this March 22nd,  
19 1973 proposal.

20 On April the 4th, this year, Gulf submitted in  
21 writing their intent to participate in the proposed well  
22 in the North half of Section 7 and were agreeable to  
23 joining subject to a satisfactory operating agreement,  
24 and an AFE at that time was not signed by Gulf. However,  
25 later approval was signed by Mr. R. E. Griffith.

1 And then on May 23rd, 1973, and this was after the  
2 well in the South half of Section 7 had been drilled to  
3 TD and logged, a reply from Pennzoil Company indicating  
4 that their acreage, and I'm reading from the second  
5 paragraph of this letter, "Due to our acreage being  
6 committed to an old gas contract under which we receive  
7 approximately 17-1/2 cents per Mcf, we are unable to  
8 participate in the drilling of the well and we are not  
9 interested in farming-out our acreage."

10 "It would be preferable from our standpoint if you  
11 could delay the drilling of the well until such time as  
12 the PPC approves a new area rate, which we believe will be  
13 no later than this summer."

14 Without reading paragraph four, the letter was signed  
15 by Mr. James A. Davidson.

16 Q Mr. Clay, did you have propelling reasons to go right  
17 ahead regardless of Pennzoil's request here that the well  
18 be delayed? Did you have reason and need to commence  
19 the drilling of this well?

20 A Yes, we did. We had acreage in the North half of  
21 Section 6 that was expiring midnight May the 31st; and  
22 as mentioned, the well in the South half of Section 7  
23 had been drilled and logged; and it was of great importance  
24 that we get on the well in the North half to save the  
25 expiring lease.

1 Q You said the expiring lease was in the North half of 6.  
2 I think you meant 7.

3 A Seven, that's correct, the North half of 7. Excuse me if  
4 I denoted that wrong.

5 Q All right. So the well was commenced, and is it still  
6 drilling at the present time?

7 A Yes, it is.

8 Q Approximately what is your depth at this time?

9 A The drilling depth is below 11,600 feet.

10 Q Would you refer to Exhibit 2 and then Exhibit 3 which are  
11 contour maps showing the structure of the Strawn and  
12 Morrow formations respectively and point out the pertinent  
13 features of these exhibits?

14 A Just in general, let me point out that referring back to  
15 our original proposal of May the 22nd, 1973, it was at  
16 a time when the well in the South half of Section 7  
17 was still drilling. We proposed the well in the North  
18 half of Section 7 to be drilled at a location 1980 from  
19 the North and West line or 1980 from the North and East  
20 line pending the outcome of the drilling well in the  
21 South half.

22 After the well in the South half was drilled to TD  
23 and logged, it was decided that the North half well 1980  
24 from the North and West was more suitable of the two  
25 locations.

1 So this is the location at which the well was  
2 drilled and drilled below 11,600 feet.

3 Exhibit 2 is a structure map on the Strawn horizon  
4 showing an outline of the subject acreage in the North  
5 half of Section 7 and also is a map showing the completions  
6 in the Strawn interval which were colored in red.

7 It would be noted that the nearest Strawn completion  
8 to the current drilling well in the North half of 7 is  
9 the Pennzoil Gulf Federal Well to the North. There is no  
10 Strawn section present in the Antwell in the Southeast  
11 quarter of Section 6.

12 There is no Strawn porosity in the Stevens A Well  
13 located in the Southeast quarter of Section 7. There is  
14 no Strawn present in the Pennzoil Echols Well located in  
15 the Southeast quarter of 12; and therefore, it is not  
16 believed that Strawn porosity can be expected in the  
17 current drilling Stevens Well.

18 Q You have actually shown on this Exhibit 2 lines marked  
19 as Strawn porosity. Now, what does that indicate?

20 A It indicates the area within which Strawn porosity is  
21 developed. The wells that are included within the Strawn  
22 porosity line are wells that do have porosity in the  
23 Strawn reef.

24 Q All right. So even though it's a possibility, your best  
25 analysis at this point in time is that you will not

1 encounter Strawn porosity and in any event would not  
2 expect to have a commercial Strawn production in this  
3 well?

4 A That's correct. It's highly unlikely in view of the  
5 offset wells lacking in Strawn porosity. It's highly  
6 unlikely that the current drilling well will have a Strawn  
7 porosity that would be of commercial value.

8 Q Go on to Exhibit 3, please.

9 A Exhibit 3 is a structure map on the Morrow horizon, and  
10 it's on the, what I refer to as the main Morrow pay.  
11 There is one porosity interval which will be seen on the  
12 cross section at a later exhibit that is pretty uniform  
13 throughout the field.

14 So this map here is a structure map contoured on  
15 this Morrow pay interval. And again it will be noted  
16 that the acreage in question is in the North half of  
17 Section 7, and the nearest Morrow completions is a well  
18 that is the Stevens A in the South half of 7 and also  
19 a well in the Southeast quarter of 12, Pennzoil Echols  
20 Well.

21 The blue coloring is Morrow completion. It should  
22 be pointed out that the Antweil Missouri-New Mexico land  
23 in the Southeast quarter of Section 6 was originally  
24 completed in this Morrow pay interval. It produced from  
25 August of 1970 to October of 1971 and has not produced

1 since that time, and due to loading up of the wellbore  
2 with formation water. It will also be noted that, and  
3 this will be borne out on the cross section, that the  
4 Ryan Well in the Northwest quarter of 5 has also and  
5 was noncommercial in the Morrow pay zone.

6 Q Now, before we leave these exhibits, your application  
7 covers not only the Strawn and Morrow but also the  
8 Atoka and Canyon formations. Would you point out where  
9 the Atoka and Canyon wells are located and comment upon  
10 the probability of obtaining commercial production in  
11 either of those zones?

12 A The Pennzoil Mobil Federal Number 1 Well located in the  
13 Northeast quarter of Section 12 is currently completed  
14 as a dual in the Morrow and the Atoka. The Atoka zone  
15 in this well has produced about approximately 2.4 billion  
16 cubic feet of gas; and at a recent Commission hearing,  
17 Pennzoil asked that for approval to abandon the Atoka  
18 zone and recomplete that well in the Canyon along with  
19 the Morrow.

20 The bottomhole pressure, as pointed out in the hearing,  
21 in the Atoka zone has declined considerably; and for that  
22 reason it is believed that the Atoka zone is of limited  
23 nature, limited reservoir, and will probably not be  
24 commercial in the current drilling Stevens Number 1 Well.

25 It might also be pointed out at the same time that

dearnley, meier &amp; associates

200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 the Atoka is producing in the Northwest quarter of  
2 Section 8 in the Texas International Tidwell, and the  
3 Atoka zone from log analysis is poor quality and the  
4 volume of gas that is being produced from the Atoka is  
5 very low, in the neighborhood of a million cubic feet  
6 a day.

7 There is also an Atoka completion in the North half  
8 of Section 18, the Philips Drag A Well; and again, the  
9 log quality and the production from that log bears out  
10 that it's of a low quality zone.

11 So with that in mind, we do not believe that there is  
12 a very good chance of obtaining commercial production in  
13 the Atoka.

14 Q I take it from your testimony then that the Morrow is  
15 your principal objective in this well?

16 A That's correct. The Canyon which is the shallower of  
17 the four zones is producing in the South half of Section 18  
18 in the Philips Drag B Well. However, it's also exhibited  
19 loss of pressure and decline in production and has been  
20 tested in the Pennzoil Mobil 12 Well in the Northeast  
21 quarter of Section 12.

22 It was drill-stem tested when the well was drilled,  
23 so the Atoka and the Canyon are very spotty formations  
24 as far as in porosity development. The Strawn is  
25 developed to the North of the current drilling well, and



dearnley, meier & associates

200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 so of the four formations the Morrow would be the  
2 primary objective.

3 Q Please refer now to the cross section which has been  
4 marked as Exhibit 4. Now, is this cross section along  
5 the lines of A and A' as depicted on Exhibits 2 and 3?

6 A That's correct.

7 Q And North would lie to the right-hand side of the exhibit?

8 A That's correct.

9 Q All right. What does this cross section show that adds  
10 to your analysis of the geology and structure in this  
11 area?

12 A This cross section includes our left Stevens A Well which  
13 is the South half of Section 7. It goes through the  
14 location of the current drilling Stevens Number 1 Well  
15 in the North half and goes to the Antweil Missouri-New  
16 Mexico Land Well in the Southeast quarter of 6, and on the  
17 very right-hand side to Superior's Ryan Well in the  
18 Northwest quarter of Section 5.

19 It shows the position of the Canyon, Strawn, Atoka,  
20 and the Morrow pay of which there was a structure map  
21 presented on the Strawn and also one on the Morrow pay.  
22 The structure map on the Morrow pay through there in the  
23 cross section, at the bottom of the cross section, looking  
24 at the well that is currently being drilled below 11,600  
25 feet in the North half of 7, it is also to be noted that

1 this well is within about 300 feet of total depth.

2 The Morrow pay in the well to the Northeast of it,  
3 Antweil's Well was drill-stem tested and covered the  
4 water blanket and 561 feet of gas-cut mud, and then it  
5 was completed in the Morrow pay in May of 1970, completed  
6 for a calculated open flow of 2.439 million cubic feet  
7 of gas.

8 The 12 went on the line and the first production was  
9 in August of 1970 and the last production was in October  
10 of 1971. This particular well loads up with formation  
11 water and will not flow. The very right-hand side of the  
12 cross section, the Morrow pay was tested in Superior's  
13 Ryan Well, flowed 700 Mcf per day plus 40 barrels of  
14 formation water a day. The flowing tubing pressure was  
15 520 pounds, and it was determined after extensive testing  
16 and running of bottomhole pressures that the zone was not  
17 commercial due to the water production and the lack of  
18 flowing top-hole pressure.

19 The line pressure in this area is about 850 pounds,  
20 so the perforations in that well were squeezed off and the  
21 well was completed in a lower Strawn-Morrow zone at  
22 11,750 to 11,760 and completed for 1.36 million cubic  
23 feet of gas a day.

24 It will also be noted on the cross section that the  
25 well on the far left which is immediately South

1 and the current drilling well, that the Morrow pay from  
2 log analysis was indicated to carry 65 percent water  
3 saturation. Excuse me, that's 45 percent. The water  
4 saturations are denoted on the left-hand side of the  
5 log.

6 And as determined from Schlumberger's Log Analysis,  
7 the interval within that heavy dark line of Morrow pay  
8 was carrying 45 percent water saturation and is believed  
9 to be real close to the point of commercial versus  
10 noncommercial gas production.

11 This particular well was completed below the Morrow  
12 pay in another stray Morrow sand from 11,666 to 11,670 and  
13 was completed for 5.49 million cubic feet a day. This  
14 is a flowing test.

15 The open flow test has not been run on this particular  
16 well. It also will be noted, that in the well to the  
17 Northeast, the current drilling well, the Strawn in the  
18 upper part of the Atoka was tested, drill-stem tested and  
19 got gas that was too small to measure, indicating  
20 noncommercial production.

21 Q All right. Mr. Clay, let's turn to the next exhibit here.  
22 Have you made an economic analysis of Superior's situation  
23 drilling the subject well and assuming that Pennzoil  
24 continues to assume a nonconsenting position with respect  
25 to its working interest?

1 A Yes, I have. I've made a detailed economic analysis  
2 utilizing the price of the gas that was given to me by  
3 Pennzoil in the latter part of last year and the first  
4 part of this year.

5 Assuming that Pennzoil's interest will be carried,  
6 which it is being carried by Superior, this is the 11.2  
7 percent interest and is the only working interest within  
8 the proration unit that elected to go nonconsent.

9 Pennzoil's share of the drilling completion costs  
10 of which is being borne by Superior is \$29,300. From  
11 decline curve analysis, if a well similar to the Pennzoil  
12 Mobil 12 Well in the Northeast quarter of Section 12 is  
13 found in the current drilling well, an ultimate recovery  
14 of 5.5 billion cubic feet of gas can be expected.

15 Of this reserve, the nonconsent share is 512 million  
16 cubic feet of gas; and again, based on Pennzoil's gas  
17 price, the net income before Federal Income Taxes would  
18 be \$37,595 from their share of the unit reserves.

19 If a 100 percent risk factor were assigned by the  
20 Commission to Superior, Superior would realize a rate of  
21 return of 18.3 percent from this carried interest. These  
22 economics are in detail on the second page denoting  
23 Pennzoil's share of the gas, Pennzoil's gross income,  
24 Pennzoil's share of the operating costs and production  
25 taxes.

1 Refer to Pennzoil's working interest on the economic  
2 data sheet in the same meaning as the nonconsent interest.  
3 Pennzoil's share of the drilling completion cost at  
4 \$11,300 for the tangible and \$28,00 for the intangible.  
5 Pennzoil's net income before FIT Taxes, depreciation,  
6 depletion, Federal Income Taxes, and the cash flow after  
7 FIT Taxes, the cash flow after income taxes discounted  
8 values of 5, 10, 15, and 20 percent.

9 This summary of the economic analysis is shown on  
10 the next graph which shows the discounted cash flow that  
11 would result to Superior after FIT taxes versus the  
12 discounted rate used in the intersection of this  
13 discounted cash flow, and the zero value line is the  
14 rate of return.

15 It will be noted from this graph that at 100 percent  
16 risk factor this intersection of the curve is at the  
17 18.3 percent discount rate denoting that if a 100 percent  
18 risk factor were assigned that Superior would receive  
19 slightly in excess of an 18 percent rate of return.

20 The next graph is a material balance or a bottomhole  
21 pressure divided by cents versus the cumulative  
22 production of the Mobil 12 Number 1 Well indicating the  
23 ultimate reserve of 5.5 billion cubic feet of gas.

24 The next graph is a rate prediction taking the rates  
25 that have been produced from that Mobil 12 Well for the

dearnley, meier &amp; associates

209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

first three years and through extrapolation predicting how the remaining reserves will be produced, and these rates were the rates that were incorporated in the economic analysis material, the rate of return as we have seen on the graph.

Q What conclusions now do you draw from this analysis, Mr. Clay, with respect to an appropriate risk factor that should be assigned by the Commission in this case?

A Number 1, in view of the noncommercial production of the Morrow pay in the well to the Northeast, the current drilling well, and also the higher water saturation in the Morrow pay in the well to the South of the current drilling well, and since the Morrow pay is the primary zone to look at, there is still some risk of a commercial well, a risk of obtaining a well as good as Pennzoil Mobil 12 Well in the Northeast quarter of Section 12.

There is an inherent risk in any time you drill for the Morrow pay. In view of these offset wells, there is a definite risk of attaining this type of well that we have used in the economic analysis.

From the economic analysis, if we get as good as well as in the Northeast quarter of 12 and if we get a risk factor of 100 percent, the rate of return of 18 percent is not in our opinion a high rate of return when there is risk involved in making a well similar to what you

dearnley, meier &amp; associates

209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-0691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 have used in an economic analysis. If there is risk  
2 involved, an 18 percent rate of return does not give you  
3 a whole lot of cushion, so to speak.

4 Q Standing on its own merits, Mr. Clay, does this well  
5 present an attractive economic prospect to Superior?

6 A Would you restate the question?

7 Q Is this well economically attractive to Superior even if  
8 all parties participated in the drilling? Does it present  
9 the kind of return on investment, the prospects for  
10 return on investment that you normally seek?

11 A You are referring to Pennzoil's interest, I assume?

12 Q Well, maybe we are not on the same wave length. Let me  
13 restate it again. In view of the risks that you have  
14 just outlined, is the prospect itself economically  
15 attractive to Superior and to what extent is that  
16 attractiveness affected by the nonconsenting status  
17 of Pennzoil?

18 A Let me say this: We do have a more favorable gas price  
19 on the committed gas price here, and the economics of  
20 Superior's interest as compared to Pennzoil are more  
21 favorable than the Pennzoil interest. The Pennzoil  
22 interest, with us carrying it and being of less favor than  
23 our interest, has a tendency to pull down our economics,  
24 reduce it.

25 It's because of the lower rates of return, the lower

1 net that accrues from the Pennzoil interest as compared  
2 to our interest. It definitely is a load to our interest,  
3 and our economics indicate that it does justify taking  
4 the risk of drilling the well. Obviously that's why  
5 we elected to go on it. However, I might add if our  
6 economics looked like the Pennzoil economics that we would  
7 have to look at it real close before entering into an  
8 expensive well such as this, a \$350,000 well, because  
9 of this low profitability.

10 Q Concerning the costs of supervision that the Commission  
11 would assign in an order pooling the mineral interests  
12 in this half section, do you have any recommendations  
13 based upon experience in this area as to the cost of  
14 supervision that should be established?

15 A Yes. Under the operating agreements that we have used in  
16 the past, supervision costs under these operating  
17 agreements is approximately \$150 per month per well; and  
18 we would hope that it would be in line with the operating  
19 agreements.

20 Q Mr. Clay, did you prepare Exhibits 1 through 5 or were  
21 they prepared under your supervision?

22 A Yes. They were prepared by me.

23 MR. MORRIS: We offer Exhibits 1 through 5 into  
24 evidence.

25 MR. NUTTER: Applicant's Exhibits 1 through 5 will be



1 admitted into evidence.

2 MR. MORRIS: That's all we have on Direct Examination.

3 MR. NUTTER: Are there any questions of the witness?

4 MR. KELLAHIN: I'd like to ask some.

5 CROSS-EXAMINATION

6 BY MR. KELLAHIN:

7 Q Mr. Clay, you said you get a better gas price. What is  
8 your gas price?

9 A Our current price is 25-1/2 cents subject to BTU  
10 adjustment.

11 Q That is the contract price for this particular well?

12 A Right.

13 Q Of course, it's not completed yet.

14 A That would be the contract price if a well were completed.  
15 The acreage is committed under an existing prior contract.

16 Q Now, I don't think I ever quite understood your answer  
17 when Mr. Morris was asking you if this was economically  
18 attractive to Superior. Is it your answer that it is or  
19 isn't?

20 A Well, I think my answer was that looking at it from  
21 the standpoint of Superior's gas price that it was  
22 economically attractive from our gas price standpoint.  
23 And obviously, that's why the well is drilling from  
24 below 11,600 feet and a decision was made to drill the  
25 well.

1 They are not the kind of economics we jump up and  
2 down about, but nevertheless it was attractive enough to  
3 drill the well.

4 Q It was a reasonably good risk from your point, was it  
5 not?

6 A Using our prices?

7 Q Using Pennzoil's prices, it would not be an attractive  
8 risk; would it?

9 A Using Pennzoil's prices, if there were risks involved  
10 in it which we consider that there is some risk, I would  
11 have to say that it provides a fairly marginal-type  
12 investment.

13 Q Now, on your Exhibit Number 5, you show the cost,  
14 nonconsent share of drilling and completions cost. I'm  
15 assuming that's Pennzoil's share of the costs that they  
16 would have to pay had they participated. It is \$29,300.

17 A Yes.

18 Q Now, on the second page of the exhibit, you show Pennzoil's  
19 share of tangible costs at \$11,300 and Pennzoil's share  
20 of intangible drilling cost at \$28,000. That, to me,  
21 would add up to \$39,300.

22 A Yes, that's correct.

23 Q Which is it?

24 A That's a typographical error. It is \$39,300.

25 Q It is \$39,300?

1 A Yes.

2 Q On the basis of your computation and based on Pennzoil's  
3 gas price, of course, what would the net return be to  
4 Pennzoil after paying those costs?

5 A Would you mind running through that question again?

6 A Well, you made a computation of the cash flow to Pennzoil.  
7 How much would they receive from this well after they  
8 had paid out their costs of \$39,300?

9 A The total there at the bottom of the page, Pennzoil's  
10 net income before Federal Income Taxes which would be  
11 after the operating costs, production taxes, and ad valorem  
12 taxes were subtracted out plus the tangible and intangible,  
13 is \$37,595. That is after you subtract out the well  
14 costs and these other costs. This is what would flow to  
15 Pennzoil.

16 Q That is after you deduct the costs; is that correct?

17 A That's correct.

18 MR. NUTTER: And that's figuring gas at 17-1/2 cents?

19 THE WITNESS: That's figuring it at 17-1/2 cents  
20 currently and escalating it as I understand it to 21-1/2  
21 cents in 1986. There is an escalation in it, as I  
22 understand it, from Pennzoil.

23 MR. NUTTER: Let me ask one question.

24 MR. KELLAHIN: Go ahead.

25 MR. NUTTER: Prior to getting a payout, if the

Commission would force pool this and you would be getting Pennzoil's share of the gas pending payout of their share of the well costs, would you get all that gas and be able to sell it at 25-1/2, or do you have to pay them out at 17-1/2?

THE WITNESS: We don't have a legal ruling on this, but it's pretty clear from some of the previous cases that that case is committed under a prior contract at 17-1/2 cents, and that's the way it will be sold.

MR. NUTTER: So you wouldn't even get the benefit of your price until you got a payoff then?

THE WITNESS: As I understand it, on Pennzoil's share we would never get the benefit of our price unless there is relief provided to Pennzoil through some other means, the Federal Power Commission or some other source.

MR. NUTTER: I see. Go ahead, Mr. Kellahin.  
(By Mr. Kellahin) That was going to be my next question. Do you plan to make any effort to get it under your contract?

A Well, I would have to say that I'm not in any position to answer that type of question; and that's certainly out of my area.

Q Now, what did the Stevens A Number 1 Well cost?  
A The Stevens A Well cost was approximately \$430,000.

Q And your estimate on this well is considerably below that;

dearnley, meier & associates

209 SIMMS BLDG., P.O. BOX 1092, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 is it not?

2 A That's correct, \$350,000.

3 Q How do you account for the difference?

4 A We had some abnormal pressure in the Atoka in the Stevens  
5 A Well. The well took in excess of eighty days to drill  
6 to TD. As a consequent, the contractor fees and the  
7 mud costs were considerably higher than the current  
8 drilling well which is projected right now to be completed  
9 in the period of around fifty-one days, some thirty days  
10 less than the Stevens A.

11 The mud bill is considerably less, and I think in  
12 my opinion the \$350,000 is reasonable.

13 Q You carried Pennzoil in that well; did you not?

14 A That's correct.

15 Q What risk factor did you carry them on a voluntary basis?

16 A We carried Pennzoil on the Stevens A Well under a 50  
17 percent risk factor.

18 Q Now, in connection with your testimony as to your rate  
19 of recovery, you mentioned the figure of 18.3 percent.  
20 Is that contained in the assumption that you get a 100  
21 percent risk factor, and this is your rate of recovery  
22 of that portion of the cost chargeable to Pennzoil?

23 A Would you mind repeating the question?

24 Q The 18.3 percent rate of return, does that apply strictly  
25 Pennzoil's share of the cost?

1 A That's correct.

2 Q You are not taking into consideration the income from the  
3 balance of the interests?

4 A No. This economic data sheet was based on Pennzoil's  
5 working interest, the nonconsent interest.

6 Q At 17-1/2 cents?

7 A The price of Pennzoil's gas, the cost that would be  
8 attributed to Pennzoil with that working interest, and  
9 that graph reflects what this economic data sheet has on  
10 it which is Pennzoil's interest, what risk factor  
11 included of a 100 percent, 75, and 50 percent risk  
12 factor.

13 Q Now, if Pennzoil paid their proportionate share, their  
14 rate of return would be considerably less than 18.3  
15 percent then; wouldn't it?

16 A Not if we have the same facts.

17 Q They won't have the 100 percent risk factor. They are  
18 going to advance the money. Would their rate of return  
19 be the same as yours?

20 A There could be a difference there. That's correct.

21 Q Yes, sir. Now, in connection with your risk factor,  
22 you discussed the Philips Drag A Well. That's a dual  
23 completion, is it not, Drag 1-A in Section 18?

24 A Drag A?

25 Q Drag 1-A.

1 A Yes. That's correct. It's completed as a dual, the  
2 lower zone being the Morrow and the upper zone being the  
3 Atoka.

4 Q You said, I believe, in your testimony, the production  
5 was declining from that well. Correct me if I'm wrong.  
6 Did you testify that it was declining in that well?

7 A I believe that's correct, right.

8 Q Were you referring to both zones or only one?

9 A I was referring to the Atoka. I believe that I spoke of  
10 it in terms of when I was speaking of the Atoka zone.

11 Q The Morrow zone is quite a good well; is it not?

12 A The Morrow zone appears to be a better-than-average well.

13 Q Do you know what the rate of production on the two zones  
14 from that well is?

15 A I have it compiled. If you would give me a few minutes,  
16 I could bring it up.

17 Q Don't bother. We will put it in evidence if it isn't  
18 handy to you. How about the Philips Drag 1-B Well?  
19 Is that a good well?

20 A The Morrow is, I'd say, considerably better than average.

21 Q It's one of the best wells in the pool actually; is it not?

22 A I would say that it's one of the better. I wouldn't say  
23 it's the best.

24 Q Now, your cumulative production shown on here is through  
25 to May. Is that May 1st or the end of May?

1 A The cumulative production is to May 1. The average  
2 producing rate was during April.

3 Q Do you know whether that well is considerably overproduced  
4 under the present proration schedule or not?

5 A At the present time, unless required, I prefer not to  
6 answer that question.

7 Q Well, I ask you, do you know?

8 A I'd have to say that there is some question in my mind  
9 about that.

10 Q Well, you would agree that the Commission's proration  
11 schedule would speak for itself; would you not?

12 A Yes, I would.

13 Q In connection with your cross section, what prompted you  
14 to use the particular wells that you did use? Was there  
15 any reason for it?

16 A Yes, there was. The well, Stevens A Well was used because  
17 it was a South offset to the current drilling Stevens 1  
18 in the North half of Section 7.

19 Antwell New Mexico Land Well was used because it's  
20 a Northeast offset. These are maybe not the closest wells,  
21 but two of the closer wells that surround the current  
22 drilling well.

23 Q And the Superior Well in Section 5, how about it?

24 A The Superior Well in Section 5 was a well that was tested  
25 in the Morrow pay, simply shown to show that there is water



dearnley, meier & associates

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 production in this Morrow pay.

2 Q You picked it for that purpose then, because it showed  
3 water?

4 A Water production with noncommercial gas, just like the  
5 Antwell New Mexico Land Well.

6 Q Did you pick the Antwell Well for the same reason?

7 A The Antwell was chosen because it was an offset and also  
8 because it's near to the current drilling Stevens Number  
9 1 Well.

10 Q Now, you testified that that well was loading up with  
11 water. Do you know this for a fact?

12 A Well, I'd have to say that I've discussed it with the  
13 operator; and that's the impression of the operator.

14 I have gotten water samples from the well. The analysis  
15 of the water from the Antwell Missouri-New Mexico Land  
16 Well is similar to the formation water that was recovered  
17 in Superior's Ryan Number 1 Well that I've included, and  
18 I think other people have that. It's bearing formation  
19 water with noncommercial gas.

20 Q Did you discuss with the operator the manner in which that  
21 well had been completed or attempted to be completed?

22 A Yes, I have. In fact, I have discussed it in some detail  
23 and at great length when we were completing the Ryan Well  
24 of which I happened to be the one that completed it.  
25 And prior to the testing of the Morrow pay, I discussed

1 with Antweil in detail what had transpired on the well,  
2 and so I feel like the information I've got is fairly  
3 accurate.

4 Q Did he indicate to you that he had difficulties in the  
5 completion or believed that he had?

6 A I'd have to say that they probably did. However, I'd also  
7 have to say that this is not that unusual for wells  
8 completed in this field, that there are quite a few of  
9 them that you have difficulty in completing.

10 Q Now, getting back to this 18.3 percent rate of return,  
11 that bothers me a bit. Is it your opinion that a risk  
12 factor is designed to give you some kind of economic  
13 return other than for the sole risk of drilling the well?

14 A Would you mind restating the question?

15 Q I think the question is clear enough.

16 A Well, I'm sorry. I didn't understand it.

17 MR. KELLAHIN: Would you read back the question?  
18 (Whereupon, the reporter read back the question.)

19 A It's my opinion that the risk factor includes a risk  
20 involved in whether a well will make a commercial well  
21 or not make a commercial well, but also behind that,  
22 just because you make a well, often times as we know  
23 it doesn't mean that it always provides an attractive  
24 investment. So it's my opinion that there is always  
25 a risk even after you make a well, a risk of what kind of

1 a cash flow is going to accrue from that well, what kind  
2 of rate of return, what kind of profit, because this is  
3 the livelihood of the industry.

4 What are we going to make here that we can invest  
5 there? And so I don't know whether this is answering  
6 your question, but I do think that economics certainly  
7 is a part of risk.

8 Q And also Pennzoil's gas price is part of the risk. You  
9 are assuming that, too; is that right?

10 A Well, Pennzoil's gas price is a situation that most all  
11 companies have. All companies that have been in this  
12 business for any period of time have got gas contracts  
13 from the gas selling for 17 cents.

14 It's a way of life. It's not a favorable situation  
15 to be in, but we all have this type of situation. So  
16 I don't think Pennzoil is unique in that manner.

17 Q Now, prior to the time the Superior 1-A Well was drilled,  
18 did Pennzoil approach you about drilling in the West  
19 half of Section 7?

20 A I'm going to have to refresh my memory here a little bit  
21 because the 1-A Well, as I recall, was proposed back in  
22 something like June of last year. There has been a whole  
23 lot of correspondence that has transpired between June  
24 of last year and June of this year. To answer that type  
25 of question I'm going to have to refer back to some

1 correspondence that I don't have in a packet. I'll have  
2 to go through my brief case and see if I've got it.

3 Q Right now, you don't know. Is this correct? Is this  
4 what your answer is?

5 A At the present time, my memory just really doesn't serve  
6 me well enough to say definitely what was proposed and  
7 what was not.

8 Q Could you tell me why you selected a location in the  
9 Northwest quarter instead of the Northeast?

10 A Well, frankly, we felt like the two locations that were  
11 proposed in our March 22, 1973 proposal, we felt that the  
12 location 1980 from the North and West was the better of  
13 the two locations.

14 Q Is that based on your geological information?

15 A That's based on geological information, reservoir  
16 engineering information, economic evaluation, several  
17 factors.

18 Q Now, you are presently drilling below 11,600 feet in this  
19 well; is that right?

20 A That's correct.

21 Q You have already passed then the Atoka and Strawn and  
22 Canyon; have you not?

23 A Yes.

24 Q Did you make drill-stem tests in those zones?

25 MR. MORRIS: I object to this line of questions, Mr.

1 Examiner. This proceeding should not be used as a  
2 discovery proceeding by a party which has not paid its  
3 share of the well cost to gain information which obviously  
4 is confidential to the operator and to the participating  
5 parties in the well. We object.

6 MR. NUTTER: Mr. Morris, you have asked to force  
7 pool four different formations here. I think the questions  
8 pertaining to the four formations are in order.

9 MR. KELLAHIN: In addition to that, the witness has  
10 testified that the prospects in those four zones were not  
11 good. He has the information available. He should put  
12 it out. We have no need to take his bare statement.

13 MR. MORRIS: Let me say that we are asking the  
14 Commission to assign a risk factor for the drilling of the  
15 well. I think the Commission should look at it from the  
16 standpoint of what the prospects were before the well  
17 was drilled, and we are certainly going to divulge to  
18 the Commission all of the information that we are required  
19 to divulge to it, but I think it is grossly unfair to  
20 put the nonconsenting party in the position of waiting  
21 to see what the outcome is going to be before they then  
22 decide whether they are going to pay their share of well  
23 costs or not. I don't see that the results that have  
24 been obtained, even if the well were completed at this  
25 point, would be pertinent to the risk factor to be

1 assigned to this well.

2 MR. NUTTER: Well, isn't that one of the penalties,  
3 Mr. Morris, of filing an untimely application for forced  
4 pooling?

5 MR. MORRIS: Well, it is too bad certainly, Mr.  
6 Examiner, that --

7 MR. KELLAHIN: If the Examiner please, in every  
8 forced pooling order entered by this Commission, the  
9 operator does have an opportunity to pay his share.

10 MR. MORRIS: Well, let me finish my response now  
11 to the Examiner's question, Mr. Kellahin.

12 THE WITNESS: Excuse me just a minute. Could I have  
13 a drink of water? I got a bad tooth. Could I walk out  
14 just a minute?

15 MR. NUTTER: Sure.

16 MR. MORRIS: There is nothing in the forced pooling  
17 statutes which requires the Commission to enter an  
18 order and give the nonconsenting interest which has  
19 clearly gone nonconsent before the Hearing, give them  
20 additional period of time to decide whether they are  
21 going to pay their share of well costs or not. Now,  
22 I recognize fully that the standard order entered by the  
23 Commission does require the operator to furnish an AFE,  
24 and it gives the nonconsenting interest owner thirty days  
25 to decide whether he is going to pay his share of well

dearnley, meier &amp; associates

200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87108

1 costs or not.

2 So we are asking and intend to ask and I ask at this  
3 time that the Commission, if it sees fit to enter a  
4 pooling order in this case, in view of the fact that an  
5 AFE has already been submitted to Pennzoil in this case  
6 and Pennzoil clearly indicated its intent to be a  
7 nonconsenting interest, that they not be afforded this  
8 period of time insofar as the risk factor to be  
9 established as I said a minute ago.

10 I think the risk factor should be established as of  
11 the commencement of the well rather than as of the  
12 completion of the well. I certainly agree with the  
13 Examiner that it's unfortunate that the application was  
14 not filed and brought to hearing before the well was  
15 commenced, but this was a situation where I think Superior  
16 in good faith has kept negotiating right up to this very  
17 day trying to obtain the agreement of Pennzoil and felt  
18 that it could do so.

19 Perhaps it should have decided earlier that the  
20 prospects for reaching an agreement were hopeless, but  
21 for better or worse they continued to negotiate. Obviously  
22 I guess this all goes back to Mr. Kellahin's question  
23 concerning the results that had been obtained from this  
24 well up to this point of time. We would object to the  
25 question.

1 MR. KELLAHIN: If the Examiner please, I don't want  
2 to belabor the point; but I would point out that the  
3 witness and Mr. Morris themselves opened this question  
4 up by inquiring into this and testifying to the quality  
5 of these various zones.

6 Now, having testified to it, it's incumbent upon  
7 them to come forward with any other information they have  
8 got; and I have a right to ask the question.

9 MR. NUTTER: I think you are just covering territory  
10 that has already been initially covered by the Direct  
11 testimony. If you can give us the information on the  
12 quality of these zones other than what you have already  
13 given, Mr. Clay, we would appreciate it.

14 A Let me say this: In my operation, normally I look at the  
15 drill cuttings when they drill the well and determine  
16 whether to drill-stem test or whether they are needed.  
17 In this particular case, we have not drill-stem tested  
18 any zone; and I have only looked at a few cuttings.  
19 So I am not in a position to provide information.

20 The information that will be obtained from this well  
21 or at least information that we use to complete a well,  
22 determine whether to complete it, will be largely waiting  
23 on when we run the logs; and these logs will not be run  
24 until probably this weekend.

25 MR. NUTTER: You have not run any logs on the well



1 yet?

2 THE WITNESS: No.

3 MR. NUTTER: You are waiting for your TD on that?

4 THE WITNESS: That's correct. We have got about  
5 300 feet to drill. We drilled as most of these wells are  
6 drilled into the Barnett shale and where there is no  
7 longer Morrow interval present and log them and then have  
8 the analysis such as on a cross section made by  
9 Schlumberger on the water saturations, the gas  
10 saturations, determine from that whether to run a string  
11 of production pipe in the hole and then also to determine  
12 from those logs where we will attempt to complete it if  
13 there is commercial production indicated from the logs.

14 MR. NUTTER: As yet, no drill-stem tests have been  
15 conducted?

16 THE WITNESS: That's correct.

17 Q (By Mr. Kellahin) I understand no drill-stem test on  
18 any zone has been made.

19 A In this well?

20 Q In this well.

21 A That's correct.

22 Q Is that an unusual situation with you?

23 A No. It really isn't. We have drilled, this is the third  
24 well that we have drilled in here in the last six months.  
25 We drilled the Ryan in the latter part of last year in the

1 Northwest quarter of 5. There was no drill-stem test run.  
2 Stevens A was drilled and completed in the first part of  
3 May of this year. There was no drill-stem test run.  
4 So this well is following a pretty normal pattern.

5 Q Now, I don't know whether you were in the room or not when  
6 Mr. Morris was talking about the usual Oil Commission  
7 pooling order requiring the operator to furnish the  
8 nonconsenting owner with estimated well costs thirty days  
9 prior to commencing the well. Of course, the well has  
10 already been commenced and has been practically completed.  
11 What do you plan to do in that connection?

12 A Well, I again refer back to our letter of March 22, 1973,  
13 whereby all operators were notified and asked for their  
14 consent in an AFE numbered F-312-1 that was submitted  
15 to all offset operators reflecting a dry hole cost of  
16 \$250,000.

17 Q Now, you had not filed an application for forced pooling  
18 at that time?

19 A That's correct.

20 Q Will you furnish the nonconsenting owner with the actual  
21 cost upon completion?

22 A Yes.

23 Q Will you also furnish the logs and other pertinent  
24 information on the well?

25 A At the time --

1 MR. MORRIS: Excuse me, Mr. Kellahin. I object to  
2 the question because this may be a matter as to what is  
3 required either by Commission order or by terms of  
4 operating agreement that would be entered into after the  
5 Commission has determined the risk factor in this case.

6 So I think that the question pre-supposes what action  
7 the Commission may take.

8 MR. KELLAHIN: It pre-supposes nothing. I'm merely  
9 asking the witness if he is willing to do this. He can  
10 answer yes or no.

11 A I'd say to the present time and under the general operating  
12 practices, since we have no operating agreement with  
13 Pennzoil and are not required to and since we have  
14 carried Pennzoil's interest, we would be very reluctant  
15 to provide this kind of information.

16 MR. KELLAHIN: That's all the questions I have.

17 CROSS-EXAMINATION

18 BY MR. NUTTER:

19 Q Mr. Clay, in response to a question by Mr. Kellahin in  
20 which the figures on sheet two of Exhibit 5 didn't jive  
21 with the total shown on sheet one of Exhibit 5, does that  
22 cause us to have to reconsider the calculations that are  
23 made on sheet three of Exhibit 5?

24 A No. It does not.

25 Q Because you figured that at the 100 percent risk factor

dearnley, meier & associates

209 SIMMS BLDG., P.O. BOX 1022, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87108

1 based on a discounted cash flow up here. It looks like you  
2 started up here at about \$29,300; didn't you? And your  
3 investment is figured at \$29,300 on that exhibit, on the  
4 graph?

5 A The graph is figured at, no, the graph.

6 Q It looks like it might change all the shape of the curve  
7 on here.

8 A Okay. There seems to be some confusion on this economical  
9 analysis. Let me see if I can't provide some clarification.  
10 The \$29,700, the discounted values here on the right,  
11 far right-hand side are the discounted values times the  
12 cash flow after Federal Income Taxes.

13 Down at the bottom, it will be noted that the cash  
14 flow after Federal Income Taxes is \$29,800. That was after  
15 the tangible and intangible investment is subtracted,  
16 and it will be noticed in the first year of operation in  
17 1973 there will be a negative cash flow of \$36,800 which  
18 is this tangible and intangible well cost of \$33,300 and  
19 some operating costs, etc.

20 You sum all of the positive cash flows up after  
21 taxes. You subtract the first year at \$36,802 and come  
22 up with a cash flow after FIT Taxes, the \$29,798 that  
23 happens to represent.

24 Q That's the starting point of the first curve?

25 A Starting point here of the 100 percent risk factor. And

dearnley, meier &amp; associates

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1210 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87108

1 then each of these values after the cash flow, after FIT  
2 Taxes are discounted which comprises the curve. The cash  
3 flow before these taxes which is over on the left-hand  
4 side, before FIT taxes, is \$37,595, before Federal Income  
5 Taxes. Completion and depreciation are subtracted out.

6 And so I believe that I am correct in that the 100  
7 percent risk factor as plotted on the curve is correct.

8 Q In other words, the only thing we have to change on this  
9 would be this figure up at the upper right-hand side then?

10 A Yes. Is it on the graph also?

11 Q Yes.

12 A All right. That's correct.

13 Q I was reading the \$29,000 over here at the left as being  
14 the investment cost, but it is the cash flow rather than  
15 investment cost.

16 A Yes, that's correct.

17 MR. NUTTER: Now, Mr. Morris, I have a question for  
18 you. The way I understood Mr. Kellahan's interpretation  
19 of your statement a while ago, he is assuming that the  
20 Commission wouldn't require that the estimated well cost  
21 be submitted thirty days after the effective date of the  
22 order. I think you were approaching it from a little  
23 different view; weren't you? You were going to deny  
24 the thirty days in which to elect whether to pay or not  
25 to pay; weren't you?

1 MR. MORRIS: That's correct. I would ask the  
2 Commission in its order to recognize that Pennzoil clearly  
3 went nonconsent back before the pooling case was ever  
4 brought and that the risk factor to be assigned to the  
5 well be assigned from the standpoint of what the prospects  
6 were at the time the application was filed.

7 MR. NUTTER: And remove the portion of the order that  
8 provides the opportunity for a nonconsenting party at the  
9 Hearing to make the election?

10 MR. MORRIS: Perhaps I should make this clear. The  
11 Commission may find that to be a very severe requirement  
12 to make. We would ask that they make that. We think  
13 it is justified in this particular case.

14 However, if the Commission does not see fit to go  
15 that far with us, we would certainly ask that we not have  
16 to go through the unnecessary routine of furnishing  
17 estimated well costs or AFE which have already been done  
18 and that Pennzoil be given a specified period of time,  
19 a short period of time.

20 Obviously we want this to be done before the well is  
21 completed to determine whether they are going to pay their  
22 share of well costs in advance or continue in their  
23 nonconsent position.

24 Q (By Mr. Nutter) Mr. Clay, has anything occurred in the  
25 drilling of this well that would cause you to believe this

1 is not going to be within the estimated \$350,000 for a  
2 completed well or \$250,000 for a dry hole?

3 A No, there hasn't. As a matter of fact, I've up-dated as  
4 close as I can the projected cost; and I believe that  
5 those costs are going to be real close. The actual cost  
6 is going to be real close to the estimated cost.

7 MR. KELLAHIN: If the Examiner please, may I be heard  
8 on this same question?

9 MR. NUTTER: Yes, sir.

10 MR. KELLAHIN: We would certainly object to Mr. Morris'  
11 proposal. Obviously we are not too concerned about  
12 receiving a new estimated well cost. We agree we have  
13 received the estimated well cost, but to deny us the  
14 thirty-day period of time from at least the date of the  
15 order in which to elect to join or not to join would be  
16 a radical departure from the custom that has been long  
17 established by this Commission and all of its forced  
18 pooling orders.

19 Every nonconsenting owner has always had the  
20 opportunity to join after the Commission's order has been  
21 entered and join on a voluntary basis and avoid whatever  
22 penalty factor or risk factor the Commission might see  
23 fit to access.

24 Now, to say we shouldn't be given the opportunity  
25 to join after the well is completed, it is not our fault

1 that this well was started. The situation being as it is  
2 with the Commission, we may or may not get an order prior  
3 to the date of the completion of this well.

4 At that stage, we wouldn't even know what our rights  
5 are. So we submit that we should have a period of time  
6 after the order is entered in which to join on a  
7 voluntary basis just as it is a custom in all other orders.

8 MR. NUTTER: Would you agree that under the  
9 circumstances thirty days may not be necessary?

10 MR. KELLAHIN: No, I wouldn't. It takes that long to  
11 move the wheel of a corporate giant.

12 MR. NUTTER: Does anyone have any further questions  
13 of Mr. Clay?

14 MR. MORRIS: I have no further questions.

15 MR. NUTTER: He may be excused. Are you going to  
16 present any testimony?

17 MR. KELLAHIN: Yes, I am. We have one witness.

18 MR. NUTTER: Do you have anything further at this  
19 time, Mr. Morris?

20 MR. MORRIS: No, sir.

21 MR. MORRIS: I call Mr. J.C. Raney as a witness.

22 J.C. RANEY,

23 was called as a witness, and after being duly sworn according  
24 to law, testified as follows:  
25



DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A J. C. Raney.

Q How do you spell that?

A R-A-N-E-Y.

Q By whom are you employed and in what position, Mr. Raney?

A I'm employed by Pennzoil Company as a Petroleum Engineer.

Q Where are you located?

A Midland, Texas.

Q Have you testified before the Oil Conservation Commission or one of its Examiners and made your qualifications a matter of record?

A I have.

MR. KELLAHIN: Are the witness' qualifications acceptable?

MR. NUTTER: Yes, sir. They are.

Q Mr. Raney, are you familiar with the application that is presently before the Commission on the application of Superior Oil Company?

A Yes, I am.

Q Does Pennzoil have a working interest in this section or proposed unit?

A Yes, we do. Pennzoil Oil Company owns 11.209 percent in the proposed drilling unit in the North half of Section 7.

dearnley, meier & associates

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

- 1 Q Now, referring to what has been marked as Pennzoil's
- 2 Exhibit Number 1, would you identify that exhibit?
- 3 A Yes. This is a structure map on top of the Morrow
- 4 formation. It's used for two purposes, to show what
- 5 Pennzoil's interpretation of the Morrow structure is and
- 6 to show the ownership of each lease and to show the well
- 7 and/or acreage that's involved in this Hearing.
- 8 Q Pennzoil's acreage in this area is outlined in yellow;
- 9 is that correct?
- 10 A Yes.
- 11 Q Now, was Pennzoil contacted by Superior and asked to join
- 12 in the drilling of the proposed well?
- 13 A Pennzoil was contacted by Superior through the two Land
- 14 Departments.
- 15 Q Did you carry on some conversations about it?
- 16 A Yes.
- 17 Q Did Pennzoil decline to join in the drilling of the well?
- 18 A Yes, we did.
- 19 Q And for what reason?
- 20 A Our only reason for not joining in this well is because
- 21 of the low gas price which we received for the gas that
- 22 we would receive in this particular proration unit. And
- 23 the reason for this low gas price is that this acreage and
- 24 other acreage in the area was dedicated to Transwestern
- 25 Pipeline Company on a contract that was signed earlier in

1 the lifetime of the pool. In fact, this is the first  
2 pipeline connection in the pool, and we have suffered  
3 heavily from this; but this acreage in the North half of  
4 Section 7 is part of that acreage that was dedicated to  
5 Transwestern.

6 Q Did Pennzoil drill the discovery well in this pool?

7 A Yes, we did.

8 Q And Pennzoil had the first gas connection in this pool;  
9 is that correct?

10 A Yes.

11 Q And at that time you were required to dedicate a  
12 considerable amount of acreage to the pipeline?

13 A Yes.

14 Q Now, in connection with the testimony that has been  
15 presented, Superior has asked for a risk factor of 100  
16 percent above its well costs. Do you feel this is a  
17 high-risk well?

18 A We feel that the well is an inside well or another term  
19 is an infill well, as there is production in all directions  
20 except possibly to the Northeast in the Antweil Well; and  
21 one that was not mentioned in the previous testimony was  
22 the production from the, on the map it is shown as the  
23 Trans International Tidwell Well in Section 8. This well  
24 is now operated by Philips Petroleum Company.

25 We feel that this well is more definitely now, with

dearnley, meier &amp; associates

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 the flow tests that we received and data from Superior on  
2 the production from the Stevens 1-A in the South half of  
3 7, makes this even more of an infill or inside location  
4 with little or no risk involved at all.

5 Q Now, have you prepared a study of the production of the  
6 various wells in this area of the location?

7 A Yes. This is a group of exhibits that are marked 2  
8 through 13. These are production time-rate curves for  
9 all the wells in all the various zones of all the wells  
10 surrounding the location in question. The production  
11 varies from the second well completed in the pool, the  
12 Pennzoil Mobil 12 Federal in the Morrow and the Atoka, to  
13 probably two of the newest wells, the Superior Ryan and  
14 the Trans International Tidwell Well.

15 These are listed in numerical order starting with  
16 Pennzoil's Echols Number 1 in the South half of Section 12  
17 to the Southwest and going around to the North and back  
18 to the East and back to the South.

19 Q Do you have any particular comments on the exhibits?

20 A The history of these producing wells in there is shown  
21 on these curves. A lot of things affect the production  
22 from these wells. Exhibit Number 2, as we noted in the  
23 latter part of, or in May of 1972, the well went from  
24 approximately two million a day to three-and-a-half  
25 million a day.

dearnley, meier &amp; associates

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 This was as a result of changing out of a  
2 dehydration unit from Transwestern Pipeline Company. This  
3 well was being held back. This is probably one of the  
4 better wells in the pool, in this particular part of the  
5 pool.

6 Q Which well was that?

7 A Pennzoil Company Echols Number 1 located in the South half  
8 of Section 12. From the data that I have seen on the  
9 Stevens Number 1-A Well, it appears from the pressures  
10 and the production data to be as good as this Echols Well.

11 Going on around, in the latter part of these exhibits  
12 these are pretty well explained. There are some changes  
13 in the scales from a million cubic feet of gas per month  
14 to a thousand cubic feet of gas per month.

15 You would need to note this. One in particular is  
16 Exhibit Number 13. From talking to Philips Petroleum  
17 Company people, there are several factors that make this  
18 well fluctuate like this.

19 Q Which well are we talking about now?

20 A Philips Petroleum Company Drag A Number 1 located in the  
21 North half of Section 18 of 23, 27. The Atoka zone  
22 fluctuates quite a bit there, and part of this is because  
23 of the method in which it had been completed, that is,  
24 by an unorthodox, or to me an unorthodox dual completion  
25 attempting to flow the Atoka zone at the annulus.

1 If it makes any amount of liquid at all, this causes  
2 it to fluctuate, plus the pipeline has had this well  
3 shut-in part of the month of May which is the last month  
4 of production that I have. In fact, it was shut-in  
5 nearly all of May.

6 I have the production for May on quite a few of the  
7 wells and the current producing rates and flowing tubing  
8 pressures on all of the wells surrounding the well in  
9 question. And the field data indicates that the production  
10 fluctuates from a low of 100,000 cubic feet a day up to  
11 production of 20,000 or 20,000,000 cubic feet a day up  
12 to, I'm sorry. This is wrong. It's up to 6,000,000 a day  
13 on the Philips Petroleum Company Tidwell A-1 on the Morrow  
14 side located in Section 8 approximately 9/10 of a mile  
15 West, East of the location in question.

16 Q Now, there are a number of wells in this pool that are  
17 dual completions; is that correct?

18 A That is correct, and these are color coded to denote the  
19 multiple completions.

20 Q Now, at Superior's location in the North half of Section 7,  
21 would you expect to encounter production in anything other  
22 than the Morrow?

23 A From the production history and the drilling history in  
24 the South Carlshad area, this is very probable.

25 Q So they could have a dual completion and possibly triple;

1 could they not?

2 A That's correct.

3 Q In your opinion, is this a high-risk well?

4 A No, it is not.

5 Q Now, the witness has testified that in drilling the  
6 Stevens 1-A Well in the South half of the section they  
7 carried your interest for 50 percent above drilling cost.  
8 That is correct, is it not?

9 A Yes, it is.

10 Q Was there any more risk involved in that well than in  
11 the current well?

12 A There was quite a bit more risk involved because the  
13 known development in the area at that time, at the time  
14 that well was started and at the time the negotiations  
15 were going on as to whether Pennzoil would join in the  
16 drilling of this well, the production history to the  
17 South was quite a bit less.

18 The Tidwell Well in Section 8 of Philips' had either  
19 not produced or only had a small amount of production.  
20 The risk involved there to me was greater than what,  
21 very much greater than what it is in the North half of  
22 7.

23 Q Is there good Morrow production completely surrounding  
24 the proposed well?

25 A It's in all directions. There is good to poor production,

1 and for various reasons, this production fluctuates.

2 Q Now, you talked about the Antweil Missouri in Section 6.  
3 Did you talk to the operator about that well?

4 A I did.

5 Q Did they have trouble in the completion of that well?

6 A I visited with, and he was here, with Morris R. Antweil;  
7 and he gave me a detailed description of what he thought  
8 was wrong with the well and as to what their plans are.  
9 They gave this to me in writing.

10 They are in a similar position to what we are in  
11 Section 7 as far as gas prices, and they are attempting  
12 to renegotiate a gas price and will probably, if they can  
13 obtain approval for a change in gas price, they will  
14 attempt to either redrill this well or sidetrack it.

15 They feel that the reserve possible under this  
16 location in the Southeast corner of Section is  
17 of sufficient quantity to warrant an expenditure of this  
18 amount.

19 Q Now, the Stevens A Number 1 Well had a good flow test;  
20 did it not?

21 A It did. We received reports on the well, received log  
22 data on the well. I have not evaluated a log, but I have  
23 looked at some of the flow tests. On our last report  
24 on May 24, 1973, the well was flowing 5.5 million cubic  
25 feet of gas with a flowing tubing pressure of 3600 psi on



dearnley, meier & associates

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-9991 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 a quarter-inch choke. The well according to the last  
2 reports received from Superior was shut-in on May 25  
3 pending pipeline connection and hadn't been potentialled.

4 I'd like to point out that this flowing tubing  
5 pressure is very similar to the Pennzoil Echols Well.

6 Q Now, were Exhibits 1 through 13 prepared by you or under  
7 your supervision?

8 A Yes, they were.

9 MR. KELLAHIN: I'd like at this time to offer Exhibits  
10 1 through 13.

11 MR. NUTTER: Pennzoil Exhibits 1 through 13 will be  
12 admitted into evidence.

13 Q (By Mr. Kellahin) Now, Mr. Raney, based on the production  
14 from the various zones in the surrounding wells and the  
15 flow tests you have just testified to as to the Stevens

16 A Number 1, do you feel there is a high risk or any risk  
17 at all in drilling the proposed well?

18 A No. I don't believe that there is any risk involved at  
19 all in the drilling of this well with the large amount  
20 of data from drilling. There has been pointed out that  
21 possibly their well to the North in the Southeast corner  
22 of Section 6 was damaged during the drilling operation.  
23 We have reports that this well in the South half of 7  
24 was drilled with a drilling fluid that would be conducive  
25 to a very fine completion, and this being mainly the type

1 of mud. A particular item would be the water loss drawn  
2 through the Morrow. And with the production history and  
3 the possibility of many zones of production in here, the  
4 risk is, we don't believe, we believe should be very  
5 minor or nonexistent.

6 MR. KELLAHIN: That's all we have, Mr. Nutter.

7 MR. NUTTER: Are there any questions of this witness?

8 CROSS-EXAMINATION

9 BY MR. MORRIS:

10 Q Mr. Raney, if you'd look at your plat where the various  
11 wells are depicted in this area, now, the Stevens 1-A  
12 Well immediately South of the subject well, are you  
13 familiar with the Morrow production that has been  
14 experienced in that well so far?

15 A Just from the drilling reports and the two reports that  
16 I got. One was 5.0 million per day and the low at about  
17 3650 psi. The other one was the next day. Those are the  
18 only two reports I have seen, and 5.0 million and 3600 psi.

19 Q Those reports would indicate reasonably good production  
20 in the Morrow; is that right?

21 A Very good production.

22 Q Okay. Now, continuing on around in a clockwise fashion  
23 around the subject well, let's go over the the Pennzoil  
24 Echols Well.

25 A Yes, sir.

1 Q Would that likewise be categorized as a good well?

2 A As I stated a while ago, it was and it is.

3 Q Now, continuing on up to the North there and the other  
4 Pennzoil well in Section 12. How would you categorize  
5 the Morrow production in that well?

6 A I feel like that at the time that it was drilled and the  
7 drilling techniques applied, it would be as good as the  
8 Echols Well if the same drilling techniques had been  
9 used. It has been a good well.

10 Q The Morrow in that well, production from it is really not  
11 as good as the Echols Well in the South under actual  
12 production?

13 A Well, there is a difference in cumulative and a difference  
14 in bottomhole pressures because of the life in the total  
15 production from it which makes it --

16 Q Let's continue on a little further North, Mr. Raney.  
17 The well immediately North of your Pennzoil Mobil Federal  
18 in the East half of Section 1, it's not even productive  
19 in the Morrow; is it?

20 A Well, evidently Superior thought enough of it to set  
21 pipe through into the Morrow and cement it over. This is  
22 a little bit unorthodox to complete the top zone first,  
23 but they did think enough to set pipe through the Morrow.  
24 We own a 35 percent interest in it. They thought enough  
25 of the Morrow to go ahead and set pipe through it and run

dearnley, meier & associates

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87102

- 1 a centralizer through it to produce it someday.
- 2 Q It's not being produced at the present time?
- 3 A No.
- 4 Q Have you examined the logs on that well?
- 5 A Yes.
- 6 Q Have you determined one way or the other as to whether
- 7 you believe there is any Morrow pay in that point?
- 8 A Of sufficient quantity to try it since the well, they
- 9 were the operators elected to set pipe through it. I
- 10 probably wouldn't have maybe set pipe in it that deep.
- 11 They had a good zone at the hole.
- 12 Q Move over now to the well in the Southwest quarter of
- 13 Section 6. How would you characterize the Morrow
- 14 production in that one?
- 15 A Gee, as far as the production itself on face value, what
- 16 you see here is not very good; but we do plan to shoot
- 17 some perforating guns off and go back and treat this.
- 18 This was completed with some perforating guns that were
- 19 run on the bottom of the tubing and you never know
- 20 whether they have all gone off.
- 21 Q Okay. Now, we have already talked about the Antweil
- 22 Well to some extent in the Southeast quarter of Section 6.
- 23 I don't think we need to talk about it anymore right now.
- 24 It hasn't been producing from the Morrow since October
- 25 of '71; is that correct?

dearnley, meier & associates

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6091 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

- 1 A That's right, but there is work in progress to restore
- 2 the Morrow production.
- 3 Q Are you familiar with the completion over in Section 8
- 4 to the East of the subject location?
- 5 A No, I'm not.
- 6 Q Do you know whether that well is producing from the main
- 7 Morrow pay zone or not?
- 8 A Well, the main Morrow pay zone is many feet thick,
- 9 approximately 600 feet thick. This is what we consider
- 10 it to be.
- 11 Q You don't know, though?
- 12 A It's completed in the Morrow pay.
- 13 Q Yes. All right. Now, how many wells does Pennzoil
- 14 operate in this field approximately?
- 15 A Three.
- 16 Q And those three wells are the wells located immediately --
- 17 A Four, I'm sorry.
- 18 Q -- immediately West offsets to the subject well; is that
- 19 right?
- 20 A We operate one in the West half of Section 1.
- 21 Q Okay.
- 22 A Federal 1, and a well to the North of the location and
- 23 two wells to the West.
- 24 Q You operate both of them in Section 12?
- 25 A Yes, sir.

dearnley, meier &amp; associates

200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-8691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 Q But you have categorized them as being good wells?

2 A Yes.

3 Q You don't really care to see any further development in  
4 this area in the Morrow; do you, Mr. Raney?

5 A Oh, yes. In fact, I approached, back in June of '72  
6 when we first got the proposal to drill in this section,  
7 I approached Terry Clay with Superior on the idea, with  
8 the idea of drilling a well 1980 from the South and 660  
9 from the North or 1980 from the North and 660 from the West.

10 One well in the West half proration went up because  
11 we felt that this would drain all of the area. This was  
12 our thought at that time. Probably this would have been  
13 my recommendation as an engineer to join in the thing.  
14 In addition to your question there, we have in the  
15 mill right now a well in the South half of Section 5 which  
16 will be located 1980 from the West and 660 from the South  
17 line of Section 5.

18 We own the 160 acres in the Southwest corner of 5.  
19 We are drilling in the Section 23 up to the Northeast.

20 Q Now, when you were approached by Superior in this letter  
21 of March 22nd, your response to that request to join was  
22 a refusal to join and also a refusal to farm-out your  
23 interest to Superior; wasn't it?

24 A But if you'll read on a little bit further, I don't have  
25 it and I didn't write the letter. The Land Department

dearnley, meier &amp; associates

209 SIMMS BLOC. • P.O. BOX 1092 • PHONE 243-0691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLOC. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 wrote the letter; but if you'll read on, we were in or  
2 in previous correspondence, we were, what our reasoning  
3 for this was --

4 Q I was referring to your letter back to Superior of  
5 May 23, 1973, which is part of Exhibit 1 present by the  
6 Applicant where Pennzoil not only refused to participate  
7 in the drilling, you also refused to discuss farming-out  
8 your acreage to Superior.

9 A May I have a copy of it?

10 Q Certainly.

11 A But if you'll read the next paragraph down there it said,  
12 "It would be preferable from our standpoint if you could  
13 delay the drilling of the well until such time as the  
14 FPC approves a new area rate, which we believe will be  
15 no later than this summer." This was in May.

16 "No later than summer." And that was our reasoning  
17 for not farming-out. We were attempting to go in and  
18 participate in the well but at a better gas price; and  
19 once that we would commit ourselves to participating in  
20 the well, then the only avenue we would have, there are  
21 several avenues we would have as far as gas price increase,  
22 would be through the new area rate.

23 Q Now, you testified that in your opinion this is a low-risk  
24 well. I think you even went so far as to say at one time  
25 it was a no-risk well; but even in view of that, your

dearnley, meier & associates

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87108

1 company still refused to join, I take it, on the grounds  
2 that your economics are just so bad you just couldn't  
3 do it?

4 A As I stated, if you will read that letter again and  
5 as I stated earlier, our reason for not joining is  
6 because we felt that there was no risk involved but  
7 because of the economics involved at 17-1/2 cents.

8 Q But by going nonconsent, you make your bad economics  
9 the bad economics of Superior?

10 A Well, we weren't look at Superior's economics. We were  
11 looking at our own economics. We don't have to account  
12 for Superior.

13 Q Mr. Kellahin mentioned on Cross-Examination to Mr. Clay  
14 that Superior had carried Pennzoil on an agreed 50 percent  
15 risk factor on the 1-A Well in the South half of the  
16 section. Now, actually, that was negotiated at a time  
17 when 50 percent was the maximum risk factor that the  
18 Commission could assign under its law; isn't that correct?

19 A I don't know whether that was the maximum, but there has  
20 also been a change in the amount. This is 50 percent  
21 above the actual drilling costs, and this is rather  
22 ironic that they are drilling a further inside and  
23 further infill well and asking for an even higher risk  
24 factor.

25 MR. MORRIS: I have no further questions.



dearnley, meier & associates

209 SIMMS BLDG., P.O. BOX 1092, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87108

1 MR. NUTTER: Are there any questions of Mr. Raney?  
2  
3 CROSS-EXAMINATION  
4 BY MR. NUTTER:  
5 Q Mr. Raney, I notice a little difference in some figures  
6 here. Maybe you can correct it on this or maybe I should  
7 direct this to Mr. Clay, but in the letter that was  
8 mailed out on March the 22nd offering these various  
9 operators the opportunity to join, the percentage of  
10 ownership was given. Then someplace else some other  
11 figures were given, and then in your Direct testimony  
12 you said you owned an 11.20 percent interest?  
13 A Yes.  
14 Q And also, Mr. Clay on his Exhibit Number 5 says you own  
15 an 11.20906 interest. Are these more revised current  
16 figures than were originally submitted on the letter of  
17 March 22nd.  
18 MR. CLAY: That's correct. On the March 22nd letter,  
19 there was a few acres that weren't accounted for as to  
20 who owned what. So the revised interest is correct at  
21 the bottom of the May 23rd letter in handwriting as well  
22 as on the Exhibit Number 5 that you mentioned there.  
23 The 11.209 percent interest is right to the best of our  
24 knowledge.  
25 MR. NUTTER: I just wanted to be sure which set of  
numbers to use. If there are no further questions of this

dearnley, meier & associates

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87106

1 witness, he may be excused. Does anyone have anything  
2 further they wish to offer in this case? Mr. Kellahin?

3 MR. KELLAHIN: No, Mr. Nutter.

4 MR. NUTTER: No statements?

5 MR. MORRIS: Mr. Examiner, I don't feel it's  
6 necessary to make a closing statement in the matter since  
7 I had an opportunity to make a statement of position  
8 during the presentation of the evidence.

9 MR. KELLAHIN: I feel the same way.

10 MR. NUTTER: If there is nothing further in case  
11 5026, we will take the case under advisement.

12 \* \* \* \* \*

13 MR. NUTTER: We will reopen the case and put one  
14 letter into the record here.

15 MR. CARR: Mr. Examiner, we have received a letter  
16 from John P. Stevens who is the owner of an undivided  
17 one-half interest in 160 acres of the oil and gas rights  
18 located in the North half of Section 7, Township 23 South,  
19 Range 27 South, Carlsbad Field, Eddy County, New Mexico.

20 This property is under lease to Superior Oil, and  
21 his letter is in support of the application of Superior.

22 MR. NUTTER: Thank you, Mr. Carr.

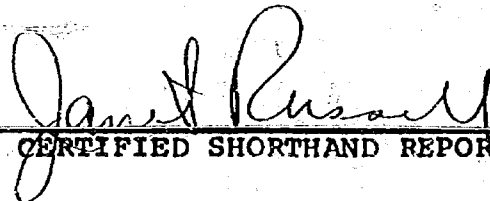
23 MR. MORRIS: While the case is still open, may I  
24 simply request for obvious reasons that we would appreciate  
25 the Commission giving the matter expeditious treatment.

1 MR. NUTTER: We will take the case under advisement.

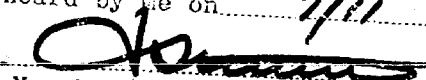
2 \* \* \* \* \*

3 STATE OF NEW MEXICO )  
4 ) ss.  
5 COUNTY OF BERNALILLO )

6 I, JANET RUSSELL, a Certified Shorthand Reporter, in  
7 and for the County of Bernalillo, State of New Mexico, do  
8 hereby certify that the foregoing and attached Transcript of  
9 Hearing before the New Mexico Oil Conservation Commission was  
10 reported by me; and that the same is a true and correct  
11 record of said proceedings to the best of my knowledge, skill  
12 and ability.

13   
14 CERTIFIED SHORTHAND REPORTER

15  
16  
17  
18  
19  
20  
21  
22 I do hereby certify that the foregoing is  
23 a complete record of the proceedings in  
24 the Examiner hearing of Case No. 5026,  
25 heard by me on 7/11, 1973.

  
Examiner  
New Mexico Oil Conservation Commission

dearnley, meier & associates

200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6891, ALBUQUERQUE, NEW MEXICO 87103  
1210 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87108

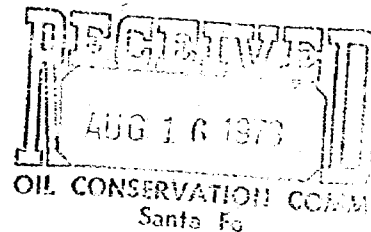
<u>I N D E X</u>		<u>PAGE</u>
<u>WITNESS</u>		
TERRY CLAY		3
Direct Examination by Mr. Morris		20
Cross-Examination by Mr. Kellahin		38
Cross-Examination by Mr. Nutter		
J. C. RANEY		44
Direct Examination by Mr. Kellahin		53
Cross-Examination by Mr. Morris		60
Cross-Examination by Mr. Nutter		
<u>E X H I B I T S</u>		
	<u>OFFERED</u>	<u>ADMITTED</u>
Superior's Exhibit 1 - 5	19	20
Pennzoil's Exhibits 1 - 13	52	52

JASON W. KELLAHIN  
ROBERT E. FOX  
W. THOMAS KELLAHIN

KELLAHIN AND FOX  
ATTORNEYS AT LAW  
500 DON GASPAR AVENUE  
POST OFFICE BOX 1769  
SANTA FE, NEW MEXICO 87501

TELEPHONE 982-4315  
AREA CODE 505

August 14, 1973



Mr. A. L. Porter, Director  
Oil Conservation Commission of New Mexico  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Re: Case No. 5026, Application of Superior  
Oil Company for Compulsory Pooling

Dear Mr. Porter:

In connection with the above case, I am enclosing copy of a letter directed to Superior Oil Company by Pennzoil Company, advising that they will participate in the drilling of the proposed well, and tendering their share of the estimated well costs.

This is in lieu of Superior recovering its well costs out of production, with a 100% risk factor.

Very truly yours,

*Jason W. Kellahin*  
Jason W. Kellahin

JWK:ks

Enclosure

*This case was heard  
July 11<sup>th</sup>  
Order issued July 23<sup>rd</sup>*

*JK*

**PENNZOIL COMPANY**

WESTERN DIVISION OFFICE • WALL TOWERS WEST • MIDLAND, TEXAS • PHONE (915) 682-7316  
MAILING ADDRESS: P. O. DRAWER 1828 MIDLAND, TEXAS 79701

W. C. HAYES  
Division Manager

August 6, 1973

The Superior Oil Company  
P. O. Box 1900  
Midland, Texas 79701

Attention: Mr. Raymond Parker

Re: The Superior Oil Company-Stephens No. 1  
N/2 Section 7-23S-27E  
Eddy County, New Mexico

Gentlemen:

Attached please find a signed copy of your AFE No. F-312-1 for the drilling of the Stephens No. 1 well in the South Carlsbad Field. In addition, please find a check in the amount of \$39,231.71. This represents Pennzoil Company's portion of the \$350,000.00 which was given as a reasonable estimate of the cost of this well as a completed Morrow producer in the Order No. R-4599 as issued by the Oil Conservation Commission of New Mexico. By this letter Pennzoil Company notifies The Superior Oil Company that we intend to pay our share of the estimated well costs.

Pennzoil is making this payment to The Superior Oil Company within the fifteen day period as set out by this Order. By so doing, we are notifying you in writing that this is in lieu of your taking our well costs out of production along with an additional 100% thereof as provided by the Order.

This should complete the necessary work prior to the end of the fifteen day period as provided by the Order. Pennzoil Company would now appreciate receiving a copy of all logs and any other drilling data gathered in connection with the operations on this well.

Yours very truly,

*W. C. Hayes*  
W. C. Hayes

WCH:f  
Attachs.



# **OIL CONSERVATION COMMISSION**

STATE OF NEW MEXICO  
P. O. BOX 2088 - SANTA FE  
87501

July 24, 1973

GOVERNOR  
BRUCE KING  
CHAIRMAN  
LAND COMMISSIONER  
ALEX J. ARMIJO  
MEMBER  
STATE GEOLOGIST  
A. L. PORTER, JR.  
SECRETARY - DIRECTOR

Mr. Richard S. Morris  
Montgomery, Federici, Andrews,  
Hanna & Morris  
Attorneys at Law  
Post Office Box 2307  
Santa Fe, New Mexico

Re: Case No. 5026  
Order No. R-4599  
Applicant:  
Superior Oil Company

Dear Sir:

Enclosed herewith are two copies of the above-referenced  
Commission order recently entered in the subject case.

Very truly yours,

A. L. PORTER, Jr.  
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC x  
Artesia OCC x  
Aztec OCC           

Other Mr. Jason Kellahin

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASE NO. 5026  
Order No. R-4599

APPLICATION OF THE SUPERIOR OIL  
COMPANY FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on July 11, 1973,  
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 23rd day of July, 1973, the Commission, a  
quorum being present, having considered the testimony, the record,  
and the recommendations of the Examiner, and being fully advised  
in the premises,

FINDS:

(1) That due public notice having been given as required by  
law, the Commission has jurisdiction of this cause and the subject  
matter thereof.

(2) That the applicant, The Superior Oil Company, seeks  
an order pooling all mineral interests in the Morrow, Atoka,  
Strawn, and Canyon formations underlying the N/2 of Section 7,  
Township 23 South, Range 27 East, NMPM, South Carlsbad Field,  
Eddy County, New Mexico.

(3) That the applicant has the right to drill and has com-  
menced the drilling of a well at a standard location for the  
above-mentioned formations.

(4) That there are interest owners in the proposed proration  
unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to  
protect correlative rights, and to afford to the owner of each  
interest in said unit the opportunity to recover or receive  
without unnecessary expense his just and fair share of the gas  
in said pool, the subject application should be approved by  
pooling all mineral interests, whatever they may be, within said  
unit.

(6) That the applicant should be designated the operator  
of the subject well and unit.



-2-

Case No. 5026  
Order No. R-4599

(7) That \$250,000 is a reasonable estimate of the cost of the subject well should it be dry hole, and \$350,000 is a reasonable estimate of the cost of the subject well as a completed Morrow producing well.

(8) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator within 15 days after the entry of this order in lieu of paying his share of reasonable well costs out of production.

(9) That any non-consenting working interest owner that does not pay his share of estimated well costs within 15 days after the entry of this order should have withheld from production his share of the reasonable well costs plus an additional 100 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(10) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(11) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(12) That \$150.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(13) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Morrow, Atoka, Strawn, and Canyon formations underlying the N/2 of Section 7, Township 23 South, Range 27 East, NMPM, South Carlsbad Field, Eddy County, New Mexico, are hereby pooled

-3-

Case No. 5026  
Order No. R-4599

to form a standard 318.76-acre gas spacing and proration unit to be dedicated to a well currently being drilled at a standard location for the above-described formations 1980 feet from the North line and 1980 feet from the West line of said Section 7.

PROVIDED HOWEVER, that the operator of said unit shall continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 90 days after the commencement thereof on May 22, 1973, said operator shall appear before the Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Superior Oil Company is hereby designated the operator of the subject well and unit.

(3) That \$250,000 is hereby established as the estimated well costs of a dry hole to the Morrow formation, and \$350,000 is hereby established as the estimated well costs of a well completed to produce from the Morrow formation.

(4) That within 15 days from the date of entry of this order, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Commission and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Commission and the Commission has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Commission will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

Case No. 5026  
Order No. R-4599

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 15 days after the entry of this order.
- (B) As a charge for the risk involved in the drilling of the well, 100 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 15 days after the date of this order.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$150.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

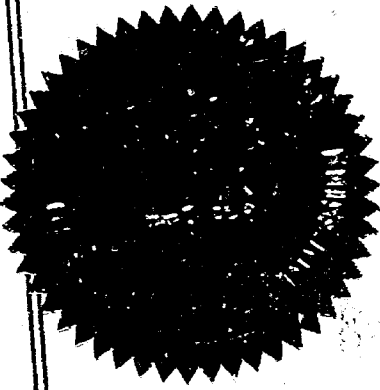
-5-

Case No. 5026

Order No. R-4599

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

  
*I. R. Trujillo*  
I. R. TRUJILLO, Chairman

*Alex J. Armijo*  
ALEX J. ARMIJO, Member

*A. L. Porter, Jr.*  
A. L. PORTER, Jr., Member & Secretary

S E A L

dr/

5026

RECEIVED  
JUL - 2 1973

OIL CONSERVATION COMMISSION, 1973  
Santa Fe 615 South Aspen  
Roswell, New Mexico



Mr. A. L. Porter, Member & Secretary  
State of New Mexico Oil Conservation & Commission  
Post Office Box 2088  
Santa Fe, New Mexico 87501

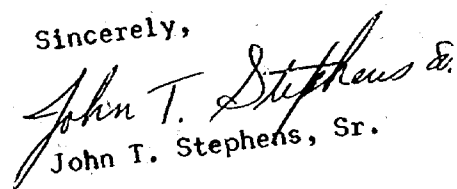
Re: Case No. 5026  
Force Pooling of Mineral Interests  
in N $\frac{1}{2}$ , Sec. 7, T-23-S, R-27-E  
South Carlsbad Field  
Eddy County, New Mexico

Dear Mr. Porter:

I am the owner of undivided  $\frac{1}{2}$ -interest in 160 acres  
of Oil, Mineral and Gas Rights, located in the N $\frac{1}{2}$  of Section  
7, T-23-S, R-27-E, South Carlsbad Field, Eddy County, New  
Mexico, now under lease to Superior Oil Company.

I wish to state my position as being in favor of the  
Force Pooling and support Superior Oil Company in their appli-  
cation for 'force pooling of all mineral interests' per Case  
No. 5026 to be heard before you July. 11, 1973, and therefore  
am in full agreement.

Sincerely,

  
John T. Stephens, Sr.

JTS:k

Docket No. 19-73

DOCKET: EXAMINER HEARING - WEDNESDAY - JULY 11, 1973

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,  
STATE LAND OFFICE BUILDING - SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

- ALLOWABLE: (1) Consideration of the allowable production of gas for August, 1973, from seventeen prorated pools in Lea, Eddy, Roosevelt and Chaves Counties, New Mexico.
- (2) Consideration of the allowable production of gas from nine prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico, for August, 1973.

CASE 4749: (Reopened) (Continued from the June 6, 1973, Examiner Hearing)

In the matter of Case No. 4749 being reopened pursuant to the provisions of Order No. R-4338, which order established special rules and regulations for the Humble City-Strawn Pool, Lea County, New Mexico, including a provision for 80-acre proration units. All interested parties may appear and show cause why said pool should be developed on other than 40-acre units.

CASE 5019: Application of Cities Service Oil Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests underlying the S/2 of Section 14, Township 20 South, Range 28 East, Eddy County, New Mexico, to be dedicated to a well to be drilled in an undesignated Morrow gas pool at a standard location in Unit K of said Section 14. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and up to 200 percent charge for risk involved in drilling said well.

CASE 5020: Application of Belco Petroleum Corporation for special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the South Salt Lake-Morrow Gas Pool, including a provision for 320-acre drilling and proration units. In the absence of objection, this pool will be placed on 320-acre spacing rather than the present 160-acre spacing.

CASE 5021: Application of Mobil Oil Corporation for an unorthodox oil well location and special pool allowable, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill its proposed New Mexico "B" Well No. 9 at an unorthodox location 940 feet from the North line and 1510 feet from the East line of Section 27, Township 10 South, Range 32 East, Mescalero-Devonian Pool,

(Case 5021 continued from page 1)

Lea County, New Mexico. Applicant further seeks the assignment of a special depth bracket allowable for said pool of 604 barrels of oil per day.

CASE 5022: Application of Skelly Oil Company for an exception to Rule 104, Lea County, New Mexico. Applicant, in the above-styled cause, seeks, as an exception to Rule 104, authority to produce its Mexico "L" Wells Nos. 1 and 23 located less than 330 feet from each other in Unit A of Section 5, Township 25 South, Range 38 East, and its Mexico "J" Wells Nos. 2 and 23 located less than 330 feet from each other in Unit O in Section 32, Township 24 South, Range 38 East, and its Mexico "J" Wells Nos. 4 and 17 located less than 330 feet from each other in Unit N of said Section 32, all in the Dollarhide-Fusselman Pool, Lea County, New Mexico, each 40-acre unit being limited to one top unit allowable.

CASE 5023: Application of Skelly Oil Company for a waterflood project, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a pilot waterflood project by the injection of water into the Upper and Lower San Andres formations through perforations in the intervals from 4207 feet to 4418 feet and from 4676 to 4849 feet in its Hobbs "T" Well No. 11 located in Unit P of Section 33, Township 7 South, Range 33 East, Chaveroo-San Andres Pool, Roosevelt County, New Mexico.

CASE 5024: Application of Midwest Oil Corporation for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Cottonwood Spring Unit Area comprising 3838 acres, more or less, of federal and fee lands in Township 25 South, Range 26 East, Eddy County, New Mexico.

CASE 5025: Application of The Superior Oil Company for down-hole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Upper Seven Rivers gas and Lower Seven Rivers oil in the wellbore of its State "12" Well No. 1 located in Unit L of Section 12, Township 21 South, Range 35 East, Eumont Pool, Lea County, New Mexico. Said well was authorized as a gas-oil dual completion in the Eumont Pool by Commission Order DC-142.

CASE 5026: Application of The Superior Oil Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow, Atoka, Strawn and Canyon formations underlying the N/2 of Section 7, Township 23 South, Range 27 East, South Carlsbad Field, Eddy County, New Mexico. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a 150 percent charge for risk involved in drilling said well.

CASE 5027: Application of Dalport Oil Corporation for the amendment of Order No. R-4553, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-4553 to provide that the well to be drilled on the proration unit pooled by said order shall be located in Unit G of Section 17, Township 12 South, Range 31 East, Chaves County, New Mexico, rather than Unit J of said Section 17. In the absence of objection, Order No. R-4553 will be amended as above.

CASE 5015: (Continued and Readvertised)

Application of Michael P. Grace II and Corinne Grace for compulsory pooling, Eddy County, New Mexico. Applicants, in the above-styled cause, seek an order pooling all mineral interests down to and including the Pennsylvanian formation underlying Section 16, Township 24 South, Range 26 East, adjacent to the White City-Pennsylvanian Gas Pool, Eddy County, New Mexico, to form a standard 640-acre unit for said pool, to be dedicated to a well to be drilled at an orthodox location for said unit. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and up to 200 percent charge for risk involved in drilling said well.

CASE 5010: (Continued from the June 27, 1973, Examiner Hearing)

Application of Yates Petroleum Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down to and including the Pennsylvanian formation underlying the N/2 of Section 18, Township 18 South, Range 26 East adjacent to the West Atoka Morrow Gas Pool, Eddy County, New Mexico, to be dedicated to a well to be drilled 1650 feet from the North line and 660 feet from the West line of said Section 18, the unorthodox location of which was previously approved by Commission Order No. R-4508. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and up to 200 percent charge for risk involved in drilling said well.

CASE 5012: (Continued from the June 27, 1973, Examiner Hearing)

Application of Gandy Construction for an oil treating plant permit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority for the construction and operation of an oil treating plant for the purpose of treating and reclaiming sediment oil at a site in the SE/4 of Section 11, or the SW/4 of Section 12, Township 10 South, Range 35 East, Lea County, New Mexico.



Superior

Ex 1 Series 5

Complete

(Stamped)

RECEIVED EXAMINER NUTTER  
 APR 1 1973  
 CASE NO. 5026

March 22, 1973

Gulf Oil Corporation  
 P. O. Box 1150  
 Midland, Texas 79701  
 Attn: Mr. R. E. Griffith

Mobil Oil Corporation  
 P. O. Box 633  
 Midland, Texas 79701  
 Attn: Mr. John D. Howard

Pennzoil Company  
 P. O. Box 1828  
 Midland, Texas 79701  
 Attn: Mr. J. E. Davidson

Wainoco, Inc.  
 1435 Bank of The Southwest Bldg.  
 Houston, Texas 77002  
 Attn: Mr. G. R. Diamond

RE: Proposed Joint Venture  
 Stephens Unit No. 1, Eddy County, New Mexico

Gentlemen:

The Superior Oil Company proposes the formation of a 318.16 acre working interest unit, consisting of the North Half (N/2) of Section 7, T-23-S, R-27-E, Eddy County, New Mexico, for the drilling of a 11,900 foot Morrow test. Said test well will be located 1980' FNL and FWL or 1980' FNL and FEL of said Section 7.

According to our information, the ownership of the North Half of Section 7 is as follows:

Company	Acres	Percentage
The Superior Oil Company	240.00	75.43374%
Pennzoil Company	35.46	11.14534%
Wainoco, Inc.	13.87	4.35944%
Gulf Oil Corporation	18.58	5.83983%
Mobil Oil Corporation	10.25	3.22165%
	318.16	100.00000%

It is our plan to commence this proposed well as soon as the rig on our presently drilling Stephens "A" well No. 1 is available. If such rig is not available, we will commence the test well no later than May 25, 1973.

Gulf Oil Corporation, et al

March 22, 1973  
Page 2

Attached is our AFE No. F-312-1 which reflects the cost of a dry hole to be \$250,000.00 and the cost of a completed well to be \$350,000.00.

Time being of the essence, we ask that you please advise at your earliest convenience whether or not you wish to participate in this proposed venture.

Yours very truly,

THE SUPERIOR OIL COMPANY

Raymond Parker  
District Landman

RP/mg

Encls

WAINOCO, INC.  
1435 BANK OF THE SOUTHWEST BUILDING  
HOUSTON, TEXAS 77002  
713-222-6488

May 16, 1973

RECEIVED  
MAY 18 1973

THE SUPERIOR OIL CO.  
MIDLAND LAND DEPT

The Superior Oil Company  
P. O. Box 1900  
Midland, Texas 79701

Attention: Mr. Raymond Parker

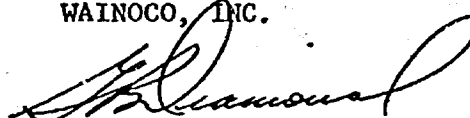
Re: Stephens Unit No. 1  
South Carlsbad Field  
Eddy County, New Mexico

Gentlemen:

In accordance with your letter dated March 22, 1973, returned herewith please find one copy of your AFE No. F-312-1 covering the drilling of the captioned well which has been executed on behalf of Wainoco, Inc.

Yours very truly,

WAINOCO, INC.

  
G. R. Diamond

enclosure  
GRD:sr

THE SUPERIOR OIL COMPANY  
AUTHORITY FOR EXPENDITURE  
AFE NO. F-312-1

WELL: Stephens No. 1  
FIELD: South Carlsbad  
COUNTY & STATE: Eddy County, New Mexico  
LOCATION: 1980' FNL & FWL or 1980' FNL & FEL, Section 7, T-23-S, R-27-E  
ESTIMATED TOTAL DEPTH 11,900 ESTIMATED COMPLETION STATUS: Gas

INTANGIBLES:

Drilling Contractor Fees	\$135,000
Preparing Location and Roads	5,000
Trucking	6,000
Equipment and Tool Rental	2,000
Tubular Inspection	7,000
Drilling Mud	23,000
Cementing and Cementing Services	18,000
Electrical Surveys	9,000
Perforating and Testing	6,500
Formation Fracturing	5,000
Completion Expense	5,000
Miscellaneous	26,300
TOTAL ESTIMATED INTANGIBLES	\$247,800

TANGIBLES:

Casing:	13-3/8"	350'	\$ 2,500
	9-5/8"	5,500'	30,000
	5-1/2"	11,900'	36,000
Tubing:	2-3/8"	11,000'	9,000
Xmas Tree			9,200
Packers and Downhole Equipment			500
Tank Battery and Separation Equipment			15,000
TOTAL ESTIMATED TANGIBLES			\$102,200
TOTAL PRODUCING WELL COST			\$350,000
ESTIMATED DRY HOLE COST			\$250,000

APPROVED: (NON-OPERATOR)

WATCO, INC.  
BY: [Signature]  
President

DATE: May 16, 1973

TDC/jf  
3-16-73

APPROVED: (OPERATOR)

THE SUPERIOR OIL COMPANY

BY: [Signature]

DATE: 3-17-73

**Mobil Oil Corporation**

P.O. BOX 633  
MIDLAND, TEXAS 79701

April 23, 1973

*H.* **RECEIVED**  
APR 24 1973  
**THE SUPERIOR OIL CO.**  
MIDLAND LAND DEPT

The Superior Oil Company  
P. O. Box 1900  
Midland, Texas 79701

Attention Mr. Raymond Parker

PROPOSED JOINT VENTURE  
STEPHENS UNIT NO. 1  
EDDY COUNTY, NEW MEXICO

Gentlemen:

Attached is your AFE for the subject well which has been approved by Mobil subject to approval of an acceptable Operating Agreement. When the well is started, please call a daily drilling report Monday through Friday to Mrs. Thena Bullion, 684-8211, Ext. 322. Also, please furnish Mr. Lloyd Haseltine at the above address one copy of all logs run on the well. Upon completion of the well, furnish us a copy of the New Mexico Oil Conservation Commission completion report.

Yours very truly,

*John D. Howard*  
John D. Howard  
Joint Interest Administrator  
Midland Producing Area

bg  
Attachment

*Copy furnished  
Bischoff & White*

THE SUPERIOR OIL COMPANY  
AUTHORITY FOR EXPENDITURE  
AFE NO. F-312-1

WELL: Stephens No. 1  
 FIELD: South Carlsbad  
 COUNTY & STATE: Eddy County, New Mexico  
 LOCATION: 1980' FNL & FWL or 1980' FNL & FEL, Section 7, T-23-S, R-27-E  
ESTIMATED TOTAL DEPTH 11,900 ESTIMATED COMPLETION STATUS: Gas

INTANGIBLES:

Drilling Contractor Fees	\$135,000
Preparing Location and Roads	5,000
Trucking	6,000
Equipment and Tool Rental	2,000
Tubular Inspection	7,000
Drilling Mud	23,000
Cementing and Cementing Services	18,000
Electrical Surveys	9,000
Perforating and Testing	6,500
Formation Fracturing	5,000
Completion Expense	5,000
Miscellaneous	<u>26,300</u>
<b>TOTAL ESTIMATED INTANGIBLES</b>	<b>\$247,800</b>

TANGIBLES:

Casing:	13-3/8"	350'	\$ 2,500
	9-5/8"	5,500'	30,000
	5-1/2"	11,900'	36,000
Tubing:	2-3/8"	11,000'	9,000
Xmas Tree			9,200
Packers and Downhole Equipment			500
Tank Battery and Separation Equipment			<u>15,000</u>
<b>TOTAL ESTIMATED TANGIBLES</b>			<b>\$102,200</b>
<b>TOTAL PRODUCING WELL COST</b>			<b>\$350,000</b>
<b>ESTIMATED DRY HOLE COST</b>			<b>\$250,000</b>

APPROVED: (NON-OPERATOR)

MOBIL OIL CORPORATION

BY: John D. Howard

DATE: April 23, 1973

TDC/jf  
 3-16-73

APPROVED: (OPERATOR)

THE SUPERIOR OIL COMPANY

BY: R. D. Burch

DATE: 3-17-73



WESTERN DIVISION OFFICE • WALL TOWERS WEST • MIDLAND, TEXAS, • PHONE (915) 682-7316  
MAILING ADDRESS: P. O. DRAWER 1828 MIDLAND, TEXAS 79701

March 28, 1973

*R.* RECEIVED  
MAR 30 1973

The Superior Oil Company  
P. O. Box 1900  
Midland, Texas 79701

THE SUPERIOR OIL CO.  
MIDLAND LAND DEPT.

Attention: Mr. Raymond Parker

Re: Proposed Stephens Unit #1  
N/2 Section 7, T-23-S,  
R-27-E, Eddy County,  
New Mexico

Gentlemen:

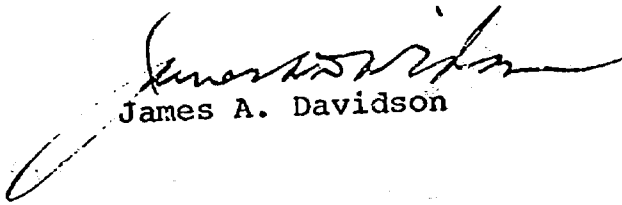
Reference is made to your letter of March 22, 1973, proposing a working interest unit covering the N/2 Section 7, and the drilling of a Morrow test on this unit.

We will give you an immediate answer in this regard as soon as we see the logs on your presently drilling well located in the S/2 of Section 7.

In the meantime, we have appreciated being contacted by you in this regard.

Please let us know if we are able to furnish anything further at this time.

Very truly yours,

  
James A. Davidson

JAD/mlm

cc: Wainoco, Inc.  
1435 Bank of Southwest Bldg.  
Houston, Texas 77002  
Attn: Mr. G. R. Diamond



**Gulf Oil Company-U.S.**  
EXPLORATION AND PRODUCTION DEPARTMENT  
MIDLAND DISTRICT

P. O. Drawer 1150  
Midland, Texas 79701

W. B. Hopkins  
DISTRICT MANAGER  
J. A. Hord  
DISTRICT EXPLORATION  
MANAGER  
J. L. Pike  
DISTRICT PRODUCTION  
MANAGER  
M. B. Moseley  
DISTRICT SERVICES MANAGER

April 4, 1973

Re: Proposed Joint Venture  
Stephens Unit No. 1  
EDDY COUNTY, New Mexico

The Superior Oil Company  
P. O. Box 1900  
Midland, TX 79701


Attention: Mr. Raymond Parker

Gentlemen:

This is in reply to your letter of March 22, 1973, in which you proposed the drilling of an 11,900 foot Morrow test in the N/2 of Section 7, T-23-S, R-27-E, Eddy County, New Mexico.

Gulf Oil Corporation is agreeable to joining your proposed unit, subject, of course, to a satisfactory Operating Agreement.

Yours very truly,

  
R. E. GRIFFITH  
District Landman

RCB/dch

RECEIVED  
APR 5 1973

THE SUPERIOR OIL CO.  
MIDLAND LAND DEPT



A DIVISION OF GULF OIL CORPORATION



WESTERN DIVISION OFFICE • WALL TOWERS WEST • MIDLAND, TEXAS, • PHONE (915) 682-7316  
MAILING ADDRESS: P. O. DRAWER 1828 MIDLAND, TEXAS 79701

May 23, 1973

The Superior Oil Company  
P. O. Box 1900  
Midland, Texas 79701

Attention: Mr. W. R. Lewis

Re: No. 1 Stephens  
N/2 Section 7, T-23-S,  
R-27-E, Eddy County,  
New Mexico

Gentlemen:

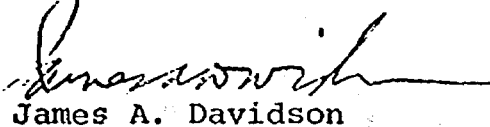
Reference is made to our various correspondence concerning your above captioned proposed well.

Due to our acreage being committed to an old gas contract under which we receive approximately 17½¢ per MCF, we are unable to participate in the drilling of the well and we are not interested in farming-out our acreage.

It would be preferable from our standpoint if you could delay the drilling of the well until such time as the FPC approves a new area rate, which we believe will be no later than this Summer.

We very much regret the necessity of not being able to co-operate with you in the regard. Please advise if we might furnish anything further at this time.

Very truly yours,

  
James A. Davidson

JAD/mlm

SUPERIOR	WI	75.29176
Pennzoil Co.	WI	11.20906
Gulf Oil	WI	5.87589
Wainoco, Inc.	WI	4.38261
Mobil Oil	WI	3.24068

CASE NO. 5026  
JULY 11, 1973  
APPLICATION BY SUPERIOR OIL COMPANY  
TO FORCE POOL MINERAL INTERESTS  
N/2 SEC. 7, T-23-S, R-27-E  
SOUTH CARLSBAD FIELD  
EDDY COUNTY, NEW MEXICO

Interest of Parties in N/2 Sec. 7:

COMPANY	ACRES	PERCENT
The Superior Oil Company	240.00	75.29176
Pennzoil Company	35.73	11.20906
Gulf Oil Corp.	18.73	5.87589
Wainoco, Inc.	13.97	4.38261
Mobil Oil Corp.	10.33	3.24068
	318.76	100.00000

STATUS OF W.I.  
IN CURRENT DRILLING  
STEPHENS NO. 1 WELL

Participate  
Non-Consent  
Participate  
Participate  
Participate

Participating Working Interest in Current Drilling Stephens No. 1 Well - 88.79094%  
Non-Consent Working Interest - 11.20906%  
100.00000%

Non-Consent Share of Drilling and Completion Costs to be borne by  
The Superior Oil Company - ~~\$29,300~~  
39,300

CALCULATED MORROW RESERVES:

Decline Curve Analysis - 5,500,000 MCF  
Non-Consent Share of Reserves After Royalty - 512,140 MCF

CALCULATED MORROW ECONOMICS:

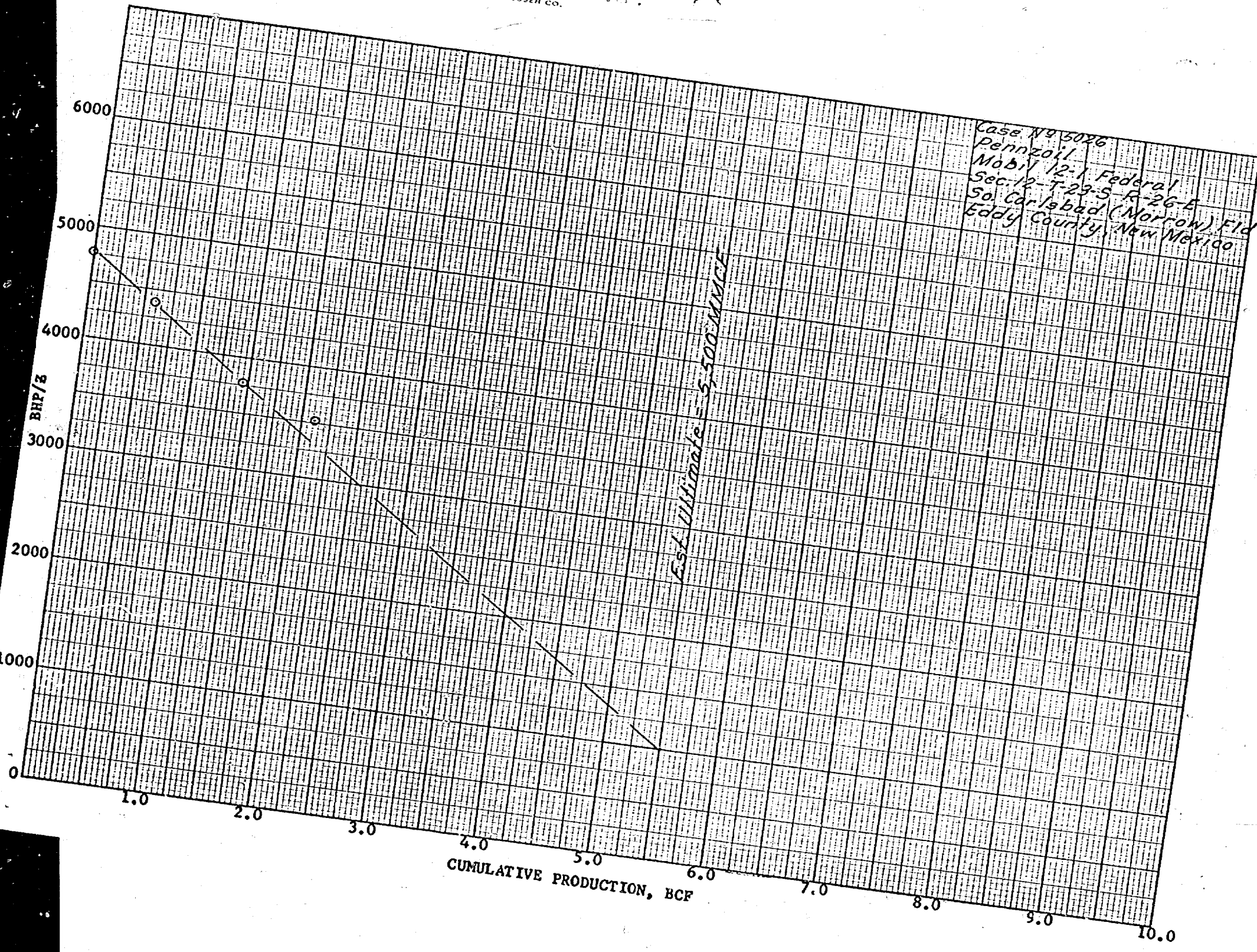
\*Year of Pay Out: 1977  
Net Income Before FIT: \$37,595  
Calculated Rate of Return to Superior assuming 100% Risk Factor - 18.3%

\*Calculation of Economics based on Committed Gas Price of Non-Consent Party.

BEFORE	DATE	NUTTER
APPL	NO. 5	5026
CASE NO.		

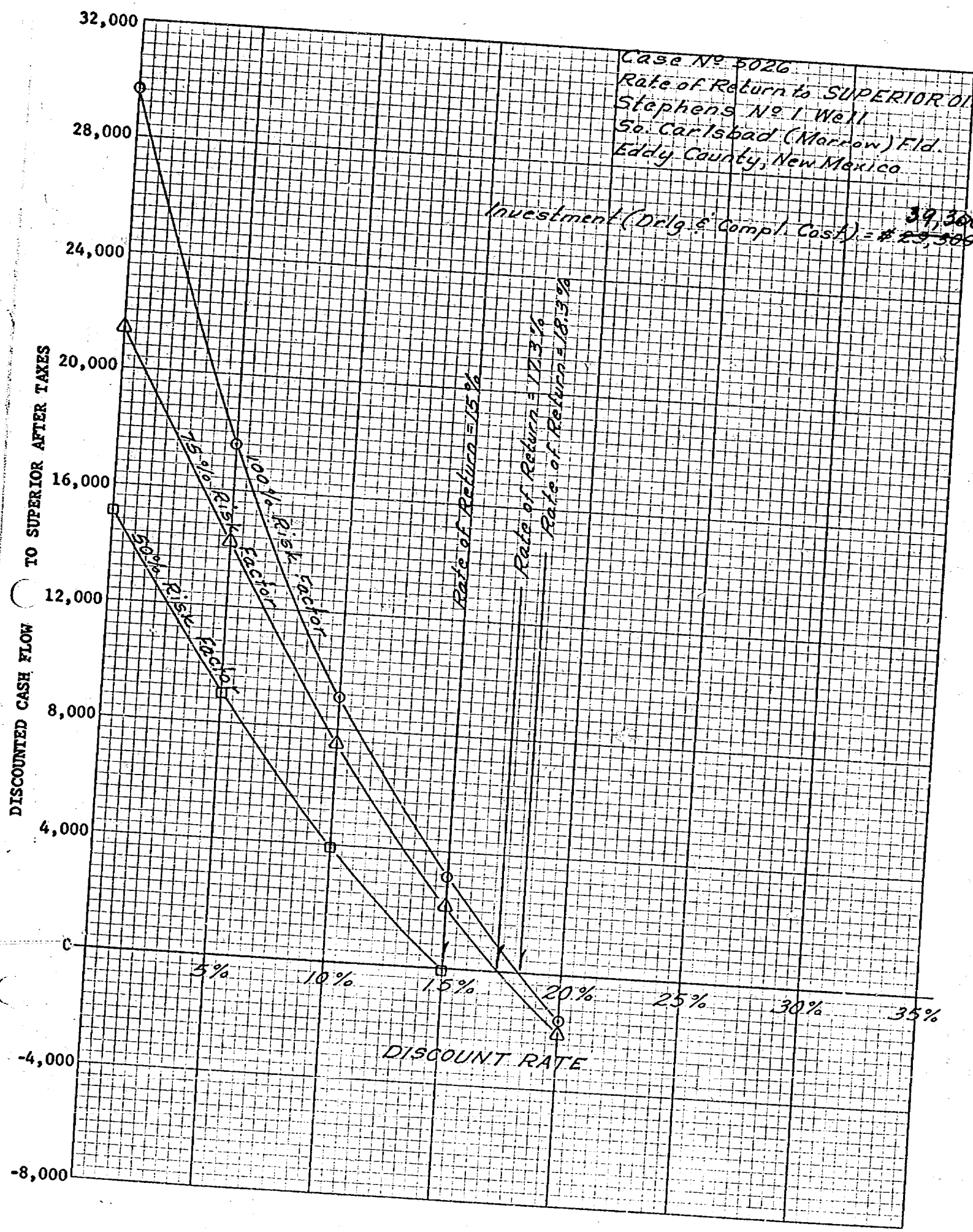
14-5 20 X 20 TO THE INCH 46 1242  
KEUFFEL & ESSER CO.

Case No 5026  
Pennzoil  
Mobil 12-1 Federal  
Sec 12-T-23-S R-26-E  
So. Carlsbad (Narrow) Fld  
Eddy County, New Mexico

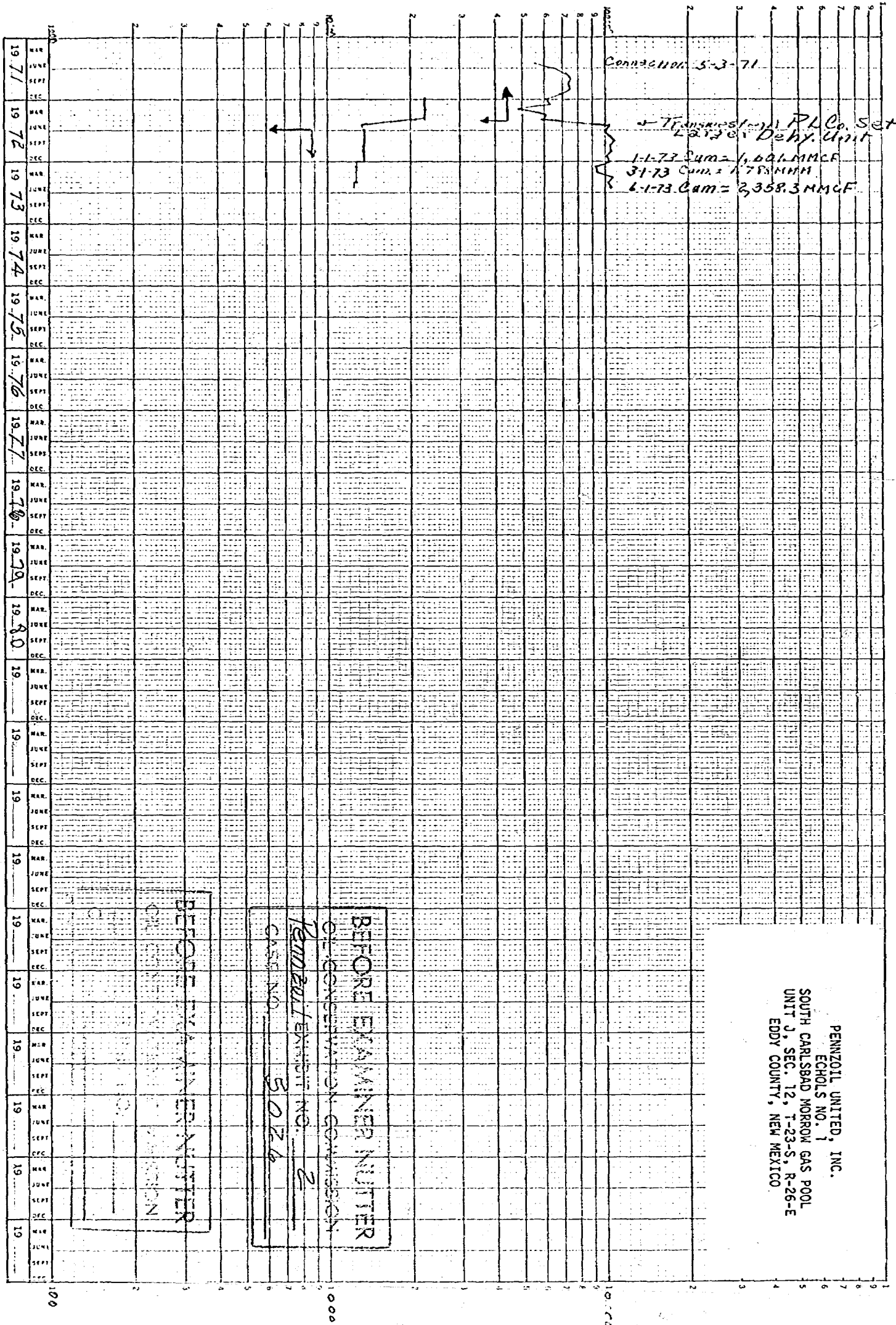


Case No. 5026  
 Rate of Return to SUPERIOR OIL CO.  
 Stephens No. 1 Well  
 So. Carlsbad (Morrow) Fld.  
 Eddy County, New Mexico

Investment (Drilg. & Compl. Cost) = \$ ~~29,300~~ <sup>39,300</sup>



Gas Prod. MCF Per Month



Flaring Tubing 2 in. - PS.

Reunzai  
Ex 1, June 13  
Completed  
(Stamped)



1,000,000

PENNZOIL UNITED, INC. 1  
MOBIL "12" FEDERAL NO. FIELD  
CARLSBAD SOUTH MORROW FIELD  
CARLSBAD COUNTY, NEW MEXICO  
EDDY COUNTY, NEW MEXICO  
(1 well)

MCFFPM

100,000

10,000

1,000

BEFORE EXAMINER NUTTER  
OIL CONSERVATION COMMISSION  
CASE NO. 5026

PENNZOIL

CASE NO.

1,000

8-9-71 SITP 22653 (78415)  
6-1-72 CUM 2,006,490  
6-1-73 CUM 2,440,440  
6-1-73 CUM 2,518,440

47 6840  
20 YEARS BY MONTHS  
X 3 LOG CYCLES  
REUTEL & SENSE CO.  
MADE IN U.S.A.



000,000

EDDY COUNTY, NEW JERSEY (1 well)

(1 well)

$\text{In } 1/2 \text{ SIBP} = 5058 \text{ (22.428)}$   
 $\text{Calc. SIBP} = 5047 \text{ (20.4349)}$   
 $\text{Calc. SIBP} = 4267 \text{ (7.1670)}$   
 $\text{Calc. SIBP} = 2588 \text{ (8-9.71)}$   
 $\text{Mez. SIBP} = 1948 \text{ (2.2812)}$   
 $\text{Mez. SIBP} = 1493 \text{ (2-15-13)}$   
 $\text{Cum. 6-1-73} = 2,946.4 \text{ MNC}$

**MCFPM**

0.000.

88

47 6840  
20 YEARS BY MONTHS  
X 3 LOG CYCLES  
MICROFILM & ESSAY CO.

**EXAMINED BY**

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
---	---	---	---	---	---	---	---	---	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	-----

5036

0  
2  
14  
15  
24  
1

# Gas Production MMCFPM

The Superior Oil Co.  
 Co. 11 at Estate No. 1  
 1980 F&G FL Sec 6, T-235, R-24E  
 Eddy County, New Mexico  
 South Cardisbad Strawn Pool

Cum 6-1-73 46,958 Bcond  
 Cum 6-1-73 5068.0 MMCF  
 Cum 1-1-72 1,714 MMCF  
 BHP 5-14-70 42958  
 BHP 8-9-71 28874

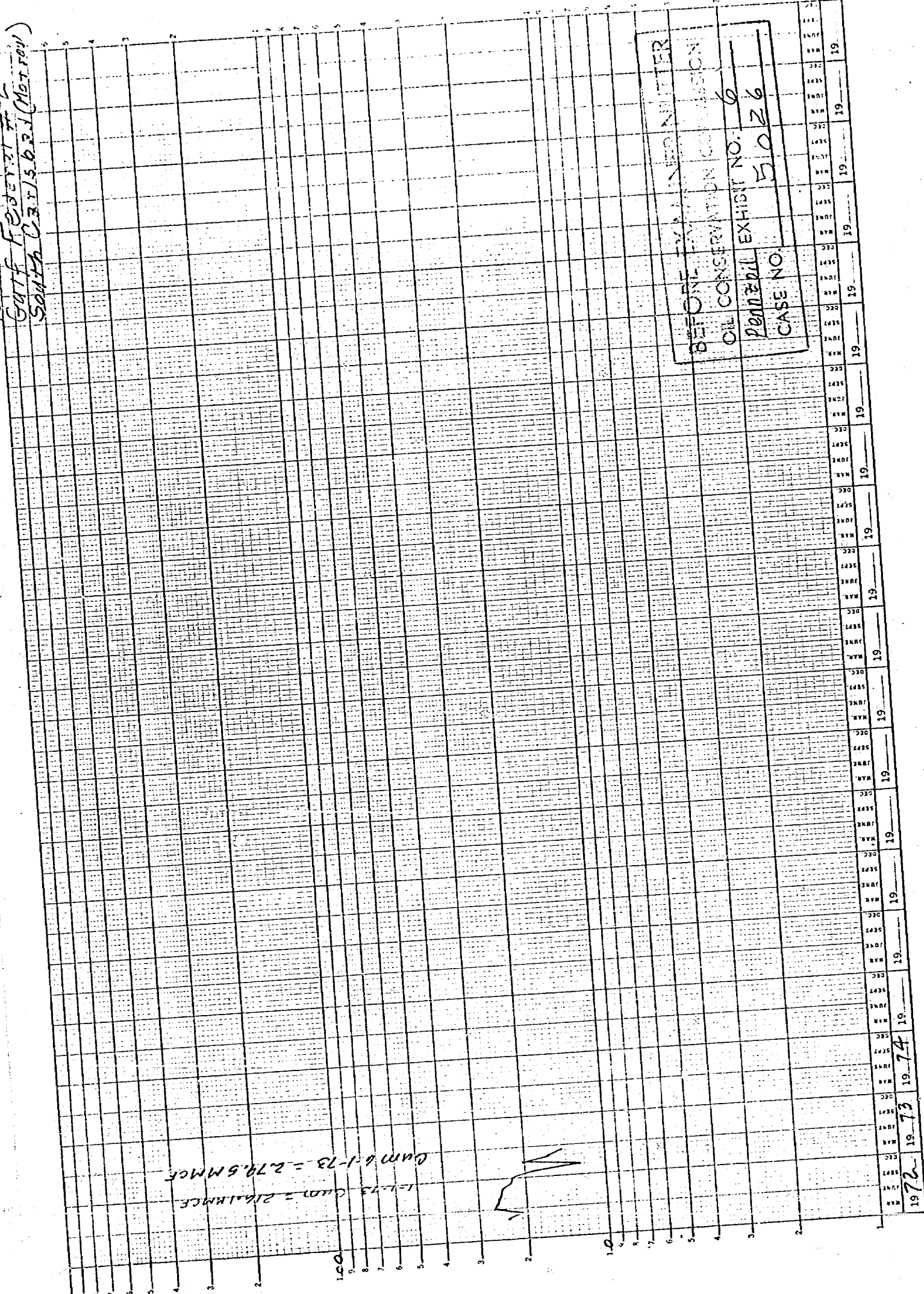
Condensate Production Bbl/Mo.

BEFORE EXAMINER NOTED

Pennzoil  
 5026

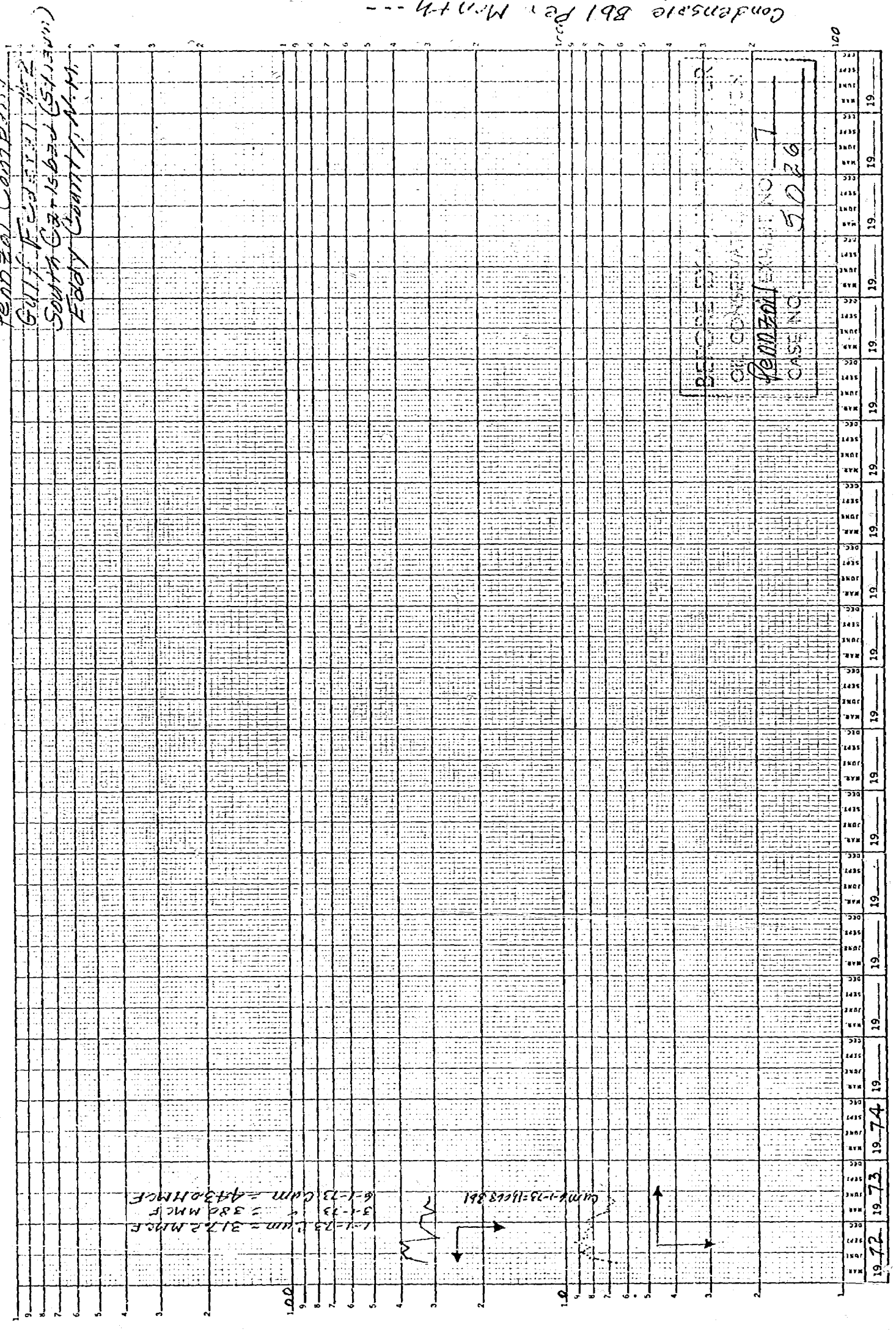
AT 6840  
 20 YEARS BY MONTHS  
 3.00 CYCLES  
 KEUFEL & ESSER CO.

Pennzoil Company  
 Gulf Federal # 2  
 South Central (Mortray)



BEFORE THE UNITED STATES  
 OIL CONSERVATION COMMISSION  
 Pennzoil EXHIBIT NO. 6  
 CASE NO. 5026

MMSCF Per Month



Pennzoil Company  
 Gulf Refining Co.  
 South Gate 15632 (5413000)  
 Eddy County, N.M.

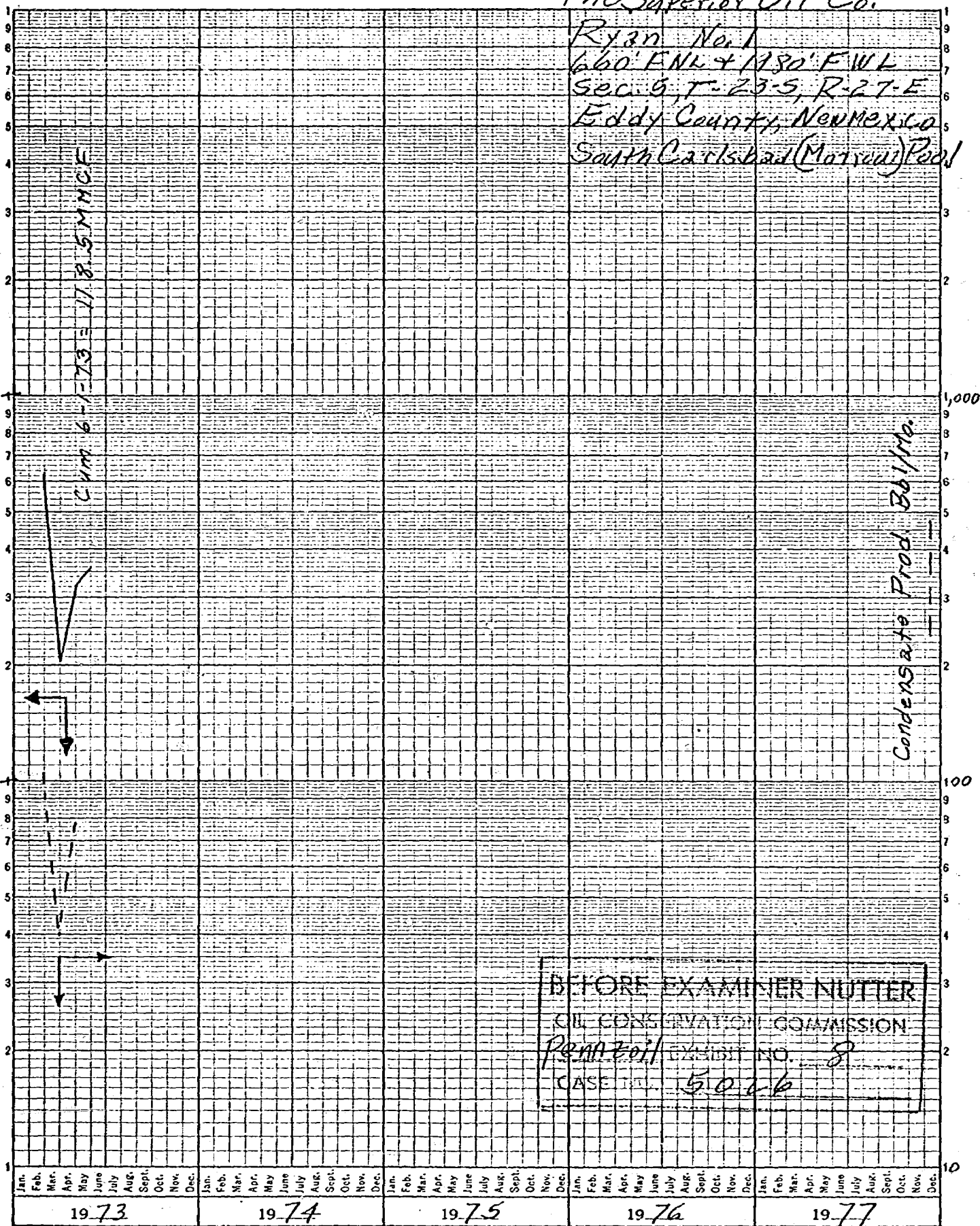
DEFENSE  
 OIL CONSERVATION  
 Pennzoil EXHIBIT NO. 7  
 CASE NO. 5036

Condensable Bbl Per Month ---



KEE 5 YEARS BY MONTHS 46 6690  
 2 X 3 LOG CYCLES  
 MADE IN U.S.A.  
 KEUFFEL & ESSER CO.

Gas Prod. MMCFPM

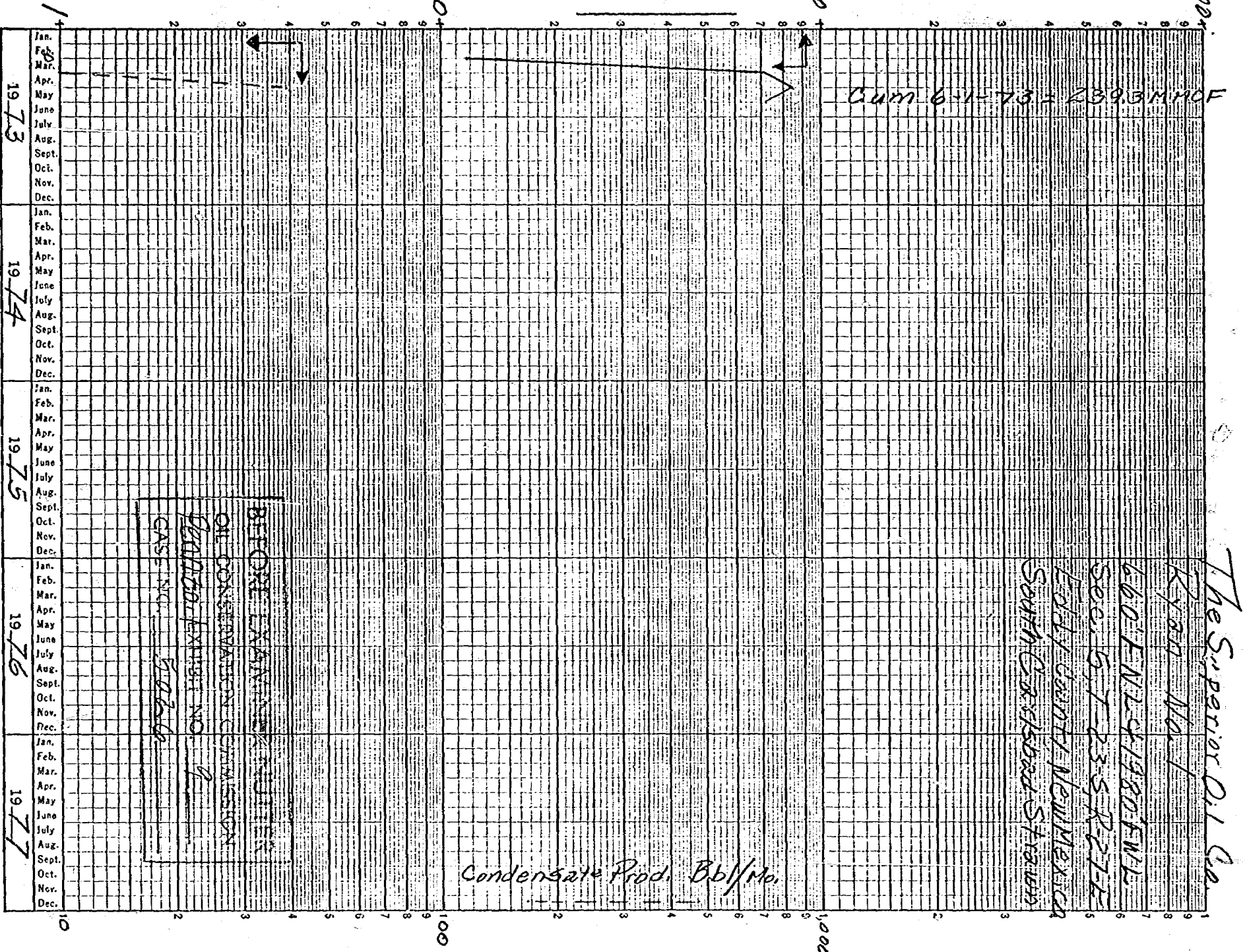


The Superior Oil Co.  
 Ryan No. 1  
 660' ENL + 1180' FWL  
 Sec. 9, T-23-S, R-27-E  
 Eddy County, New Mexico  
 South Carkshad (Morse) Pool

K&E 5 YEARS BY MONTHS  
X 3 LOG CYCLES  
KEUFFEL & ESSER CO.

46 6690  
MADE IN U.S.A.

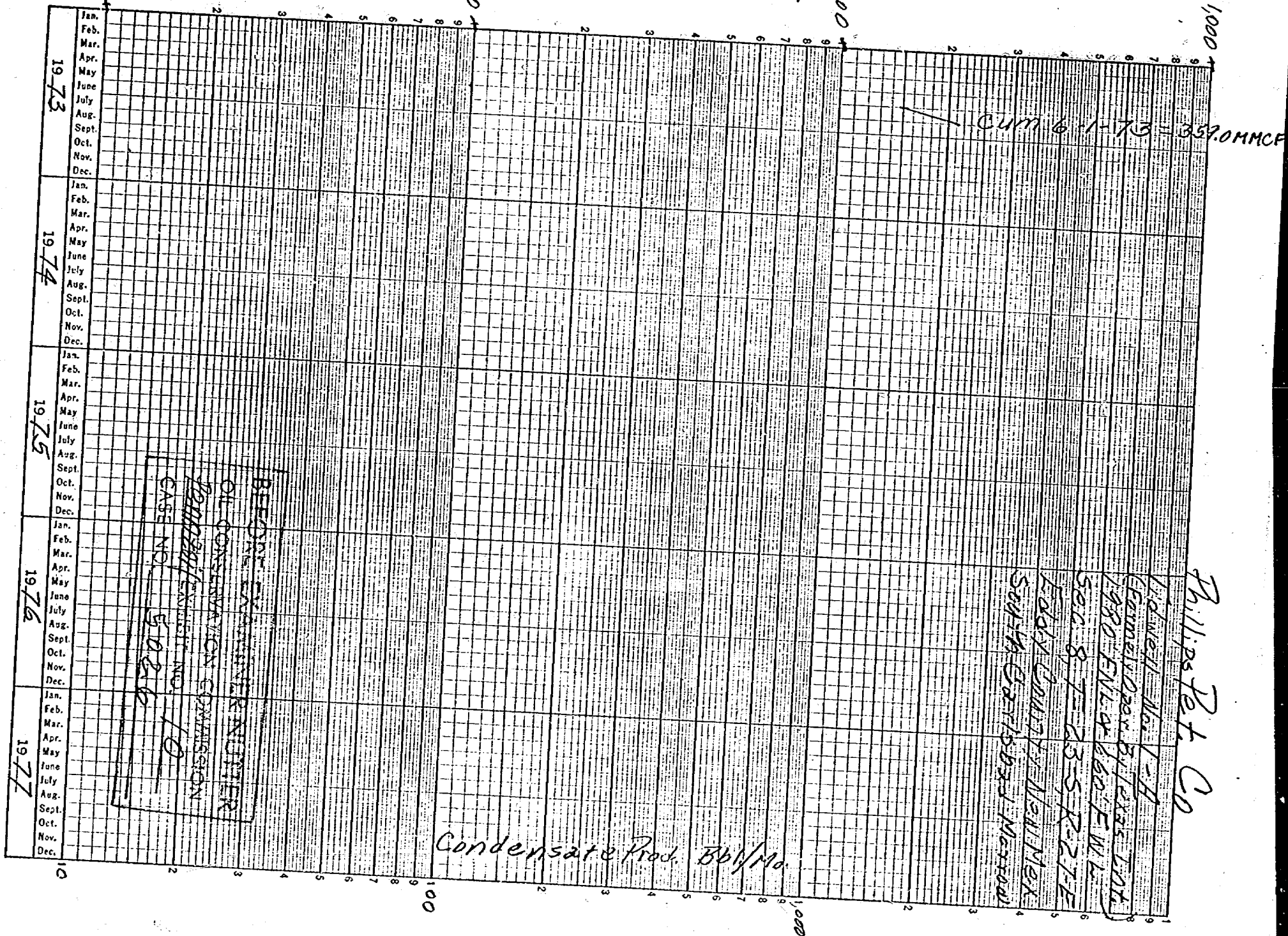
Gas Prod. MMCFPM



K&E 5 YEARS BY MONTHS  
X 3 LOG CYCLES  
KEUFFEL & ESSER CO.

46 6690  
MADE IN U.S.A.

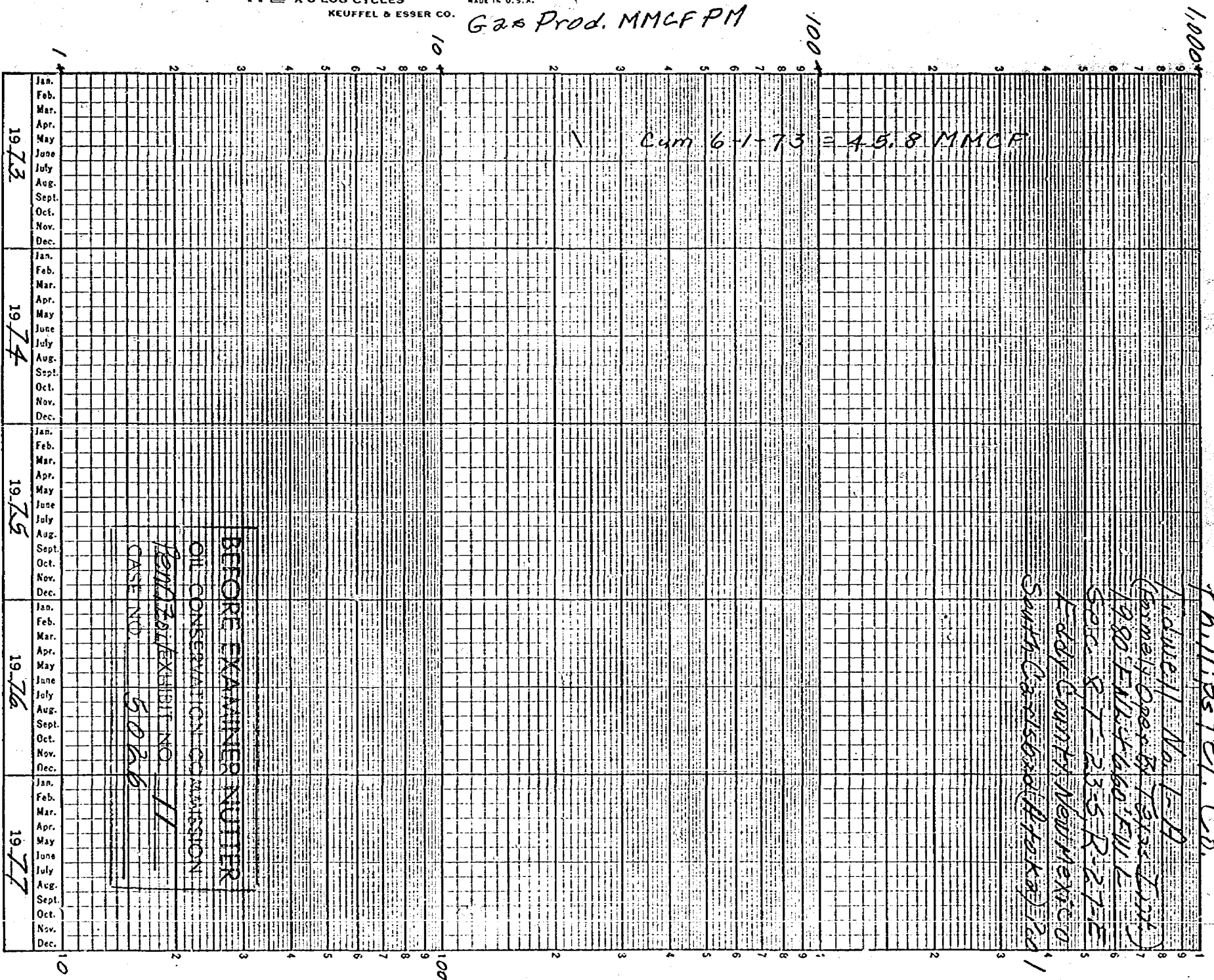
Gas Prod. MMCFPM



K&E 5 YEARS BY MONTHS  
X 3 LOG CYCLES  
KEUFFEL & ESSER CO.

46 6690  
MADE IN U.S.A.

Gas Prod. MMCF PM





Phillips Petroleum Co.  
Drill No. #1  
Q 18-235-27E

Carlsbad, New Mexico  
Eddy County, New Mexico

Cumulative - 1-73 = 795.5 MCF  
Cumulative - 1-73 = 164.8 MCF

Gas Prod. MCF/month

K&E 20 YEARS BY MONTHS  
X 3 LOG CYCLES  
47 6843  
K&E 20 YEARS BY MONTHS  
X 3 LOG CYCLES  
47 6843

BEFORE EXAMINER NUTTER

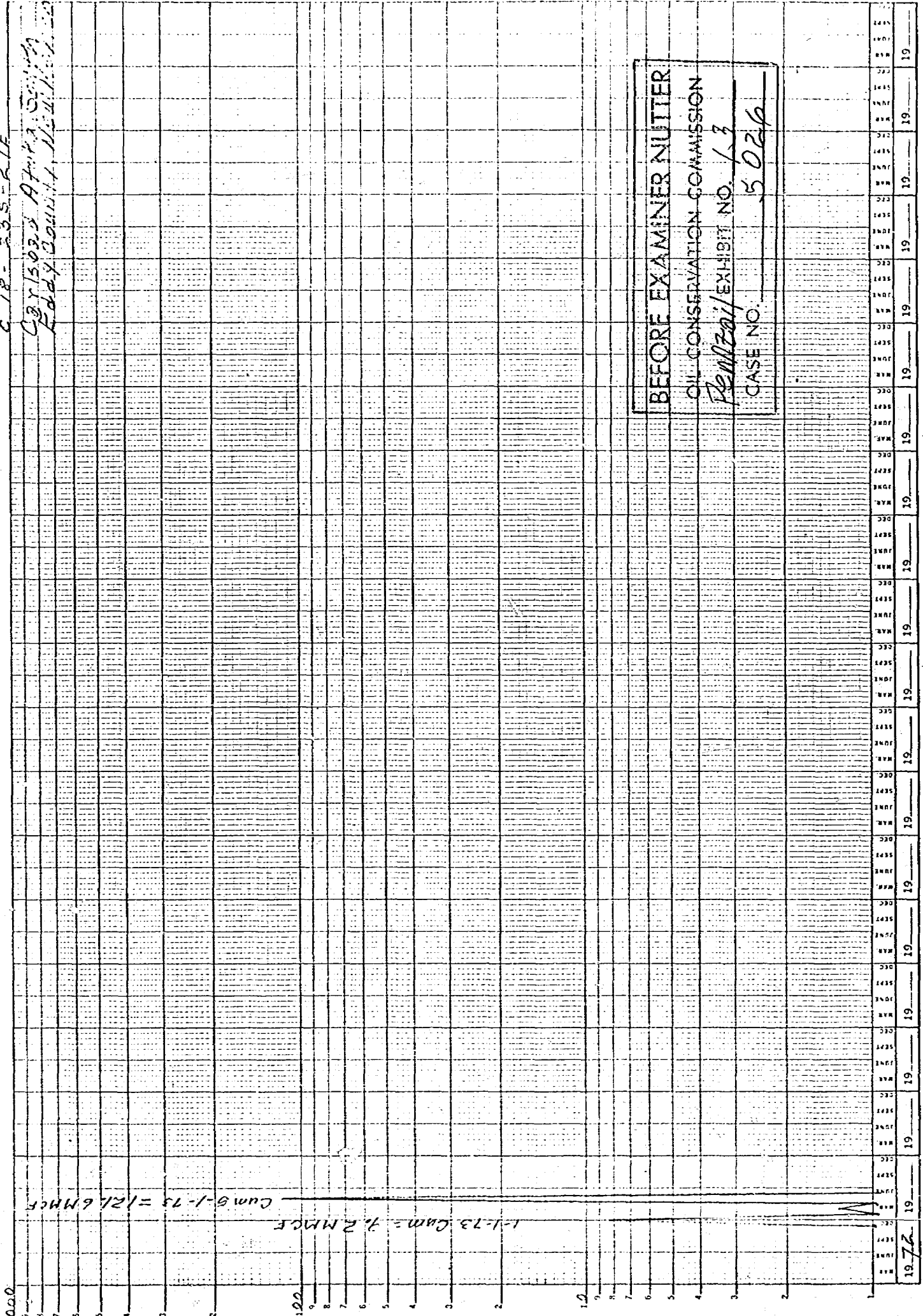
OIL CONSERVATION COMMISSION

Pennell Exhibit No. 12

CASE NO. 5026

Prod. 2 days in Nov, 1972

Gas Prod. MMCF/Month



BEFORE EXAMINER NUTTER  
OIL CONSERVATION COMMISSION  
Perry/Exhibit No. 13  
CASE NO. 5026

Nov. 1972 Prod = 978 MCF  
Prod. 2 days in Nov, 1972

Drill A #1  
C 18-335-27E

C 18-335-27E  
Eddy County, N.M.

K&E 5 YEARS BY MONTHS  
X 3 LOG CYCLES  
KEUFFEL & ESSER CO.

46 6690  
MADE IN U.S.A.

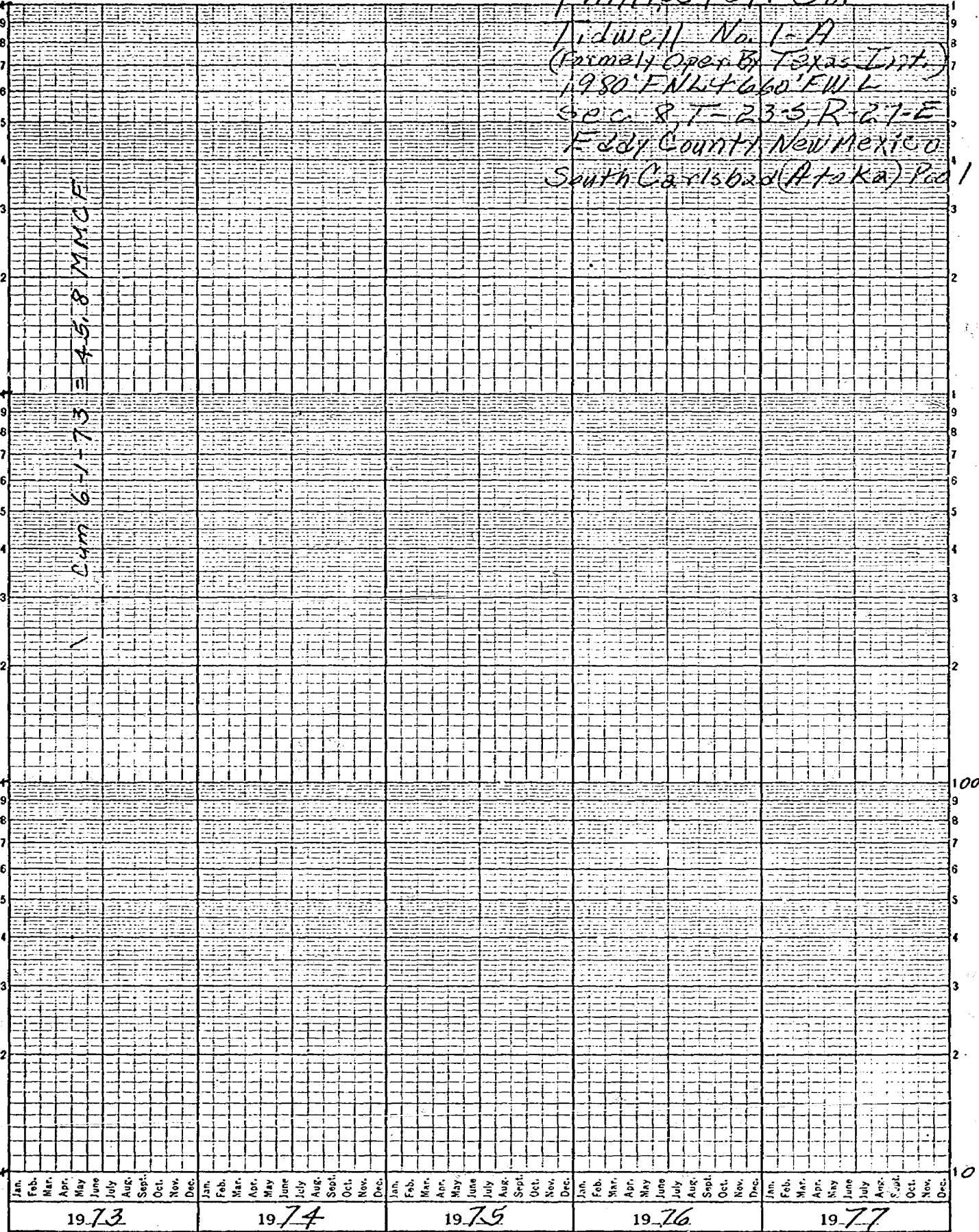
Gas Prod. MMCFPM

1,000

100

10

1

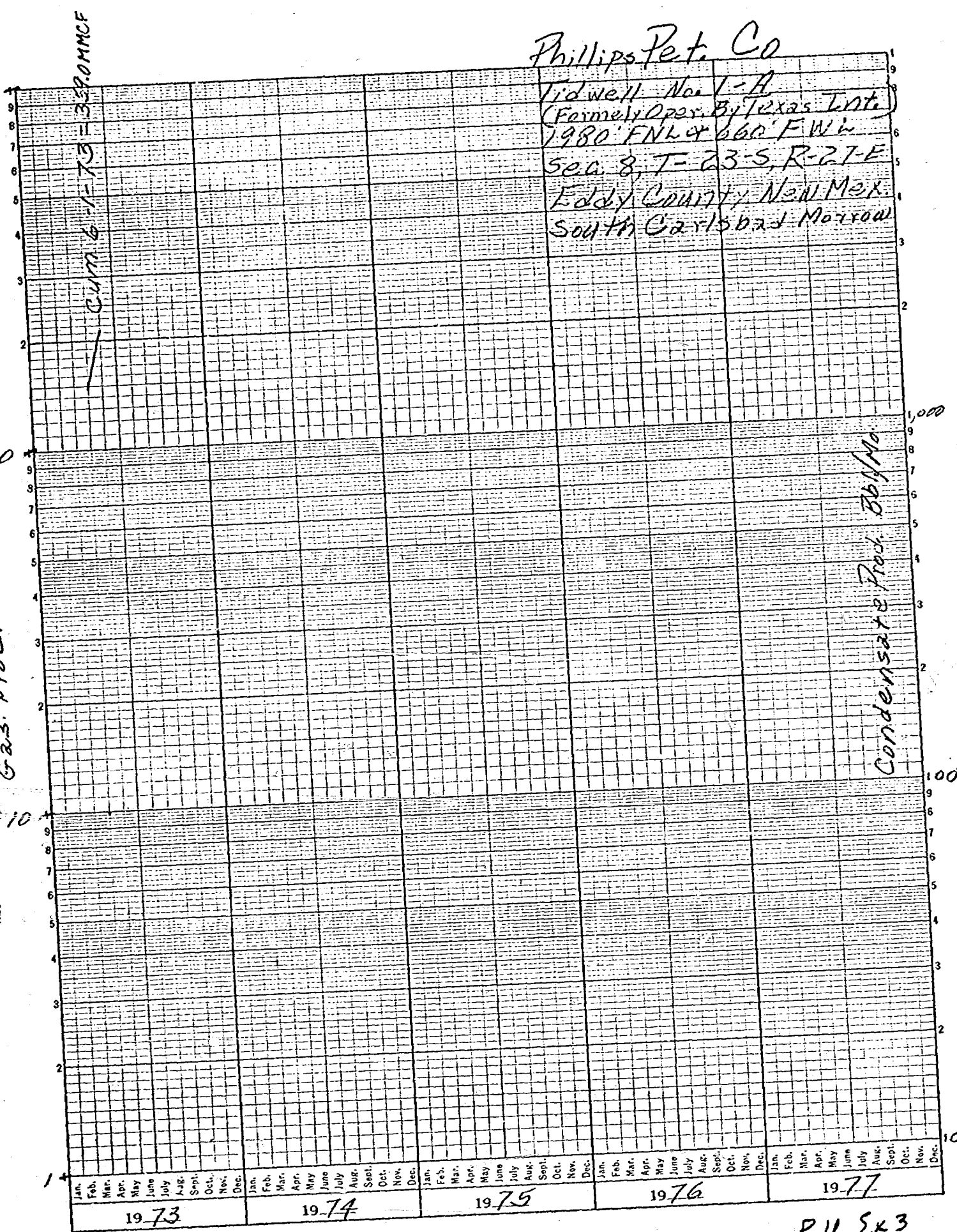


PU EK2  
G 5026

1,000  
 Cum 6-1-73 = 339.0 MMCF

Gas Prod. MMCFPM

46 6690  
 MADE IN U.S.A.  
 KEUFFEL & ESSER CO.



Phillips Pet. Co  
 Tidwell No. 1-A  
 (Formerly Oper. By Texas Int.)  
 1980' ENL & 660' FWL  
 Sec. 8, T-23-S, R-27-E  
 Eddy County, New Mex.  
 South Carlsbad Morrow

Condensate & Prod. Bbl/Mo

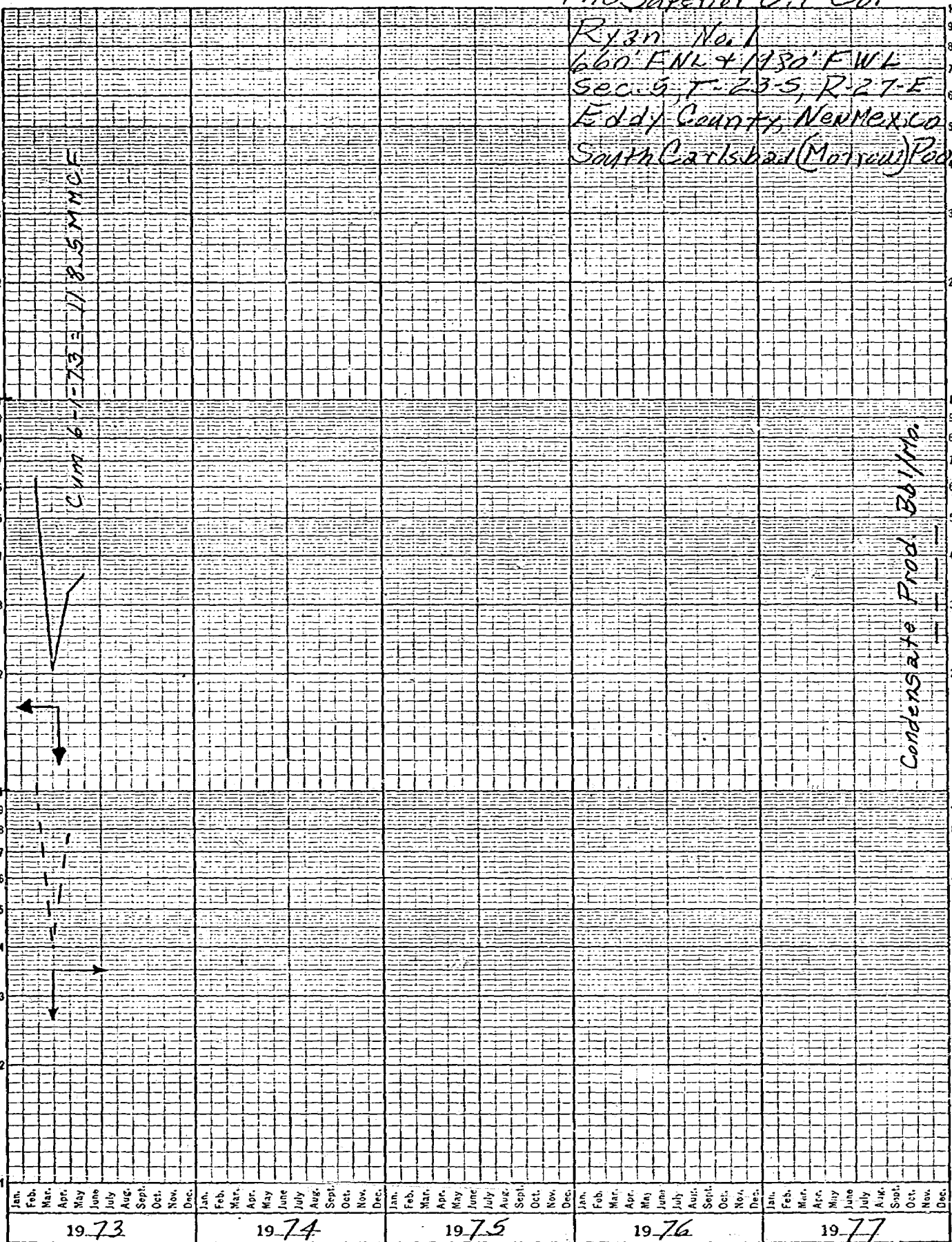
P.U. Ex 3  
 Co 5026

KE 5 YEARS BY MONTHS 46 6690  
X 3 LOG CYCLES  
KEUFFEL & ESSER CO.

Gas Prod. MMCFM

100

10



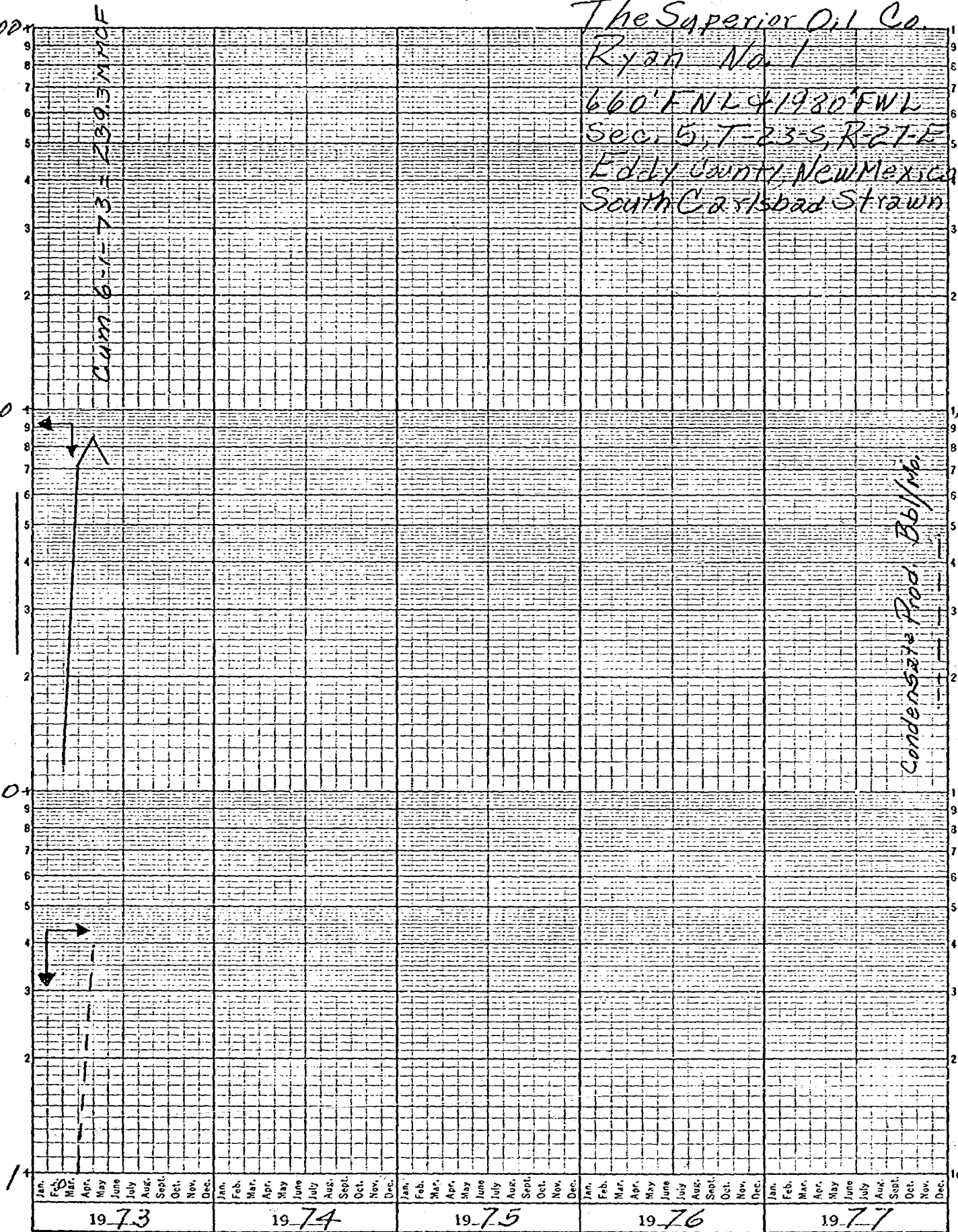
PUSX 4  
G 5026



5 YEARS BY MONTHS  
 46 6690  
 MADE IN U.S.A.  
 KEUFFEL & ESSER CO.

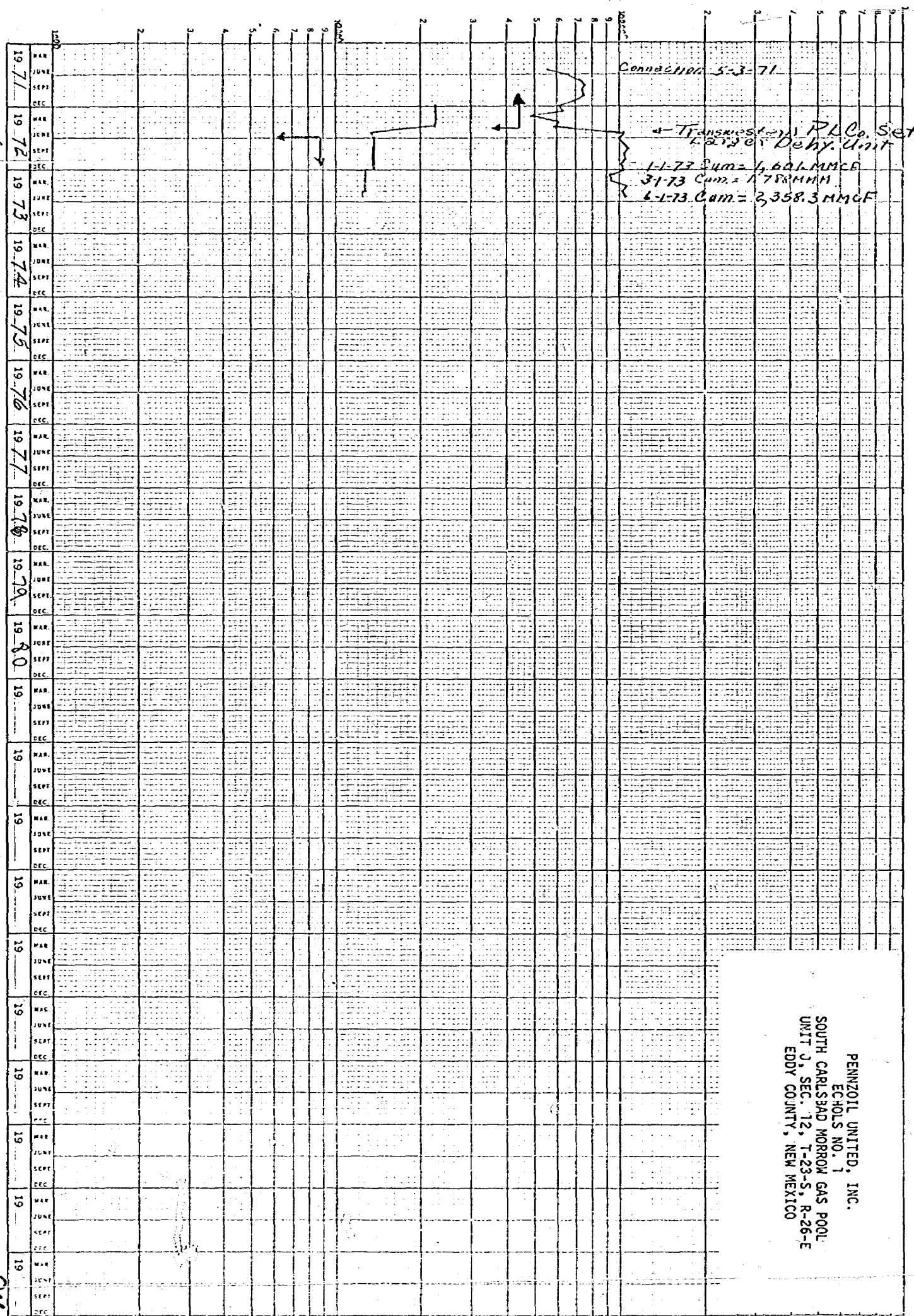
Gas Prod. MMCFPM

1,000  
 Cum 8-1-73 = 239.3 MMCF



P.U. Ex 5  
 Co 5024

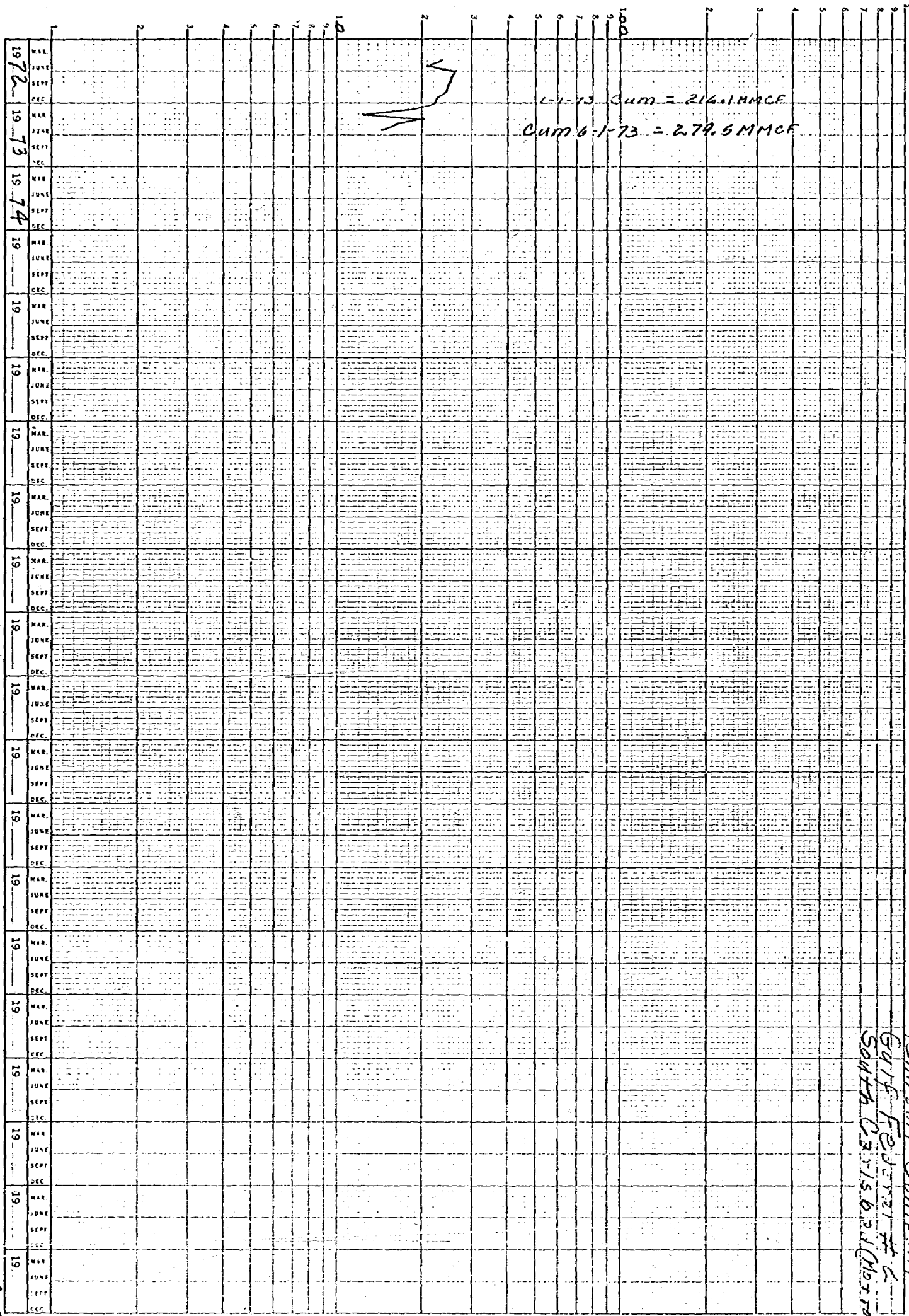
Gas Prod. MCF Per Month



PENNZOIL UNITED, INC.  
 ECHOLS NO. 1  
 SOUTH CARLSBAD MORROW GAS POOL  
 UNIT J, SEC. 12, T-23-S, R-26-E  
 EDDY COUNTY, NEW MEXICO

P.L.C.  
 Ca 502

# MMSCF Per Month

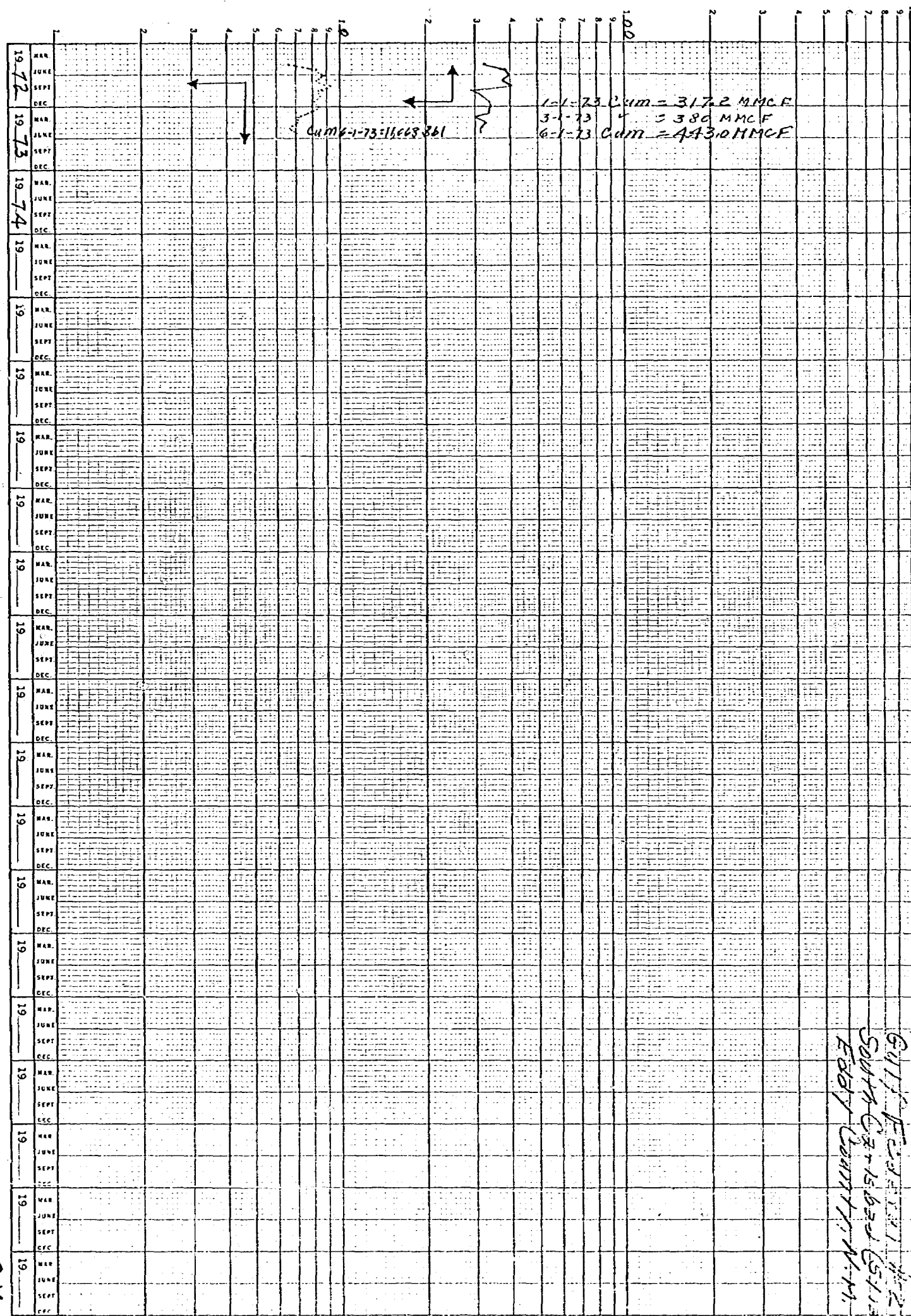


Peapack Company  
Gulf Energy #2  
South 13.5 B.21 (Motor)

Pl 2x 7  
Co 5026



# MMSCF Per Month

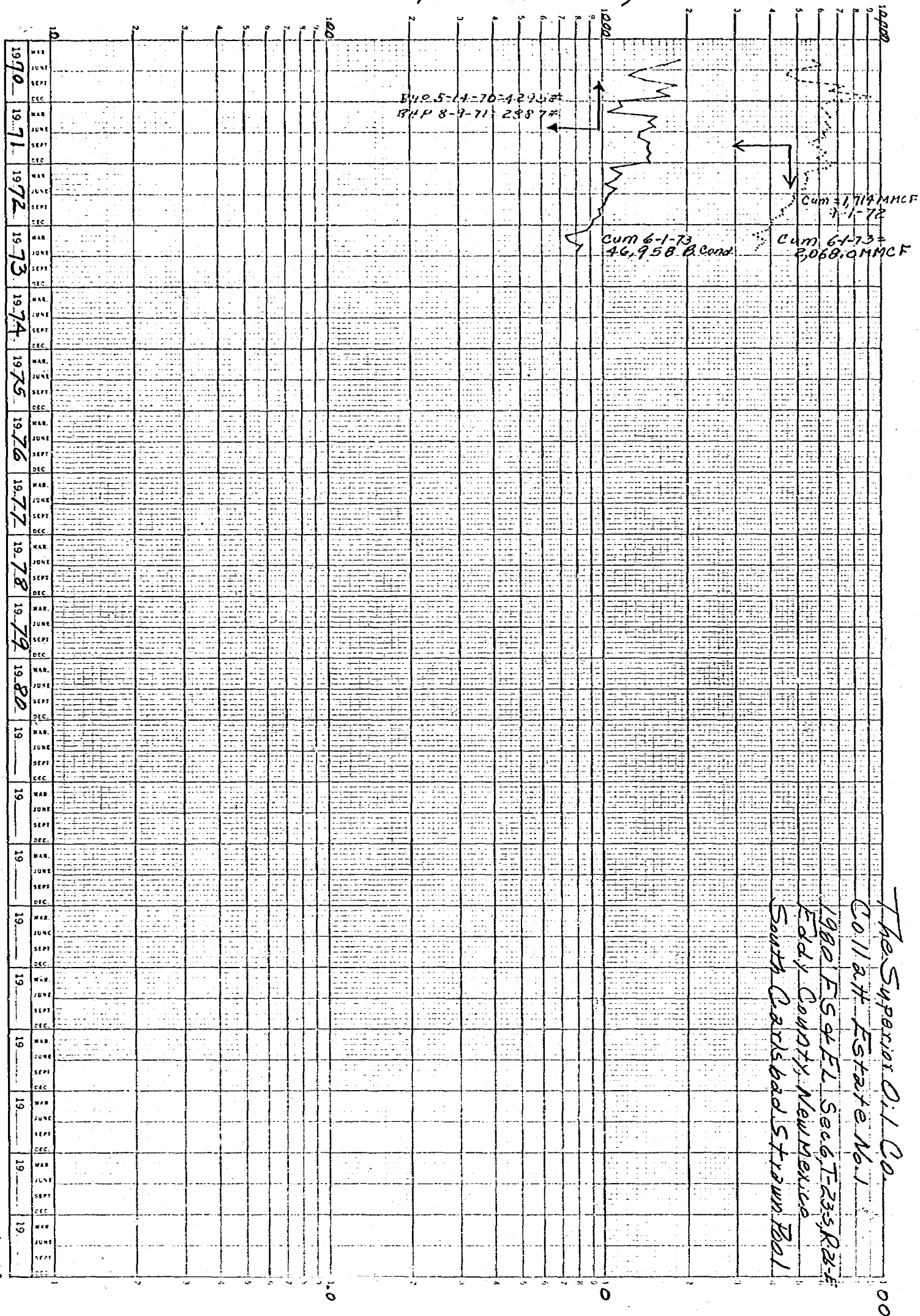


Pease Oil Company  
 Gulf of Mexico  
 South of 15th St. (51.13 mi)  
 Eddy County, N.M.

Condensate Bbl Per Month ---

PL 5x 8  
 5026

# Condensate Production Bbl/Mo.

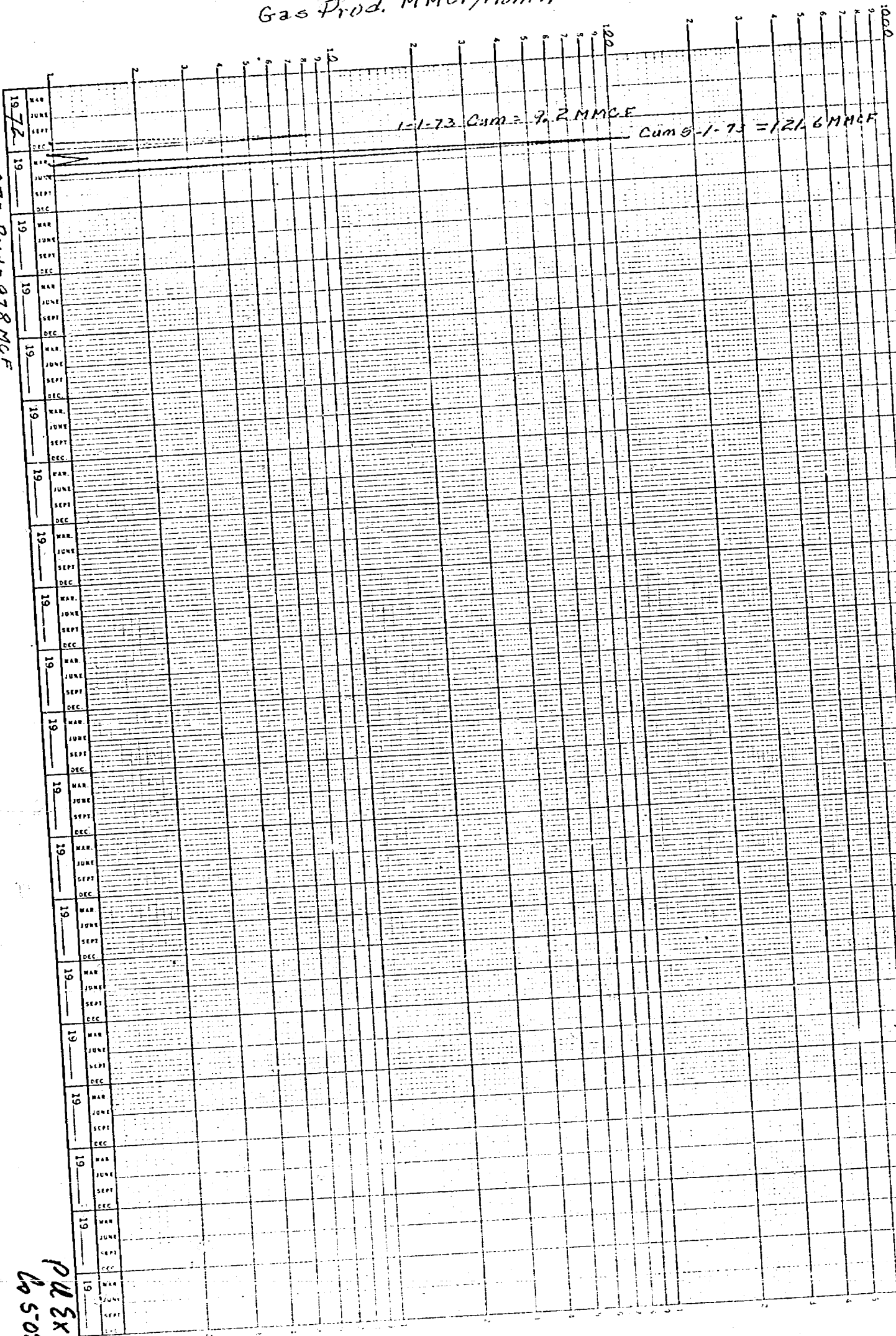


The Superior Oil Co.  
Collat. Estate No. 1  
1980 F-59 F.L. Sec 6, T-23-S, R-2-E  
Eddy County, New Mexico  
South Carlsbad Strawn Pool

Gas Production MMCF/M

PU Ex 9  
CA 5026

Gas Prod. MMCF/Month

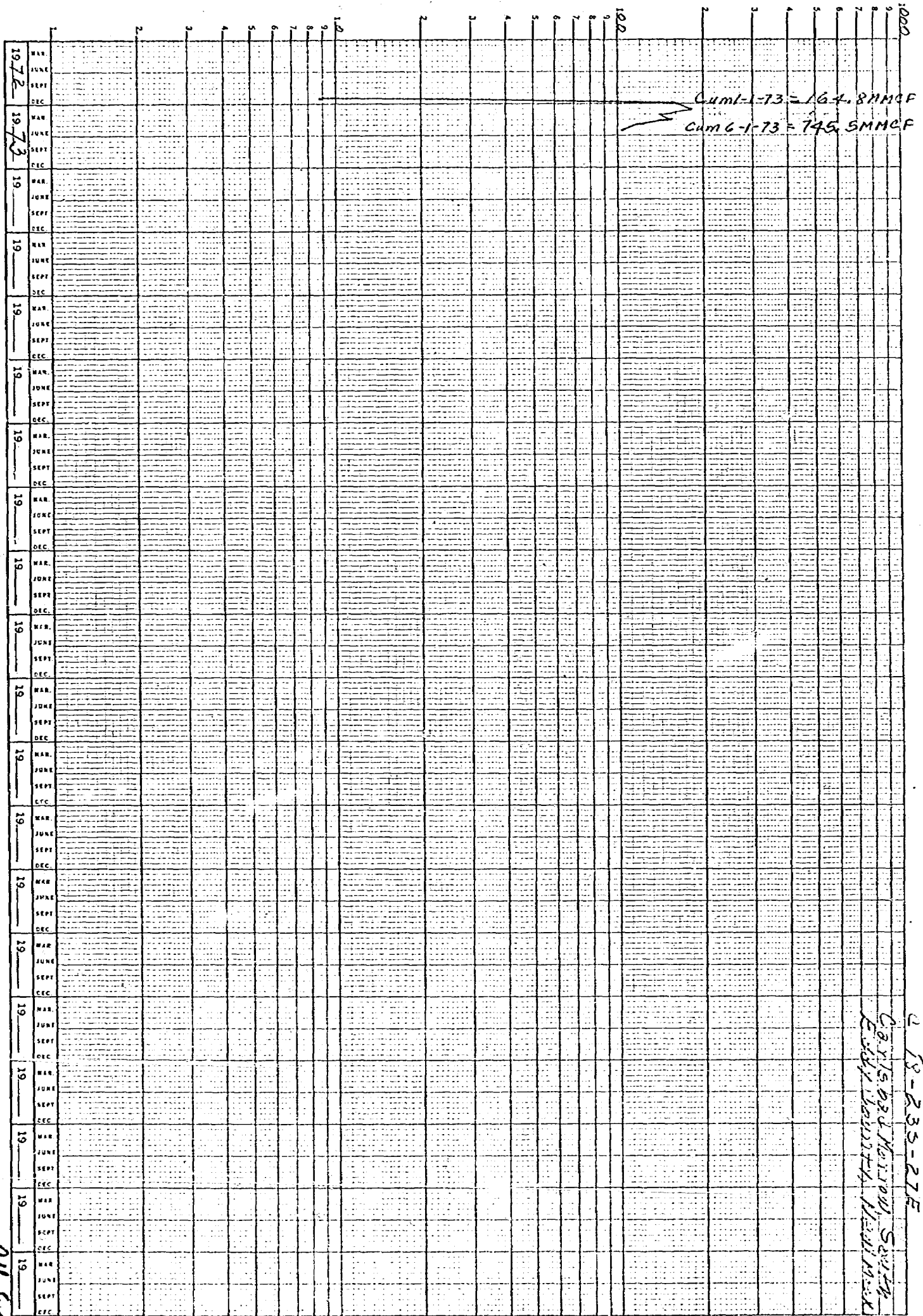


Nov. 1972 Prod = 978 MCF  
 Prod. 2 days in Nov, 1972

PU BX 10  
 Co 5026

PHILLIPS #1  
 D18-335-27E  
 C315033 A-101-2  
 Eddy County, N.M.

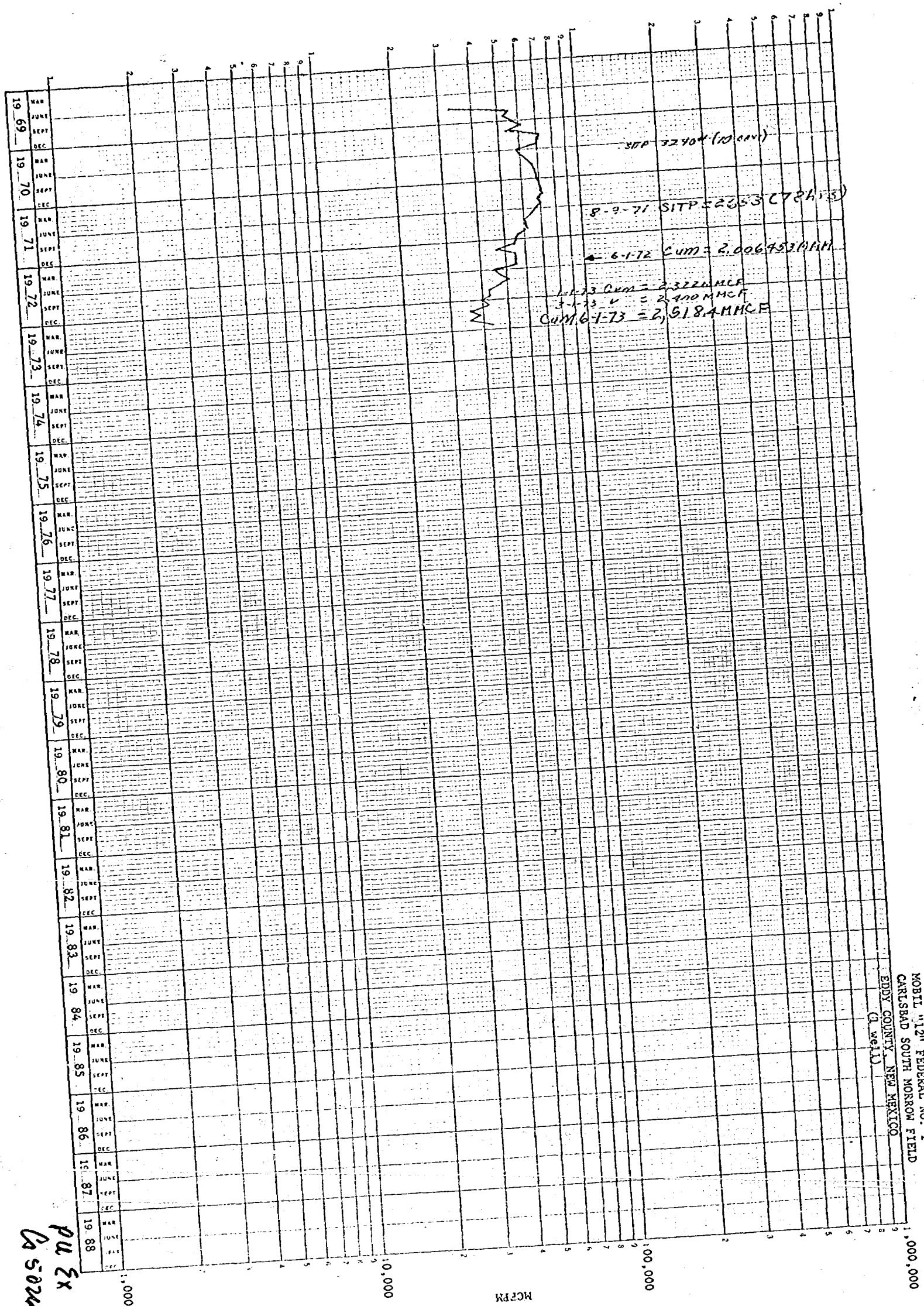
Gas Prod. MMCF/Month



Prod. 2 days in Nov., 1972

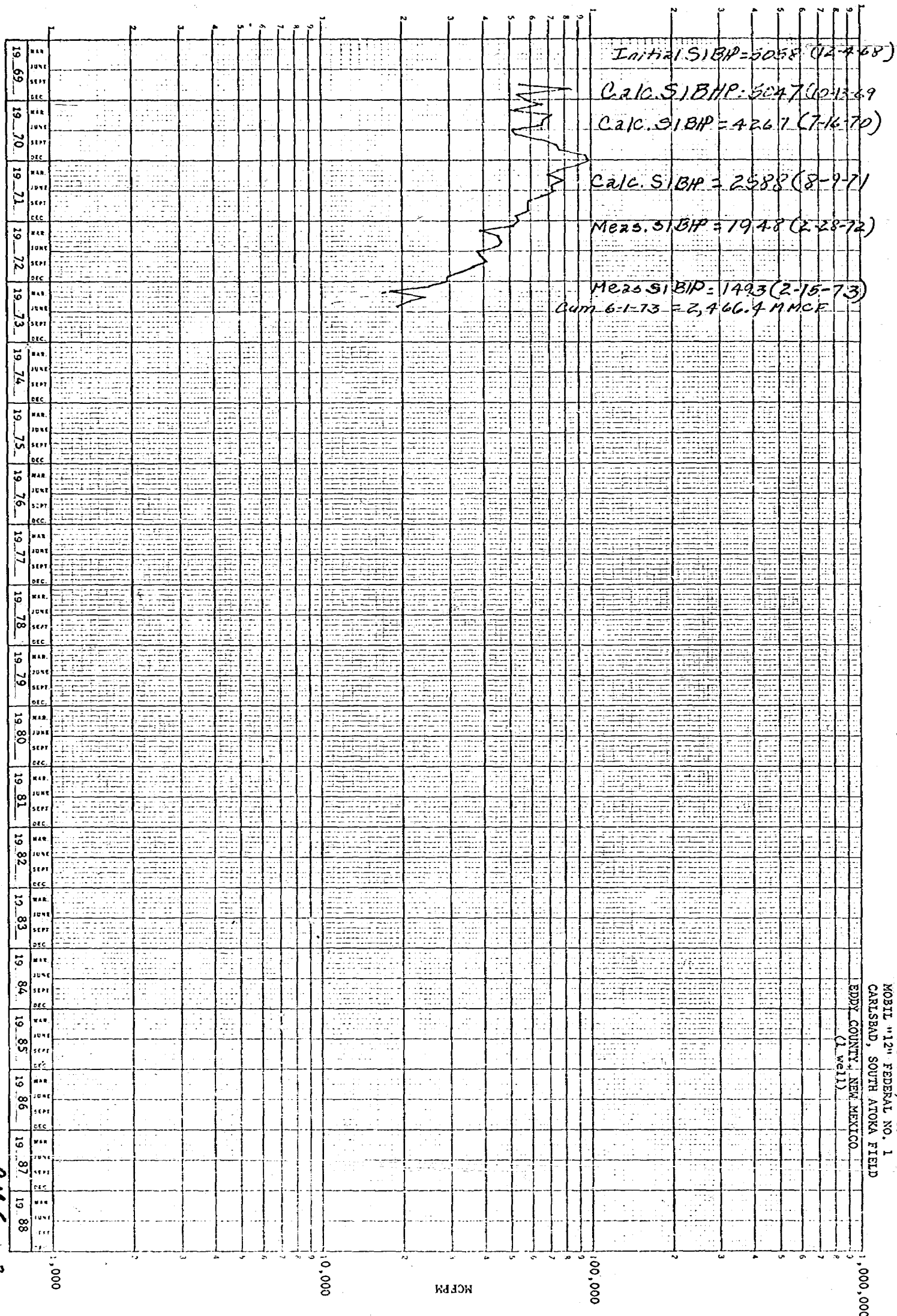
PU EX 11  
CA 5026

Phillips Petroleum Co.  
Drac #1  
218-235-21E  
C.R. 5026 Marion, South  
L. 5026, 1000000, 1000000



pu 2x 12  
Ca 5024

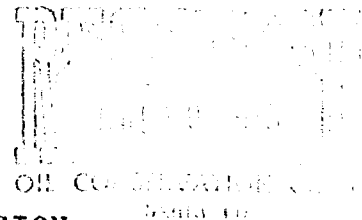




PENNZOIL UNITED, INC.  
MOBIL "12" FEDERAL NO. 1  
CARLSBAD, SOUTH ATOKA FIELD  
EDDY COUNTY, NEW MEXICO  
(1 well)

PU 13  
Ca 526

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION



APPLICATION OF THE SUPERIOR )  
OIL COMPANY FOR COMPULSORY )  
POOLING; SOUTH CARLSBAD-MORROW )  
GAS POOL, SOUTH CARLSBAD-ATOXA )  
GAS POOL, SOUTH CARLSBAD-STRAWN )  
GAS POOL, SOUTH CARLSBAD-CANYON )  
GAS POOL, EDDY COUNTY, NEW )  
MEXICO )

Case No. 5026

APPLICATION

Comes now the Superior Oil Company by its attorneys and applies to the New Mexico Oil Conservation Commission for an Order pooling all mineral interests in the North half of Section 7, Township 23 South, Range 27 East, Eddy County, New Mexico, for the purpose of forming a 318.76 acre proration and spacing unit in the South Carlsbad-Morrow Gas Pool, South Carlsbad-Atoka Gas Pool, South Carlsbad-Strawn Gas Pool, and South Carlsbad-Canyon Gas Pool, and in support of its Application states:

1. Applicant is the operator and working interest owner under Oil and Gas leases covering the NE/4 and the E/2 NW/4 of Section 7, Township 23 South, Range 27 East, Eddy County, New Mexico, comprising 240 acres, more or less.

2. Applicant proposes to drill a well upon the aforesaid acreage 1980 feet from the North line and 1980 feet from the West line of said Section 7, which well is projected to the South Carlsbad-Morrow, Atoka, Strawn and Canyon Gas Pools.

3. Applicant proposes to dedicate the N/2 of said Section 7, comprising 318.76 acres, more or less, to its proposed well. Attached to this Application is a plat showing the location of the proposed well, the acreage that would be dedicated to the proposed well and existing offset wells; also attached to this

*Donna J. Docket*  
Mailed  
Date 6/28/73

DOCKET MAILED

Date 6-28/73

Application is a list of the names and addresses of all owners of working interest, overriding royalty and royalty interests in the N/2 of said Section 7, insofar as they are known to the Applicant.

4. Although the Applicant has attempted to obtain the voluntary agreement of all mineral interests for the drilling of the proposed well, there remain mineral interest owners who have not agreed and, therefore, the Applicant seeks an Order of the Commission pooling all mineral interests in the N/2 of said Section 7, pursuant to Section 65-3-14, New Mexico Statutes Annotated, to form a 318.76 acre proration and spacing unit for the South Carlsbad-Morrow, Atoka, Strawn and Canyon Gas Pools, to be dedicated to the proposed well.

5. The Order entered by the Commission should designate the Applicant as the operator of the proposed well and should provide a reasonable charge for supervision and for the risk involved in the drilling of the proposed well. The Applicant requests that 150% of the non-consenting working interest owners' prorata share of the cost of drilling and completing the well be fixed as the charge for the risk involved in the drilling of the proposed well.

6. Approval of this Application will protect correlative rights, prevent waste and avoid the drilling of unnecessary wells.

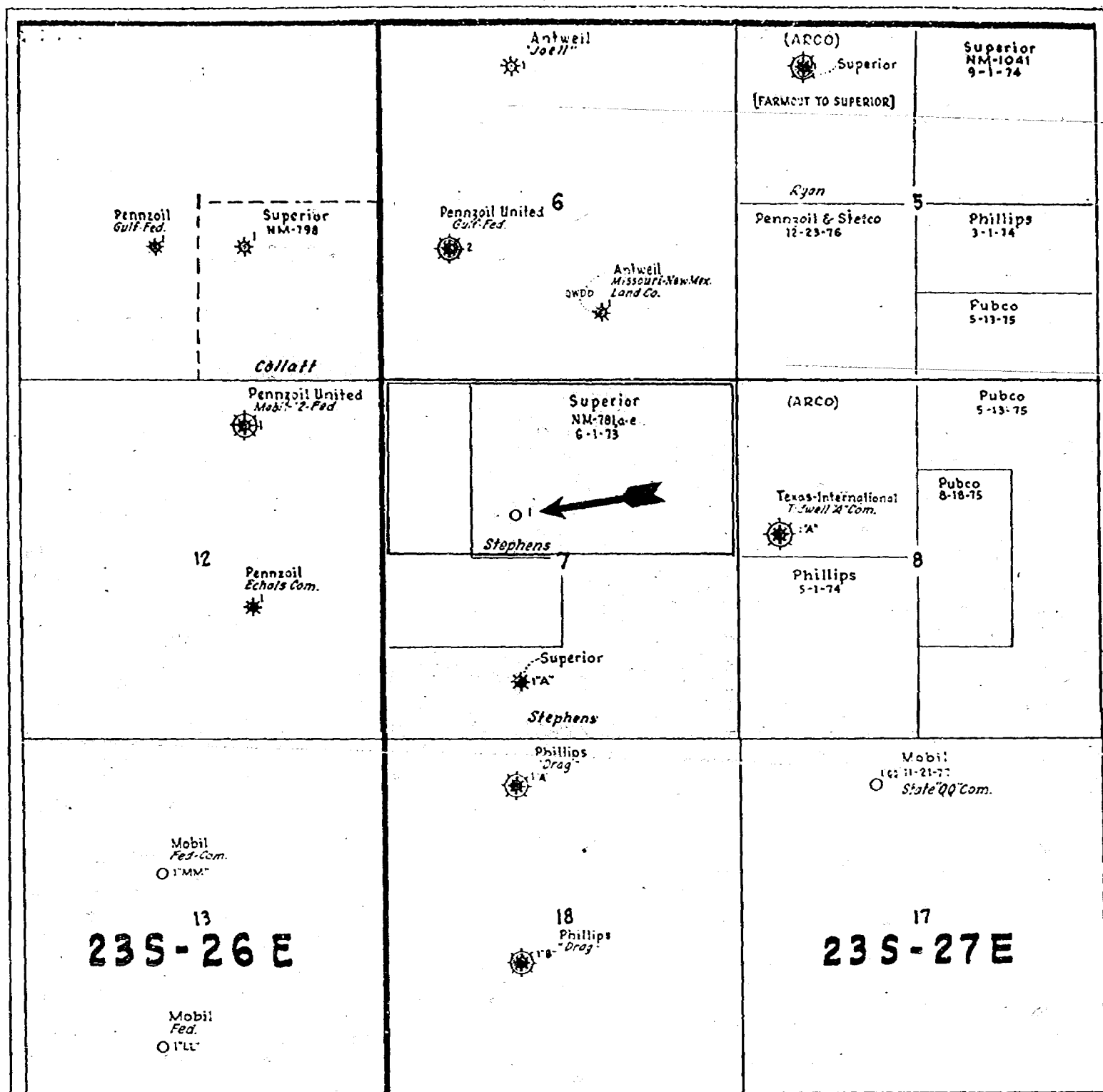
WHEREFORE, the Applicant requests that this Application be set for hearing before the Commission or one of its Examiners and that the Commission enter its Order of Compulsory Pooling as to all mineral interests in the N/2 of Section 7, Township 23 South, Range 27 East, South Carlsbad-Morrow, Atoka, Strawn



and Canyon Gas Pools, Eddy County, New Mexico, in accordance  
with this Application.

MONTGOMERY, FEDERICI, ANDREWS,  
HANNAHS & MORRIS

By Richard J. Morris  
P. O. Box 2307  
Santa Fe, New Mexico 87501  
Attorneys for The Superior  
Oil Company.



- ① Canyon Lm.
- ② Strawn
- ③ Atoka
- ④ Morrow

THE SUPERIOR OIL COMPANY  
ENGINEERING  
MIDLAND

SOUTH CARLSBAD FIELD AREA  
EDDY COUNTY, NEW MEXICO

SCALE: 1" = 2000'

JUN 14 1973 *Page 25026*

THE SUPERIOR OIL COMPANY

STEPHENS NO. 1

1980' FNL & 1980' FWL SECTION 7, T-23-S, R-27-E  
SOUTH CARLSBAD FIELD  
EDDY COUNTY, NEW MEXICO

Working Interest Ownership of 318.76 acres located in N/2 Section 7,  
T-23-S, R-27-E, is as follows:

	<u>NO. ACRES</u>	<u>WORKING INTEREST PERCENT</u>
The Superior Oil Company P. O. Box 1900 Midland, Texas 79701 Attn: Mr. Terry Clay	240	75.29176
Pennzoil Company P. O. Box 1828 Midland, Texas 79701 Attn: Mr. J. E. Davidson	35.73	11.20906
Gulf Oil Corp. P. O. Box 1150 Midland, Texas 79701 Attn: Mr. R. E. Griffith	18.73	5.87589
Wainoco, Inc. 1435 Bank of Southwest Bldg. Houston, Texas 77002 Attn: Mr. G. R. Diamond	13.97	4.38261
Mobil Oil Corp. P. O. Box 633 Midland, Texas 79701 Attn: Mr. John Howard	10.33	3.24068
TOTAL	<u>318.76</u>	<u>100.00000</u>

Case 5026

THE SUPERIOR OIL COMPANY

STEPHENS NO. 1

1980' FNL & 1980' FWL SECTION 7, T-23-S, R-27-E  
SOUTH CARLSBAD FIELD  
EDDY COUNTY, NEW MEXICO

Royalty ownership including lessor and lessee under N/2 Section 7, T-23-S, R-27-E.

Pennzoil, Mobil, Gulf, and Wainoco are lessee of 78.76 acres located W/2 NW/4 Section 7 and U.S. Government is lessor of acreage as described: W/2 NW/4 and being described as lots Nos. 1 and 2 containing 78.76 acres and referred to as U.S. Government Lease No. 040547. Address being U.S. Department of Interior Bureau of Land Management, P. O. Box 1499, Santa Fe, New Mexico 87501. Overriding Royalty in form of Production Payment in W/2 NW/4 Section to Mr. C. J. Patterson and Mary A. Patterson, 2901 Verna Road, Kansas City, Missouri 64100

The Superior Oil Company is lessee of record of 240 acres in E/2 NW/4 and NE/4 Section 7. The lessors of record and addresses are as follows:

Mr. J. S. Gibson, et al  
Box 99  
Carlsbad, New Mexico

Mr. John T. Stephens, et ux  
615 S. Aspen  
Roswell, New Mexico 88201

Mr. C. A. McDaniel  
606 West Ave "E"  
Lovington, New Mexico 88260

Mr. John T. Stephens, Jr.  
1321 Westridge  
Carlsbad, New Mexico 88220

Mr. W. R. Echols, Jr. et al  
Bever Creek Land and Cattle Co.  
Bayfield, Colorado 81122

*Case 5024*

dr/

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASE NO. 5026

Order No. R-4599

APPLICATION OF THE SUPERIOR OIL COMPANY

FOR COMPULSORY POOLING, EDDY COUNTY,

NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on July 11, 1973  
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this        day of July, 1973, the Commission,  
a quorum being present, having considered the testimony, the record,  
and the recommendations of the Examiner, and being fully advised  
in the premises,

FINDS:

(1) That due public notice having been given as required by  
law, the Commission has jurisdiction of this cause and the subject  
matter thereof.

(2) That the applicant, The Superior Oil Company,  
seeks an order pooling all mineral interests in the Morrow,  
Atoka, Strawn, and Canyon formations underlying the N /2  
of Section 7, Township 23 South, Range 27 East,  
NMPM, South Carlsbad Field, Eddy County, New  
Mexico.

(3) That the applicant has the right to drill and <sup>has commenced</sup> ~~proposes~~ ~~the drilling of a~~ well at a standard location <sup>for</sup> ~~to~~ the above-mentioned formations.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(8) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator <sup>within 15 days after the entry of this order</sup> in lieu of paying his share of reasonable well costs out of production.

(9) That any non-consenting working interest owner that does not pay his share of estimated well costs <sup>within 15 days after the entry of this order</sup> should have withheld from production his share of the reasonable well costs plus an additional 100 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(10) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(11) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(12) That \$250,000 is a reasonable estimate of the cost of the subject well should it be dry hole, and \$350,000 is a reasonable estimate of the cost of the subject well as a completed Morrow producing well.

Case No.  
Order No. R

(12) That \$150.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(13) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

~~(14) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before \_\_\_\_\_, the order pooling said unit should become null and void and of no effect whatsoever.~~

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, Morrow, Atoka, Strawn in the \_\_\_\_\_ and Canyon \_\_\_\_\_ formations underlying the \_\_\_\_\_ N/2 of Section 7, Township 23 South, Range 27 East, NMPM, South Carlsbad Field \_\_\_\_\_, Eddy County, New Mexico, are hereby pooled to form a standard 318.76 - acre gas spacing and proration unit to be dedicated to a well ~~to be drilled~~ currently being at a standard location for the above-described formations 1980 feet from the North line and 1980 feet from the West line of said Section 7. PROVIDED HOWEVER, that the operator of said unit shall ~~commence the drilling of said well on or before the \_\_\_\_\_ day of \_\_\_\_\_, 1973, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the~~ Morrow formation;

~~PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the \_\_\_\_\_ day of \_\_\_\_\_, 1973, Order (1) of this order shall be null and void and of no effect whatsoever;~~

Case No.

Order No. R-

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within <sup>90</sup>~~120~~ days after commencement thereof <sup>on May 22, 1973,</sup> <sup>the</sup> said operator shall appear before the Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Superior Oil Company is hereby designated the operator of the subject well and unit.

(3) That ~~after the effective date of this order and at least 30 days prior to commencing said well, the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs.~~ <sup>\$250,000 is hereby established as the estimated well costs of a dry hole to the Morrow formation, and \$350,000 is hereby established as the estimated well costs of a well completed to produce from the Morrow formation.</sup>

(4) That within <sup>15</sup>~~30~~ days from the date ~~the schedule of entry of this order,~~ <sup>estimated well costs is furnished to him,</sup> any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Commission and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Commission and the Commission has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Commission will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided



above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within ~~30 days from the date the schedule of estimated well costs is furnished to him.~~ <sup>15 days after the entry of this order.</sup>

(B) As a charge for the risk involved in the drilling of the well, <sup>100 percent</sup> of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within ~~30 days from the date the schedule of estimated well costs is furnished to him.~~ <sup>15 days after the date of this order.</sup>

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$150.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

-6-

Case No.

Order No. R-

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.