

Case NO.

7270

Application

Transcripts

Small Exhibits

ETC

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
8 July 1981

COMMISSION HEARING

IN THE MATTER OF:

Application of Southland Royalty
Company for compulsory pooling, Eddy
County, New Mexico.

CASE
7270

BEFORE: Commissioner Ramey
Commissioner Arnold

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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A P P E A R A N C E S

For S. P. Yates:

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1
2 MR. RAMEY: We'll call next Case 7270.

3 MR. PEARCE: Application of Southland
4 Royalty Company for compulsory pooling, Eddy County, New
5 Mexico.

6 MR. CARR: May it please the Commission,
7 my name is William F. Carr with the law firm Campbell, Byrd,
8 and Black, P. A., Santa Fe, New Mexico, appearing on behalf
9 of the applicant.

10 I have four witnesses.

11 MR. DICKERSON: I'm Chad Dickerson, Mr.
12 Ramey, from Artesia, New Mexico, appearing on behalf of S. P.
13 Yates, and we'll have three witnesses.

14
15 (Witnesses sworn.)

16
17 MR. RAMEY: Will you proceed, Mr. Carr?

18 MR. CARR: At this time I would call
19 Dennis Sledge.

20
21 DENNIS SLEDGE

22 being called as a witness and being duly sworn upon his oath,
23 testified as follows, to-wit:
24
25

DIRECT EXAMINATION

1
2
3 BY MR. CARR:

4 Q Will you state your full name and place
5 of residence?

6 A Dennis L. Sledge, Midland, Texas.

7 Q By whom are you employed and in what
8 capacity?

9 A Southland Royalty Company as a landman.

10 Q Have you previously testified before this
11 Commission and had your credentials accepted and made a matter
12 of record?

13 A No, I haven't.

14 Q Would you briefly summarize your edu-
15 cational background and your work experience?

16 A 1973 graduate of the University of
17 Texas at El Paso. Been a landman for six and a half years;
18 five years with El Paso Natural Gas and a year and a half with
19 Southland Royalty Company.

20 Q Are you familiar with the application
21 filed on behalf of Southland in this case?

22 A Yes.

23 Q Are you familiar with the subject well
24 and proration unit?

25 A Yes, sir, I am.

1
2 MR. CARR: Are the witness qualifications
3 acceptable?

4 MR. RAMEY: As a landman, yes.

5 Q Mr. Sledge, would you briefly state what
6 Southland seeks with this application?

7 A An order spacing the north half of Section
8 21 as a proration unit for the Pecos River Federal 21-A No. 1
9 Well, designation of Southland Royalty Company as the operator,
10 and the establishment of a risk factor of 200 percent.

11 Q You're seeking an order pooling the
12 proration unit?

13 A Right.

14 Q Will you please refer to what has been
15 marked for identification as Southland Royalty Company Exhibit
16 Number One, identify this and explain what it shows?

17 A Exhibit Number One is Southland Royalty
18 Company's AFE for the Pecos River Federal 21-A Com No. 1 Well,
19 stating the estimated cost for drilling the well, estimated
20 cost for dry hole, being \$596,000, and completed costs for a
21 producer, producing well, is \$925,000.

22 Q Has this AFE previously been submitted
23 to S. P. Yates?

24 A Yes, sir, it has.

25 Q Do you know when it was first submitted?

1
2 A. By letter which is incorporated, March
3 23rd, 1981.

4 Q Will you now refer to what has been
5 marked for identification as Southland Exhibit Number Two,
6 identify this and explain what it shows?

7 A. This is a land map of the area around
8 the Pecos River Well, showing two proration units in which
9 Southland Royalty Company and S. P. Yates have been partners,
10 or one proration unit in which we've been partner; one showing
11 the proration unit for the 21-A well, and one showing a working
12 interest unit in which Southland and Yates are partners.

13 Q Now the proration unit consists of the
14 north half of 21, is that correct?

15 A. Yes, sir.

16 Q Is this a standard proration unit?

17 A. Yes, sir.

18 Q Is the well that you are drilling on
19 this proration unit drilled at a standard location?

20 A. Yes, sir, it is.

21 Q Does this show other Pennsylvanian and
22 Wolfcamp wells in the area?

23 A. Yes, sir.

24 Q Will you now refer to what's been marked
25 for identification as Southland's Exhibit Three and review

1
2 this for the Commission?

3 A. Exhibit Three is a plat showing the
4 various tracts in the north half in Section 21, showing the
5 ownership of those tracts, the record title owners, page two
6 and page three having a breakdown of each lease in particular.

7 Q. How much of the acreage has been com-
8 mitted to the drilling of this well?

9 A. 140 acres, being 43.75 percent.

10 Q. And that is the percentage of the acreage
11 that Southland represents today?

12 A. Yes.

13 Q. And what is the -- what percentage of
14 the acreage does Yates own in this proration unit?

15 A. Mr. Yates owns 56.25 percent of it.

16 Q. What is the status of the well that is
17 drilling in the north half of this section?

18 A. It's currently drilled.

19 Q. And how close to total depth is the
20 well?

21 A. We expect to be there in several days.

22 Q. Why did Southland Royalty Company spud
23 the subject well prior to obtaining a final pooling order from
24 this Commission?

25 A. Southland Royalty's interest in the

1
2 north half of Section 21 is derived from farm-outs from two
3 different parties. We had a continuous development obligation
4 under the farm-outs which required that we commence operations
5 on a well within 120 days, which was June the 26th. We also
6 had a rig available at the time and it was doubtful that we
7 could get another rig available by the expiration of the ob-
8 ligation date.

9 Q Mr. Sledge, on what date did you actually
10 spud this well?

11 A It was May the 23rd.

12 Q Will you please refer to what have been
13 marked for identification, as your Exhibits Numbers Four and
14 Five, identify these and explain what they are?

15 A Exhibit Four is a letter dated March
16 23rd from Southland Royalty to S. P. Yates, wherein we propose
17 the drilling of the Pecos River Federal 21-A Well. With the
18 letter we forwarded him copies of the AFE, proposed operating
19 agreement and communitization agreement offering them the
20 opportunity to participate in the well or to farm-out, and
21 sets out the terms under which we would accept a farm-out.

22 The letter of May 29th, Exhibit Five,
23 is a --

24 Q Is that May 19 or May 29th?

25 A May 19th, I'm sorry. Is a letter to

1
2 S. P. Yates wherein we informed him that because of the
3 reluctance to join in our proposed well, that we had filed for
4 compulsory pooling in the north half of Section 21.

5 Q And do you believe that Southland has
6 made a good faith effort to obtain voluntary joinder in the
7 drilling of this well?

8 A Yes, I do.

9 Q Are you prepared to make a recommendation
10 to the Commission concerning the charges for overhead and ad-
11 ministrative costs while drilling and producing the well?

12 A Yes, sir.

13 Q And what would those figures be?

14 A Drilling charges would be \$3340 per
15 month.

16 Q And what would the charges while
17 producing the well be, if in fact it came in as a producer?

18 A \$334.

19 Q How do these figures compare with those
20 charged by other operators in the area?

21 A Equal or possibly lower. In comparison,
22 under the Eastern Shore unit that we are in with Yates
23 Drilling as operator, their rates are \$3800 for the drilling
24 and \$380 for a producing well.

25 Q Is it your recommendation that these

1
2 figures be incorporated in any order which will result from
3 this hearing?

4 A. Yes, sir.

5 Q. Will Southland call another witness who
6 will testify as to geological and engineering considerations?

7 A. Yes, we will.

8 Q. And does Southland request to be design-
9 nated operator of the well?

10 A. Yes, we do.

11 Q. In your opinion will granting this
12 application be in the best interest of conservation, the pre-
13 vention of waste, and the protection of correlative rights.

14 A. Yes, sir.

15 Q. Were Exhibits One through Five prepared
16 by you or under your direction?

17 A. Yes, sir, they were.

18 MR. CARR: At this time we would offer
19 Southland Exhibits One through Five.

20 MR. RAMEY: Exhibits One through Five
21 will be admitted.

22 MR. CARR: I have nothing further of
23 this witness on direct.

24 MR. RAMEY: Any questions of Mr. Sledge?

25 MR. DICKERSON: A few, Mr. Ramey.

CROSS EXAMINATION

BY MR. DICKERSON:

Q Mr. Sledge, when you say that Southland Royalty Company represents 43.75 percent of the acreage in the proration unit, what do you mean by that?

A Southland Royalty has under farm out 25 percent of the acreage. Fair Oil Limited has signed our AFE and our operating agreement, agreeing to join in the well.

Q So while Fair Oil is participating with you, you don't actually, you're not paying Fair's percentage or anything like that, are you?

A No, sir, we aren't.

Q Why was it --- when, Mr. Sledge, if you know, was approval given to spud this well by Southland management?

A I don't recall offhand.

Q Do you recall approximately when it was?

A The actual spudding of the well?

Q When you were, when Southland management made the decision to drill this well?

A Oh ---

Q Or when you were notified that Southland

1
2 intended to drill this proposed well.

3 A. I really couldn't even make a guess.
4 I don't have any idea.

5 Q. Was it during 1981?

6 A. Yes, sir, it was.

7 Q. Did you personally conduct any corres-
8 pondence or telephone calls, or anything of that nature, with
9 personnel in the Yates Land Department?

10 A. Yes, sir, I did.

11 Q. They just outright refused to sign your
12 AFE, no explanation?

13 A. We wrote them and followed up with
14 several telephone calls. Several times I called and couldn't
15 get any response. I talked to secretaries or land support
16 people, I don't know. I finally did talk to Randy Patterson
17 on I believe it was April the 16th, and told him that, you
18 know, we wanted to drill the well. We had obligations, and
19 that if Yates was not willing to give us an answer then we
20 would be forced to force pool them.

21 Q. Did you tell him at that time, Mr.
22 Sledge, where Southland proposed to drill its well?

23 A. I don't know that I told him the location
24 and all the other information that was on the AFE.

25 Q. Was there any discussion between you

1
2 and Yates land personnel as to the proposed location?

3 A. He did state, I believe, that they
4 didn't like that location. They thought another location would
5 be better.

6 Q. Do you know when he stated that to you?

7 A. I assume as I recall in that telephone
8 conversation. I don't know for certain. I do remember talking
9 to him and having that come out in the discussion.

10 Q. Do you know whether or not that tele-
11 phone conversation was prior to or subsequent to your letter
12 of March 23rd of 1981?

13 A. No, I don't. I don't know that I even
14 contacted him before the letter was sent.

15 Q. Your Exhibit Number Two, Mr. Sledge,
16 shows what appears to be a well in the south half of Section
17 21. Whose well is that?

18 A. Southland Royalty Company is the operator
19 of the well.

20 Q. When was that well drilled?

21 A. That was drilled, it was spudded in
22 November of 1980 and completed February 26th of 1981.

23 Q. And what's the status of that well
24 currently?

25 A. As far as I know, it is shut-in waiting

1
2 on a pipeline.

3 Q And your Exhibit Number Two shows S. P.
4 Yates with 31-1/4 percent interest in that well. What disposi-
5 tion was made of Yates' interest in that well?

6 A Mr. Yates participated in that well.
7 MR. DICKERSON: I have no further
8 questions.

9 MR. RAMBY: Any other questions of Mr.
10 Sledge?

11 MR. CARR: Nothing further.

12 MR. RAMBY: He may be excused.

13 MR. CARR: At this time I'd call Mr.
14 James.

15
16 A. DARRYL JAMES

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

19
20 DIRECT EXAMINATION

21 BY MR. CARR:

22 Q Will you state your name and place of
23 residence?

24 A My name is Darryl James. My full name
25 is Arthur Darryl James. I live at 1429 Street in

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Midland, Texas.

Q Mr. James, by whom are you employed and in what capacity?

A Southland Royalty Company, and I'm District Geologist for the Southwestern District.

Q Have you previously testified before this Commission and had your credentials made a matter of record?

A Yes, I have.

Q And how were you so qualified? How were you qualified at that time?

A I was qualified as an expert geological type witness.

Q Are you familiar with the application filed by Southland in this case?

A Yes.

Q Are you also familiar with the subject well subject well and the proration unit?

A Yes.

Q And the general area?

A Yes.

MR. CARR: Are the witness' qualifications as an expert witness in geology acceptable?

MR. RAMEY: Yes, they are.

Q Mr. James, have you prepared certain

1
2 exhibits for introduction in this case?

3 A. Actually, Jack Becker prepared the ex-
4 hibits. Jack Becker is a geologist with Southland Royalty and
5 he works for me and this exhibits were prepared under my
6 direct supervision.

7 Q. And have you reviewed them?

8 A. Yes, I have.

9 Q. Can you testify as to their accuracy?

10 A. Yes, I can.

11 Q. Will you please refer to what has been
12 marked for identification as Southland Exhibit Number Six and
13 explain to the Commission what it is and what it shows?

14 A. I plan to present nine exhibits, which
15 the objectives of my testimony in presenting these exhibits
16 are to, one, compare -- well, first of all, to show the tech-
17 nical data that Southland Royalty used to drill, to support
18 the drilling of the well that is currently drilling, and that
19 is the SRC Federal 21-A No. 1.

20 I also would like to compare the loca-
21 tion for the SRC Federal 21-A No. 1 with the proposed well
22 that was earlier proposed in the same proration unit, the Yates
23 Fair Federal No. 1.

24 The third thing I'd like to show is I'd
25 like to demonstrate this area as risky and this particular

1
2 well has substantial risk.

3 This well is currently drilling, or was
4 drilling at 9:30 a. m. central standard time, at 10 283 feet,
5 drilling at 20 minutes per foot in 100 percent shale, which
6 we think is Lower Morrow.

7 It's nearing its expected -- its expected
8 TD was 10,500 feet. We expect to reach a TD tonight or early
9 tomorrow, 10,350 feet, 10,400 feet. The well is running
10 slightly higher than we thought and it looks good from that
11 standpoint.

12 Exhibit Number Six, all my exhibits
13 will be very similar, so I'll take a little longer explaining
14 this one but the other exhibits will be very similar and easy
15 to follow.

16 Exhibit Number Six is a structure map
17 on top of the Cisco carbonate. We have three zones that are
18 prospective in this particular well, Cisco carbonate, Atoka
19 Sand, and the Morrow Sand. Our primary objective is the
20 Cisco carbonate, which we show in Exhibit Number Six. This
21 map is on a scale of one inch to 2000 feet, has a 50-foot
22 contour interval. The red shaded areas are areas that we
23 believe to be prospective, or interpreted to be prospective,
24 these are interpreted. Productive gas wells are shown with
25 red dots with whiskers. There is one productive oil well and

1
2 it is shown with a green dot and whiskers.

3 Gas shows are shown as half moons with
4 no whiskers and a zone that we think is a probably producer
5 from this mapped zone is shown as a half red circle with
6 whiskers, as indicated.

7 Southland Royalty leases are indicated
8 by the gray hachured area.

9 Cisco carbonate is carbonate mounds, or
10 thicks, that developed along a Cisco shelf edge, which trends
11 in a general northeast/southwest direction, open waters to
12 the southeast.

13 A nearby look alike to this production,
14 this is new production for this area, would be the Spring
15 Field located 10 miles to the southwest of the drilling SRC
16 well. Spring Field has five producing gas wells that produced
17 a total of 19.7 Bcf and 609,000 barrels of oil as of 1-1-81.

18 I would like to call your attention to
19 two units that are -- well, actually all the units that we're
20 involved with are shown on this map. Units are shown as
21 rectangular boxes with kind of a dashed line, as shown. The
22 north half of Section 21 is the subject proration unit, and
23 in that particiar unit, as was previously testified Southland
24 owns 25 percent of the working interest unit and we're
25 trying to operate this unit.

1
2 I'd like to call your attention to a
3 2-1/2 section working interest unit consisting of Section 17,
4 8, and the south half of Section 5. It's called the Eastern
5 Shore Working Interest Unit. Yates, et al, owns 32.5 percent
6 of this unit and Southland Royalty Company owns 40 percent of
7 this unit. This unit is operated by --- by Yates.

8 Southland Royalty drilled its first
9 well in the southeast quarter of Section 20, Southland Royalty
10 Pecos River Com 20 No. 1. This well, after several squeeze
11 jobs in the Cisco, we were able to potential this thing, cal-
12 culated open flow, at 5.36 million. In this particular well
13 we're waiting on Phillips to install a plant and hook up a
14 flow line to it.

15 We had a problem with the gas in this
16 area, small problem, in that the gas is sour and it contains
17 approximately 3500 parts per million sulphur. That's primarily
18 the reason we haven't been able to get this thing hooked up
19 sooner.

20 Southland next drilled a well in the
21 south half of Section 21, the SRC 21 No. 1. In this particular
22 well we were able to complete in the Lower Sand, which I'll
23 show you later, an Atoka Sand, and this well is currently
24 waiting on a flow line hookup and it should be on line sooner
25 than the previously mentioned well in the southeast quarter of

1
2 Section 20.

3 We also think the Cisco zone is pros-
4 pective in this zone. We think this from log analysis and
5 core -- mud log and show information, as well as it's in the
6 same correlative zone that has -- we were able to complete in
7 the southeast quarter of Section 20, as I mentioned, for a
8 calculated open flow of 5.36 million a day. We are not -- no
9 drill stem tests were taken for this well.

10 Yates drilled a well in the north half
11 of Section 17 that Southland Royalty participated in, which
12 appears to have two zones in the Morrow that are productive,
13 which I'll briefly mention later, and also we think that this
14 particular zone, the Cisco carbonate, appears to be productive
15 from -- from logs.

16 The green rim that's shown around the
17 feature that the Yates Eastern Shore OB Federal No. 1 is on,
18 is an interpreted associated oil layer. We make this inter-
19 pretation from Coquina Watkins Federal Well, located in the
20 northwest quarter of Section Four. This particular well was
21 completed back in 1974 and produced only 4000 barrels of oil,
22 and some unspecified amount of gas, we're not sure, but it
23 appears to be from information we have as an oil well.

24 Q Will you now refer to your Exhibit Number
25 Seven and review this for the Examiner -- Commission?

1
2 A Exhibit Number Seven is a cross section.
3 The line of cross section is shown on Exhibit Number Six. It
4 runs generally from the south, or it's indicated SW, on the
5 left to NE on the right.

6 It cover three wells and it runs through
7 our proposed -- not proposed, our drilling location.

8 This particular exhibit will show you
9 our interpretation of a possible gas/water contact that we
10 see in the structural feature that appears on Exhibit Number
11 Six, and also that there appears to be good reservoir present.
12 This is shown by the Yates Pecos River No. 1 Deep Unit well,
13 which is now depleted Morrow well, located in Section 28. This
14 particular well drill stem tested the Cisco zone and recovered
15 a lot of water, you can read the specific for yourself, and
16 a show of gas, indicating that there's very good reservoir
17 there but the well is situated below the possible gas/water
18 contact.

19 The next well on there is the second
20 well Southland Royalty drilled in this -- this field, or this
21 area. It's the Southland No. 1 Pecos River 21 Federal Com,
22 which I mentioned earlier. In this well we did not drill stem
23 test this zone but it appears to be prospective, as I mentioned,
24 from log analysis, sample information, mud log information,
25 and because it's correlative with the offset Southland Royalty

1
2 well in the southeast quarter of Section 20, which did complete
3 in this zone.

4 The third well in this cross section is
5 the Yates No. 5 Pecos River Deep Unit, which also drill stem
6 tested the Cisco and recovered sulphur water, a substantial
7 amount of sulphur water and a show of gas.

8 Q Will you now review Exhibit Number Eight
9 for the Commission?

10 A Exhibit Number Eight is a secondary
11 objective. It shows the secondary objective that we have in
12 this well, drilling well.

13 This map is actually, it's a combination
14 of two maps. It's a sand that we call the Atoka "A" Sand,
15 which is shown on the type log, which is the Pecos River 21
16 No. 1 in the south half of Section 21. The type log is shown
17 on the righthand side of your exhibit.

18 As I mentioned, this is a combination
19 map consisting of a gross sand Isopach which is shown in the
20 solid contours, and a net effective porosity Isopach of the
21 sand within this --- of this sand, pardon me, and it's showing
22 gas contours.

23 The productive area again is shown in
24 red. There are only two wells that appear to be -- that are
25 productive in this particular sand in this area. There's a

1
2 well in the south half of Section 11, it's the Amoco No. 1
3 "HE". This well is also commingled with two lower zones, two
4 lower Morrow zones, and it does not appear to be a very attractive
5 well. It has an IP of 735,000 cubic feet of gas per day, and
6 14 barrels of water, and it's currently waiting on a pipeline
7 hookup. As I mentioned, it appears to be a marginal well to
8 us.

9 The Southland Royalty 21 No. 1, our type
10 log, the well in the south half of 21, in this particular well
11 we had 10 feet of gross sand and 10 feet of effective porosity.
12 Each one of these data points will have two numbers with a
13 slash between them. The number to the left is showing you
14 gross sand, which would correspond to the solid contours, and
15 the number to the right of the slash would be effective poro-
16 sity, which would correspond to the dashed contours.

17 We think this well is productive. It
18 has a calculated open flow of 1.1 million and that's all I
19 wish to say about this.

20 Q Okay. Mr. James, will you now go to
21 Southland Exhibit Number Nine, the Lower Morrow structure map,
22 and review this?

23 A The other secondary objective in our
24 well is the Lower Morrow Sand sequence. I'm going to show
25 three exhibits to demonstrate the trapping mechanism in this

1
2 zone.

3 The trapping mechanism in this zone is
4 complicated because water occurs and permeability barriers, as
5 well as the distribution of the sand are important in setting
6 up the traps.

7 Therefore, Exhibit Number Nine is a
8 structure map on top of the Lower Morrow. Actually it's --
9 it's a map on the base of the Lower Morrow Sand, which is
10 shown on the type log again to the right, what we map on.
11 This particular -- not sand, I'm sorry, shale. This particular
12 shale is a marine shale that covers the area and it's a very
13 good mapping horizon to kind of see the Lower Morrow. And
14 we believe the Lower Morrow might be -- the present day
15 structural configuration of the Lower Morrow might also re-
16 present some of the topographic configuration of the Morrow
17 Sands during the time that they were deposited, and this may,
18 this particular topography may have influenced the sand depo-
19 sition in the Lower Morrow.

20 The yellow lines that are shown on this
21 Exhibit are, will correspond to the next exhibit I will show
22 you, which is a gross sand Isopach. It corresponds to the axes
23 of the gross Lower Morrow Sand Isopach. It is also showing
24 you the direction of sediment movement.

25 Q Will you now proceed with Exhibit Number

1
2 Ten?

3 A. Exhibit number Ten is a Lower Morrow
4 gross sand Isopach. Again on this exhibit two numbers are
5 shown for each data point. The number on the left is the
6 gross sand, which the number that --- which is the contours.
7 The number to the right is net effective porosity.

8 Q. Are you ready to go to Exhibit Number
9 Eleven?

10 A. The same, excuse me, Bill, the same
11 format is used as far as showing of wells that were produced
12 in this zone, wells that had only shows in this zone, and
13 quite a number of wells in this particular sand zone, as you
14 can see from the test data, which is indicated by the side
15 of each well, produced a lot of water, so water is definiely
16 a problem. You have a structural configuration in a particular
17 sand body is important in whether you're going to have a pro-
18 ducing well or have a well below the gas/water contact and
19 be in its water lay.

20 Q. Will you now proceed with your Exhibit
21 Number Eleven, explain what it is and what it's designed to
22 show?

23 A. Exhibit Number Eleven is an exhibit
24 that will illustrate the trapping mechanism of the Lower Morrow
25 Sand sequence. It consists of an Isopach of the net porosity

1
2 and in conjunction it's also showing the structural configura-
3 tion of the previous exhibit, Nine, that I showed you, of
4 the Lower Morrow.

5 The structural position is shown in
6 thin contours and the effective porosity is shown in thicker
7 contours. The red area is showing you areas that we believe
8 to be productive or prospective and yellow areas are showing
9 effective porosity that will be wet below the gas/water con-
10 tact.

11 The red arrows on there are again
12 showing you the axis, the general axis of the Lower Morrow
13 gross sand thicknesses.

14 It's important to define the individual
15 reservoirs in this particular sand sequence because I can
16 show you several examples on this map of water being produced
17 up dip from gas and in what appears to be the same sand. This
18 is -- this is impossible, if they are the same sand, unless
19 they're separated by a permeability barrier, or by lack of
20 sand between them, and the white areas are showing areas where
21 we don't believe effective porosity is present.

22 And on this exhibits and the other ex-
23 hibits I've presented, I'd like you to compare the location
24 in the Southland Royalty Pecos River Federal 21-A No. 1, and
25 each time I'm showing also the proposed location for the

1
2 Yates FAir Federal No. 1.

3 In each map that I'm showing you we feel
4 that Southland's location is -- is either as good or is better
5 according to our interpretation, and this, I believe supports
6 us very well.

7 Q Will you now refer to your gross sand
8 Isopach on the Middle Morrow, which is your Exhibit Number
9 Twelve?

10 A I'm showing Exhibit Number Twelve and
11 Thirteen for completeness because the Middle Morrow sand se-
12 quence is one of the viable objectives in the area, but we did
13 not feel it was prospective at this particular location.

14 Exhibit Number Twelve is Middle Morrow
15 gross sand Isopach. I've colored in yellow, or shaded in
16 yellow, thicknesses of greater than 30 feet, and again the
17 same format on the wells and the well symbols is being used.
18 We also did not think the proposed Yates location was pros-
19 pective at this line -- I mean at this horizon.

20 And this particular horizon -- not
21 horizon, but this particular sand sequence, water is very
22 rarely a problem, so to define an effective or define the zone
23 or the area that will be prospective or productive you simply
24 have to find effective porosity. We don't feel structural
25 position is very important in this particular sand sequence.

1
2 Q Mr. James, will you now review Exhibit
3 Number Thirteen?

4 A Exhibit Thirteen is net effective poro-
5 sity for this Middle Sand --- Middle Morrow Sand sequence.
6 All the yellow area on this particular sand sequence we believe
7 to be prospective. And again, Southland's location and the
8 proposed Yates location we did not believe is prospective at
9 this particular --- on this particular sand sequence.

10 Q Will you now review your Exhibit Number
11 Fourteen with the Commission?

12 A Exhibit Number Fourteen is kind of a
13 base map that's showing you the deep wells that are --- deep
14 wells as defined as wells that have gone to the Pennsylvanian,
15 or deeper in this area, and the wells that have been success-
16 ful -- I'm defining successful in this sense as a commercial
17 gas well, or what appears to be a commercial gas well.

18 And what I mean by that is a well that
19 will pay out; simply a well that will get your money back.

20 The dry holes are shown by the circles
21 with four cross hairs on them. Those are bona fide dry holes.
22 Wells that were successful in the sense that they produced
23 paying quantities of oil or gas but that we did not believe,
24 or do not believe will pay out, or would pay out, are shown
25 as circles and are not colored.

1
2 There are 22 wells shown on this parti-
3 cular exhibit; 5 we believe were successful, or appear to be
4 successful at this time. You'll notice I put some question
5 marks by Southland's wells Yates discovery well up there, be-
6 cause those wells are not on line and there is -- there is a
7 certain amount of risk when you're not on line.

8 There are 6 bona fide dry holes and there
9 are 11 wells that did not pay out.

10 That success rate of 6 out of 22 or I
11 mean 5 out of 22 -- sorry, let me go back.

12 Well, you can see the success rate is
13 very low, about 25 percent.

14 Q Mr. James, what conclusions can you
15 reach from the evidence you've presented here today?

16 A Well, Southland obviously thinks it's
17 an economic venture to drill this well. We took on consider-
18 able risk and in a sense we had to carry Yates. We went ahead
19 and drilled this well because we feel it's an economic venture
20 although there is considerable risk in the area, and I've
21 shown the technical data that we used to justify the drilling
22 of this well.

23 I also showed that our documentation --
24 or our exhibits show that our location is an optimum location.
25 It is preferable to Yates location overall, and every one of

1
2 our objectives that we had in the well. And I've also pre-
3 sented data that suggests this is a risky area and that we
4 are justified in requesting the 200 percent risk factor.

5 Q So based on your experience in the area
6 and the data you've presented, you're asking for the maximum
7 risk factor be assessed against any who do not join in the
8 drilling of the well?

9 A Yes, I am.

10 Q In your opinion will granting this
11 application be in the best interest of conservation, the pre-
12 vention of waste, and the protection of correlative rights?

13 A Yes.

14 Q Were Exhibits Seven through Fourteen
15 prepared by you or under your direction?

16 A They were.

17 MR. CARR: At this time we'd offer
18 Southland Exhibits Six through Fourteen.

19 A Six.

20 MR. RAMEY: Exhibits Six through Four-
21 teen will be admitted.

22 MR. CARR: I have one follow-up question.

23 Q Mr. James, a few minutes ago Mr. Dicker-
24 son asked Mr. Sledge if he knew when actual approval had been
25 given by Southland for the actual drilling of the well. Do

1
2 you happen to know what that date is?

3 A Yes. The date it was signed by manage-
4 ment was 4-8-81.

5 MR. CARR: I have nothing further on
6 direct.

7 MR. RAMEY: Any questions of Mr. James?

8 MR. DICKERSON: Yes, sir.
9

10 CROSS EXAMINATION

11 BY MR. DICKERSON:

12 Q Mr. James did you have any discussions
13 with Yates personnel regarding the proposed location?

14 A In a casual sense. I talked with Ray
15 Beck about it when I visited him, just in a very casual
16 sense.

17 Q And when would that have been?

18 A Maybe he remembers. It would have been
19 perhaps April, or thereabouts; March, maybe.

20 Q After April 8th, do you think?

21 A I could check. I could find out the
22 exact date for you but I'm not really sure.

23 Q The question really is did Southland
24 allow Yates any input whatsoever into the proposed location
25 for this well?

1
2 A. Well, we went through our normal sequence
3 of getting the well approved and drilled and we do not own 100
4 percent of the well.

5 Q. Your normal internal sequence, you mean?

6 A. Internal and external. We did not handle
7 this any way differently than the many other wells we've
8 drilled.

9 Q. Now you said I think, Mr. James, that
10 your primary objective in your subject well is the. I think
11 you called it --

12 A. Cisco --

13 Q. -- this Cisco carbonate? Would that be
14 the same formation which is sometimes called the Upper --
15 Upper Penn Dolomite?

16 A. I don't know for sure, but I will say
17 for sure that it's the same zone as indicated on the type log,
18 as shown on Exhibit Number Six, the Southland Royalty Pecos
19 River 21 NO. 1.

20 Q. That well in the south half of Section
21 21?

22 A. Yeah, on this exhibit right here.

23 Q. And what about the well in the south
24 half of Section 20.

25 A. Yeah, same zone.

1
2 Q Are there any other wells in this area
3 that produce from this zone?

4 A The wells that are producing from this
5 zone are -- are shown on the map, indicated on the map.

6 Q How far in terms of miles north and
7 south have you gone? I notice you go, for your Exhibit Number
8 Fourteen, Mr. James, you draw attention to dry holes which are
9 five or six miles away.

10 A Well, let me check. I thought we covered
11 the exact same area. Yeah, I believe we do.

12 Q So within the same five or six miles --

13 A Each exhibit covers the exact same area.

14 Q -- from your subject well there are no
15 other wells currently producing from this Cisco carbonate?

16 A I don't want to imply that, no. Simply,
17 I just want to say that the area that we had selected, which
18 actually we selected this area for your information, before
19 we prepared Exhibit Number Fourteen, so we really didn't try
20 to isolate a particular area and then make it more favorable
21 or less favorable.

22 But you're right. I'm sure there are --
23 I know there are wells that are productive 10 miles in this
24 direction, to the southwest, and I know there are wells pro-
25 ductive due west.

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Q How far due west? 10 miles?

A 7, 10 miles, something.

Q From the same Cisco carbonate you're referring to.

A Yes.

Q How is it that you feel Morrow dry holes five miles away bear on the risk factor for the subject location and you don't feel that productive wells in the same area bear on this?

A Well, I think it bears on the - in essence, this being a risky area. But you're right, an offset well you'd have a different risk consideration than a -- than a well that's drilled five miles away as a dry hole.

Q Would you say, Mr. James, I understood you to say that you had not drill stem tested this Cisco carbonate in the well on the south half of Section 21?

A That's right.

Q Why is that?

A We did not drill stem test that for a number of reasons. We had some technical problems at that particular point. I've forgotten the exact details but perhaps there's someone in this room that could give you the exact details. We twisted off either right before or right after and caused us a little problem with -- with the well

1
2 a 4 foot zone, and we took three squeeze jobs before we could
3 get all the water out and we completed water free.

4 So my point is I don't think a drill stem
5 test is -- may not be valid. I'm not sure if it is or not.

6 Q Did you attempt a drill stem test on
7 your well in the southeast quarter of Section 20?

8 A Oh, yes, I said we did, and we recovered
9 a large quantity of sulphur water and no gas. I think we had
10 a very small amount of gas scent in the chamber.

11 Q So you drill stem tested the well in
12 Section 20. You drill stem tested this zone in the subject
13 well in the north half of Section 21. You did not drill stem
14 test --

15 A That's right.

16 Q -- the south half of Section 21. You
17 made reference to the Yates well in Section 17, was there any
18 indication that you saw that a drill stem test would have been
19 at all necessary in this zone in that well?

20 A I guess, I'd like, at this point I
21 could probably say you're right, that a drill stem test wouldn't
22 be valid.

23 But at the time the well was drilled we
24 thought that a drill stem test would be valid and that's the
25 reason we drill stem tested our drilling well in Section 21,

1
2 and we would have liked to have drill stem tested our well in
3 the south half of 21, too.

4 Q From your drill stem test on the subject
5 well in your Cisco carbonate, what were your pressures?

6 A I could give you those. This is field
7 data, too. It might not be exactly the same, if I can find
8 it.

9 Drill stem test no. 2, 8100 feet to
10 8230 feet. Five minute preflow we had to reset the packer,
11 and we had a 50 minute flow, strong blow, air; 60 minute
12 flow, decreased to weak, died, no gas. Recovered 5000 feet
13 of sulphur water. Hydrostatic pressure was 3937 at the be-
14 ginning and 3937 at the end of the test. First flowing pres-
15 sure was 1065 at the beginning and 2077 at the end. Second
16 flowing pressure was 2077 at the beginning, 3050 at the end.
17 A third flowing pressure was 3050 at the beginning, 3175 at
18 the end. Initial shut-in 60 minutes, 3200 pounds. Final
19 shut-in 120 minutes, 3200 pounds. Sampler had .8 cubic feet
20 of gas, 410 psi, and recovered 2200 cc's of sulphur water in
21 the sample chamber. Bottom hole temperature is 147 degrees.

22 Q Mr. James, what was --- or to get us a
23 little reference in time, when was your Exhibit Number Six
24 prepared, do you know?

25 A It was prepared, let's see, some -- in

1
2 June sometime. I can't tell you the exact date; probably
3 about a month ago it was updated when the well went through
4 this zone and the only update was adding the field top, which
5 was 4718, as estimated from the field data, and that was the
6 only information that was added to it and that was added at
7 the time that we drilled through the --- this particular zone,
8 which was probably a few weeks ago, a couple weeks ago, or
9 something.

10 Q The top of that Cisco carbonate was
11 actually found at 4718? That's subsea, I presume?

12 A Well, yes, subsea. Let me say it this
13 way to be very accurate.

14 Our initial indication from the field
15 indicated it was 4718 but since then there's been a correction
16 in the pipe measurement, or there's been some slight correction,
17 and it appears now from field data, I would like to put that
18 in quotes "field data", that it's 4710. We, you know, of
19 course we don't have wireline logs in the well yet. That
20 might change, but it should be something like that.

21 Q And what --- from --- so it's now apparently
22 actually 4710, what was your projection for the status of
23 your map which you corrected? What would you have projected?

24 A Oh, essentially the way it came in,
25 perhaps a few feet lower, but that didn't change the map when

1
2 it came in.

3 So it came in about as we expected.

4 Q Substantially what you'd expected. Now,
5 none of these other surrounding wells, I'd think you'd agree,
6 Mr. James, with the exception of the wells in the south half
7 of Section 20 and 21, are really attractive for this Cisco
8 carbonate you're looking for here, are they?

9 A Also we think the well in the north
10 half of 17 might be productive in this zone, too, but those
11 three wells appear to be productive from data that we have.

12 Oh, and as I mentioned, the well in the
13 northwest quarter of Section 4 produced some oil, a small
14 amount of oil from that zone, but it was not an economic
15 venture.

16 Q Well, this was not an oil objective that
17 you had and that Southland has in these, in the subject well,
18 is it --

19 A No.

20 Q ... in this Cisco carbonate?

21 A No, it's a gas objective, that's right.

22 Q Was Yates given any input at all, to
23 your knowledge, Mr. James, into whether or not to drill stem
24 test the carbonate in the south half of Section 21?

25 A I just don't know. I would hope they

1
2 were. I just don't know. I would hope that Yates would have
3 been given that opportunity to --- we normally, our routine
4 procedure is to call, although sometimes these things happen
5 at odd hours and that sort of thing, but we should have, if
6 we didn't, we should have given Yates every opportunity to ---

7 Q But you don't know whether you did or
8 not?

9 A No, I don't know.

10 Q Do you know whether or not any type of
11 production test has been run since the well was perforated?

12 A Yes, I do know that no test has been
13 run.

14 Q Do you know whether or not Yates has
15 been given any input into whether or not any such test should
16 be run prior to drilling another well in the north half at
17 your proposed location?

18 A I don't know. I would like to make a
19 statement, though. The well that was drilled in the north
20 half of Section 17, the Yates OB Federal No. 1. Jack Becker,
21 our geologist who handles this area, tried, I'm aware that
22 he tried, he told me that he tried, let me put it that way,
23 to convince Yates or encourage Yates to drill stem test that
24 zone also.

25 Q To drill stem test ---

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A. The Cisco zone.

Q. In which well?

A. The north half of Section 17, Yates Eastern Shores No. 1 OV.

Q. Let's talk about that well just a little bit. Cisco the best zone in that well?

A. No.

Q. What's the best zone?

A. Well, there are two attractive zones in the Morrow.

Q. How attractive are they?

A. Well, from this point they appear to be very attractive. We have just a, you know, production -- a calculated open flow test on it, but --

Q. Any stimulation given to that well --

A. I don't know the specifics on it, but as I recall, the -- an Upper Morrow zone was drill stem tested, had a very attractive rate, I've forgotten exactly, it will be on one of my exhibits, and that the Lower Morrow Sand was actually completed, and that completion data will be on one of my exhibits, also.

And this zone appears to be behind pipe, appears to be attractive.

Q. How far away is that well approximately

1
2 in Section 17 from the subject well in Section 21? Is it a
3 mile, a little over?

4 A Looks like a mile and a half, or so,
5 something like that.

6 Q And yet your Exhibit Number Fourteen
7 shows dry holes as far out as, what, six miles away from the
8 subject proration unit?

9 A Yes, it also shows ---

10 Q So if you went as far as six miles away
11 to show dry holes, do you really feel that that is -- is a
12 very accurate indication of the Morrow ---

13 A Well ---

14 Q --- prospectives in the subject proration
15

16 A Well, in a mile and a half I could show
17 you --- well, let's see. Let's say just a mile and a half.
18 I can show you one, two, three, four, five wells that were
19 dry in this zone, in that same mile and a half.

20 Q And dry is your definition being that
21 will not pay out?

22 A That this zone is not productive. If
23 you want a bona fide dry holes, there are one, two, there are
24 two bona fide dry -- one, two three, three bona fide dry
25 holes within a mile and a half and there are two additional

1
2 wells that do not --- or one additional well that does not
3 appear very attractive, and two wells that would appear to
4 pay out. Let me say it that way, one well that will not pay
5 out ---

6 Q Well, let's talk specifically. Which
7 wells are you referring to?

8 A Okay.

9 Q What about the north half of Section 28?
10 There appears to be a well there.

11 A That well produced 700 --- approximately
12 700 million cubic feet of gas from commingled Lower Morrow and
13 Middle Morrow zones, and it's now abandoned, and that well
14 did not have the Cisco attractive in it. That well for
15 Southland Royalty would not be an attractive well. We could
16 not drill that well.

17 Q When was that well drilled, though?

18 A Let's see, in '63, and in '63 that
19 wouldn't have been an attractive well. This well would pay
20 out, though. It would be close. Yeah, it would pay out.

21 Q Now the well in the northeast quarter
22 of Section 29, the Huber Corporation Pecos River Deep Unit
23 dry hole, Morrow test.

24 A The --- a recent well in the southeast
25 quarter of Section 30, which would be a mile and a half south-

1
2 west of the -- a mile and three-quarters southwest of the
3 proposed well, is a very pool looking well. It's completed
4 in the Wolfcamp and it has a very unattractive, skinny looking
5 Atoka Sand zone that hasn't been tested yet. We don't -- I'm
6 very sure that well will not pay out.

7 There's also a dry hole in the northwest
8 quarter of Section 22, which is approximately one mile perhaps
9 a little less, oh it's a half mile from our drilling well.
10 It's the Yates Pecos River Deep Unit No. 5. That's a dry hole
11 drilled in '67.

12 Q What was the problem with that well. do
13 you know?

14 A Oh --

15 Q No sand in it?

16 A In which?

17 Q In the Morrow?

18 A I have to check each exhibit. It looks
19 like it had plenty of sand. It was wet. Drill stem test
20 recovered 1389 feet of salty sulphur water from the Lower
21 Morrow Sand sequence.

22 Q According to your maps, would the subject
23 proration unit, should it be higher in the Morrow than that
24 well in Section 22 that you're referring to?

25 A Yes, both --

1
2 Q. And the fact, I think you testified that
3 your well is higher structurally in the Morrow than you had
4 expected.

5 A. Uh-huh.

6 Q. How much higher?

7 A. I don't know that. It's running, I'm
8 guessing now, but it's just running a little bit higher than
9 we had it mapped; perhaps 20 feet or something like that.

10 But for that Lower Morrow Sand sequence
11 to be productive you'd have to find effective reservoir and
12 we need to wait until we can examine the wireline logs.
13 Sample information indicates that there's some sand present
14 that did not have drilling breaks associated with it. We
15 don't know if it's productive or not.

16 Q. One final question, Mr. James. Would
17 you concede that your well as far as your major objective,
18 the Cisco carbonate, and by your well I'm referring to the
19 subject well in the north half of Section 21, is better located
20 as far as your exhibits reflect than either the well in Sec-
21 tion 20 or the well in Section 21, the south half?

22 A. It's better located. We do not know if
23 it's productive yet. We hope.

24 Q. It appears to be productive at this
25 time?

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A. I couldn't say that. I couldn't say whether it's a dry hole or it's a successful well at this time. I wish we knew more about this particular zone. There's some risk in this zone.

Q. Has a decision been made to, whether or not to run production casing on this well as yet?

A. No, a decision has not been made yet.

MR. DICKERSON: No further questions.

MR. RAMEY: Mr. Carr.

REDIRECT EXAMINATION

BY MR. CARR:

Q. Mr. James, is S. P. Yates a partner with Southland in the other wells in this area?

A. I believe so.

Q. And as such they would have a right to have input as to testing and other procedures in these wells?

A. Yes.

MR. CARR: I have nothing further.

MR. RAMEY: Any other questions of Mr. James? He may be excused.

MR. CARR: That concludes our direct case.

MR. RAMEY: That's your direct case.

1
2 MR. DICKERSON: Mr. Ramey. I wonder if
3 we could have about a 10-minute recess?

4 MR. RAMEY: Let's take about a 10 minute
5 recess and let Sally move her car.

6
7 (Thereupon a recess was
8 taken.)

9
10 MR. RAMEY: The hearing will come to
11 order.

12
13 RAY BECK

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

16
17 DIRECT EXAMINATION

18 BY MR. DICKERSON:

19 Q Will you state your name, occupation,
20 and by whom you're employed?

21 A Ray Beck, geologist, Yates Petroleum,
22 Artesia, New Mexico.

23 Q Mr. Beck, have you previously testified
24 before this Commission as an expert geologist and had your
25 credentials made a matter of record?

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A. Yes.

Q. Are you familiar with the application of Southland in these proceedings and Yates' position in these proceedings?

A. Yes.

MR. DICKERSON: Mr. Ramey, we tender Mr. Beck as a geologist.

MR. RAMEY: Mr. Beck is so qualified.

Q. Mr. Beck, what, if anything, do you have to say with regard to the method used by Mr. James in calculating the risk factor which should be assessed in this well, with specific regard to the Morrow section?

A. Well, I just thought it was too large an area. I thought a smaller number of sections.

Q. Do you think it would be more realistic to concentrate on a smaller area?

A. The Morrow is widely known as a so called erratic formation and you start applying it over large areas and it doesn't hold as much credence, I don't think, as it does right in the very near area that you're working in.

Q. Mr. Beck, have you prepared two exhibits upon which you intend to rely in your testimony?

A. Yes, sir.

Q. Would you please refer to what you've

1
2 marked as Exhibit Number One and describe what this exhibit
3 represents?

4 A. Exhibit Number One is a combined
5 structure and Isolith map. Dotted contours show the structure
6 on the Lower Morrow, which is the same pick as Mr. James had.
7 Solid contours are Isoliths, showing the total amount of
8 Morrow Sand which is cleaner than 50 API gamma ray units,
9 just a method of showing the whole Morrow without any regard
10 to environments of deposition.

11 The red colored well spots represent
12 wells completed in the Morrow. Other gas symbol well spots
13 represent wells completed in other zones.

14 The red outlined rectangle is the pro-
15 ration unit under question.

16 Q. What else Mr. Beck, is indicated by
17 your Exhibit Number One?

18 A. It may be noted that the Pecos River
19 Federal 21-A is located with a Morrow Sand thick trend. The
20 21-A location has been moved in a favorable direction away
21 from the Southland Royalty Federal 21 Well in Unit K of Section
22 21, which had only 9 feet of clean Morrow Sands and was un-
23 economical in the Morrow, apparently, but was subsequently
24 completed in the Atoka.

25 Q. Anything else pertinent reflected by

1
2 your Exhibit Number One?

3 A. It may be also pointed out that the
4 Pecos River Federal 21-A is projected to encounter about 40
5 feet of clean Morrow sand, and that is more sand, for instances
6 than was found in the Yates Drilling Company No. 1 Pecos River
7 Deep Well, a well that's paid out in March of 1972.

8 Q. Mr. Beck, you've made mention of the
9 Morrow prospects in this subject location. What if anything,
10 do you have to say about other possible productive zones?

11 A. It should be mentioned that within a
12 2-mile radius of the Pecos River Federal 21-A location wells
13 have been completed in the Morrow, Atoka, Upper Penn. and
14 Wolfcamp; that is, the area is one in which there are multiple
15 pay horizons.

16 Q. And it would follow from that that
17 when you are in an area with multiple pay horizons that your
18 risk factor is -- for any one zone is lowered by reason of
19 those multiple horizons?

20 A. That is correct.

21 Q. Would you briefly discuss, Mr. Beck,
22 what your Exhibit Number One shows with regard to other Morrow
23 penetrations in the more contiguous sections to the subject
24 proration unit?

25 A. All right. In Section -- let's take

1
2 the nine sections around the north half of 21. It would be
3 15, 16, 17, 20, 21, 22, 27, 28, and 29.

4 Section 17 Yates Petroleum has an excel-
5 lent Morrow well, the Eastern Shore OV Federal No. 1, in which
6 the Upper Morrow was tested for over 2 million and the Lower
7 Morrow was perforated natural for 18-1/2 million. This well
8 has not been put on line but every indication is that it's
9 going to be a very good well.

10 In Section 20 Southland Royalty com-
11 pleted a well in the Upper Penn for an AOF of 5362 Mcf per
12 day.

13 In Section 21 the south half Southland
14 Royalty completed a well in the Atoka for an AOF of 1154 Mcf
15 per day.

16 In Section 22 Yates Drilling has a
17 plugged and abandoned well which was drilled in 1967. This
18 well was tested in the Upper Morrow and yielded 90 Mcf per
19 day and shut-in pressures of 4052 to 4757.

20 Had this well been drilled with modern
21 methods today, with KCL water -- mud and proper log -- and
22 better logging tools, we think that we could probably have
23 made a small well out of this, at least.

24 In Section 28 Yates Drilling has a Morrow
25 well which has made in excess of 785 million and as we men-

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tioned earlier, paid out in March of 1972.

Q Now that's the well that Mr. James testified to as shut-in or abandoned?

A It's actually making about 15 Mcf a day.

Q What, if any, conclusions have you drawn from your analysis of these Morrow penetrations in the surrounding sections?

A There have been five deep penetrations in the nine surrounding sections and only one plugged and abandoned well, even though we think it might have made a small one, for a ratio of four apparent successes in five attempts, for a success ratio of 80 percent.

And that's just on the Morrow.

Q Mr. Beck, I notice that within the -- on your Exhibit Number One within the rectangle outlined in red there is also a triangle which is not denominated on your exhibit.

What's the significance of that triangle?

A Well, that's the location that Yates would have preferred to drill. Has S. P. Yates drilled the well in the north half of 21, this is where we would have located it, principally we thought because it would encounter more sand in the Morrow and it would have been just as high

1
2 on the Cisco.

3 Q Is your opinion still that that location
4 would have been a better measurement of the Morrow prospectives
5 in this proration unit?

6 A Well, as the Isolith line shows, we
7 would have probably gotten 60 feet of sand as compared to
8 what we project with them is 40, and in the Yates Eastern
9 Shore Well we have 56 and it is a tremendous well.

10 Q Mr. Beck, refer to Exhibit Number Two,
11 please, and describe what you show with that exhibit.

12 A Exhibit Number Two is a cross section
13 hung on the Morrow Clastics showing the pertinent correlations
14 and the means by which the total feet of clean Morrow Sand
15 was counted up for each well in Exhibit Number One.

16 Q Mr. Beck, based on your review of this
17 information, have you formed an opinion as to what you feel
18 would be a reasonable penalty which would be imposed by the
19 Commission for the drilling -- for the risk imposed in drilling
20 the subject well by Southland?

21 A Yes. Considering that Pecos River
22 Federal 21-A is located within a Morrow Sand thick trend and
23 that the well is projected to encounter enough sand to pay
24 out, and it is drilling in an area of multiple pay horizons,
25 and that in the surrounding nine sections there have been

1
2 four apparent successes in five attempts I would assign a
3 a risk of 20 percent to the location.

4 Q Do you feel that a 20 percent risk factor
5 would be a reasonable risk penalty assessed for the drilling
6 of a Morrow well in this area?

7 A Yes.

8 MR. DICKERSON: Mr. Examiner, I move --
9 or Mr. Ramey, move the admission of Exhibits One and Two.

10 MR. RAMEY: Yates Exhibits One and Two
11 will be admitted.

12 MR. DICKERSON: And I have no further
13 questions.

14 MR. RAMEY: Mr. Carr.

15 MR. CARR: Mr. Ramey, Mr. Beck.

16
17 CROSS EXAMINATION

18 BY MR. CARR:

19 Q In determining what the risk factor should
20 be assessed it's my understanding you looked at a smaller
21 area, being the nine sections which, with the subject well more
22 or less in the center of them, is that correct?

23 A Yes, sir.

24 Q On Exhibit 29, did you omit a well in
25 the northeast quarter of Section 29, which was also a Morrow

1
2 attempt?

3 A Well, the well there was a Huber. It
4 was a Huber well and it was only - it's a Cisco well. It didn't
5 go to the Morrow so I did not count it. This is a Morrow map.

6 Q Now if we look at the well, the Pecos
7 River Deep Well in Section 28. Do you know what -- how much
8 that well actually has produced?

9 A Through March '81 it has produced just
10 over 785 million cubic feet of gas.

11 Q Would you consider that an attractive
12 prospect today?

13 A 785 million would pay out a well today.

14 Q Would drill a well expecting to --

15 A There are other -- there are other zones
16 up the hole, too, that we haven't even attempted to complete
17 in, so that would add to the -- to the attractiveness of
18 drilling that well.

19 Q Do you consider a well that just pays
20 out an attractive prospect?

21 A No, sir. It --

22 Q Mr. Beck, as I look at this exhibit,
23 this is your interpretation of the structure in the Lower
24 Morrow, is that correct?

25 A Structure and Isolith map.

1
2 Q All right. And you have used in pre-
3 paring this basically the same data that Mr. James used, is
4 that correct, in preparing similar exhibits?

5 A That's right, the same wells.

6 Q So what we have here is your interpreta-
7 tion of the same data that Mr. James used?

8 A That's right.

9 Q And is it fair to say that different
10 geologists can reach different interpretations based on the
11 same raw data?

12 A Yes. Yes.

13 Q And the triangle indicates where you be-
14 lieve would be the better location based on your interpretation.

15 A Yes, sir.

16 MR. CARR: We have nothing further of
17 Mr. Beck.

18 MR. DICKERSON: One question, Mr. Ramey.

19
20 REDIRECT EXAMINATION

21 BY MR. DICKERSON:

22 Q Mr. Beck, was it also your interpretation
23 of this geologic data which led to the completion of the
24 well in Section 17, calculated open flow of in excess of
25 18 million feet per day?

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This is one of the maps we used.

MR. DICKERSON: No further questions of Mr. Beck.

MR. RAMEY: Any other questions of Mr. Beck? He may be exercised.

MR. DICKERSON: That concludes our case, Mr. Ramey.

MR. RAMEY: Anything further in this case? Any statements? Anything?

If no one has anything further, this case will be taken under advisement, and the hearing is adjourned.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that
the foregoing Transcript of Hearing before the Oil Conserva-
tion Division was reported by me; that the said transcript
is a full, true, and correct record of the hearing, prepared
by me to the best of my ability.

Sally W. Boyd cse

SALLY W. BOYD, C.S.R.
Rt. 1 Box 199-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409



BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

July 29, 1981

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(505) 827-3434

Mr. William F. Carr
Campbell, Byrd & Black
Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico

Re: CASE NO. 7270
ORDER NO. R-6730

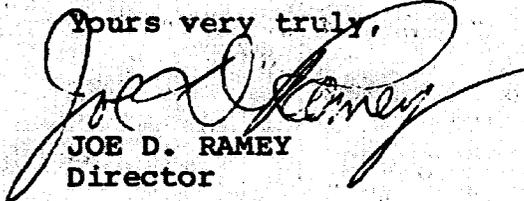
Applicant:

Southland Royalty Company

Dear Sir:

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

Yours very truly,


JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other Chad Dickerson

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7270
Order No. R-6730

APPLICATION OF SOUTHLAND ROYALTY
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 8, 1981, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 29th day of July, 1981, the Commission, a quorum being present, having considered the testimony and the exhibits received at said hearing, 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, Southland Royalty Company, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 21, Township 19 South, Range 27 East, NMPM, North McMillan Field, Eddy County, New Mexico.
- (3) That the applicant has the right to drill and is drilling a well 1980 feet from the North and East lines of said Section 21.
- (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.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) 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.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who 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.

(11) That \$3340.00 per month while drilling and \$334.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges 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.

(12) 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 Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 21, Township 19 South, Range 27 East, NMPM, North McMillan Field, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well currently drilling at a standard location thereon in Unit G.

PROVIDED HOWEVER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

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

(3) That within 30 days after the effective date of this order, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 20 days from the date the schedule of estimated well costs is furnished to him, 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 Division 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 Division and the Division 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 Division 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 who 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.

(B) As a charge for the risk involved in the drilling of the well, 200 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 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That \$3340.00 per month while drilling and \$334.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges 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.

-5-

Case No. 7270
Order No. R-6730

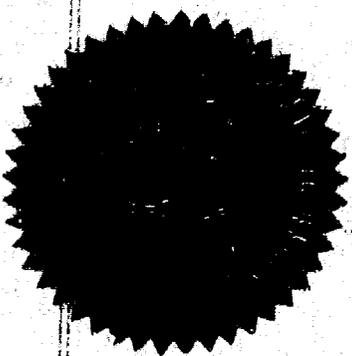
(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(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.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

ALEX J. ARMIJO, Member



Emery C. Arnold
EMERY C. ARNOLD, Member

Joe D. Ramey
JOE D. RAMEY, Member & Secretary

S E A L

fd/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
8 July 1981

COMMISSION HEARING

IN THE MATTER OF:

Application of Southland Royalty
Company for compulsory pooling, Eddy
County, New Mexico.

CASE
7270

BEFORE: Commissioner Ramey
Commissioner Arnold

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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

For the Applicant:

William F. Carr, Esq.
CAMPBELL, BYRD, & BLACK P.A.
Jefferson Place
Santa Fe, New Mexico 87501

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A P P E A R A N C E S

For S. P. Yates: Chad Dickerson, Esq.
LOSEE, CARSON, & DICKERSON
Artesia, New Mexico 88210

I N D E X

DENNIS SLEDGE

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Cross Examination by Mr. Dickerson 12

A. DARRYL JAMES

Direct Examination by Mr. Carr 15
Cross Examination by Mr. Dickerson 32
Redirect EXamination by Mr. Carr 47

RAY BECK

Direct Examination by Mr. Dickerson 48
Cross Examination by Mr. Carr 55
Redirect Examination by Mr. Dickerson 57

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E X H I B I T S

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MR. RAMEY: We'll call next Case 7270.

MR. PEARCE: Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico.

MR. CARR: May it please the Commission, my name is William F. Carr with the law firm Campbell, Byrd, and Black, P. A., Santa Fe, New Mexico, appearing on behalf of the applicant.

I have four witnesses.

MR. DICKERSON: I'm Chad Dickerson, Mr. Ramey, from Artesia, New Mexico, appearing on behalf of S. P. Yates, and we'll have three witnesses.

(Witnesses sworn.)

MR. RAMEY: Will you proceed, Mr. Carr?

MR. CARR: At this time I would call Dennis Sledge.

DENNIS SLEDGE

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

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your full name and place of residence?

A Dennis L. Sledge, Midland, Texas.

Q By whom are you employed and in what capacity?

A Southland Royalty Company as a landman.

Q Have you previously testified before this Commission and had your credentials accepted and made a matter of record?

A No, I haven't.

Q Would you briefly summarize your educational background and your work experience?

A 1973 graduate of the University of Texas at El Paso. Been a landman for six and a half years; five years with El Paso Natural Gas and a year and a half with Southland Royalty Company.

Q Are you familiar with the application filed on behalf of Southland in this case?

A Yes.

Q Are you familiar with the subject well and proration unit?

A Yes, sir, I am.

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2 MR. CARR: Are the witness qualifications
3 acceptable?

4 MR. RAMEY: As a landman, yes.

5 Q Mr. Sledge, would you briefly state what
6 Southland seeks with this application?

7 A An order spacing the north half of Section
8 21 as a proration unit for the Pecos River Federal 21-A No. 1
9 Well, designation of Southland Royalty Company as the operator,
10 and the establishment of a risk factor of 200 percent.

11 Q You're seeking an order pooling the
12 proration unit?

13 A Right.

14 Q Will you please refer to what has been
15 marked for identification as Southland Royalty Company Exhibit
16 Number One, identify this and explain what it shows?

17 A Exhibit Number One is Southland Royalty
18 Company's AFE for the Pecos River Federal 21-A Com No. 1 Well,
19 stating the estimated cost for drilling the well, estimated
20 cost for dry hole, being \$596,000, and completed costs for a
21 producer, producing well, is \$925,000.

22 Q Has this AFE previously been submitted
23 to S. P. Yates?

24 A Yes, sir, it has.

25 Q Do you know when it was first submitted?

1
2 A By letter which is incorporated, March
3 23rd, 1981.

4 Q Will you now refer to what has been
5 marked for identification as Southland Exhibit Number Two,
6 identify this and explain what it shows?

7 A This is a land map of the area around
8 the Pecos River Well, showing two proration units in which
9 Southland Royalty Company and S. P. Yates have been partners,
10 or one proration unit in which we've been partner; one showing
11 the proration unit for the 21-A well, and one showing a working
12 interest unit in which Southland and Yates are partners.

13 Q Now the proration unit consists of the
14 north half of 21, is that correct?

15 A Yes, sir.

16 Q Is this a standard proration unit?

17 A Yes, sir.

18 Q Is the well that you are drilling on
19 this proration unit drilled at a standard location?

20 A Yes, sir, it is.

21 Q Does this show other Pennsylvanian and
22 Wolfcamp wells in the area?

23 A Yes, sir.

24 Q Will you now refer to what's been marked
25 identification as Southland's Exhibit Three and review

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this for the Commission?

A. Exhibit Three is a plat showing the various tracts in the north half in Section 21, showing the ownership of those tracts, the record title owners, page two and page three having a breakdown of each lease in particular.

Q. How much of the acreage has been committed to the drilling of this well?

A. 140 acres, being 43.75 percent.

Q. And that is the percentage of the acreage that Southland represents today?

A. Yes.

Q. And what is the -- what percentage of the acreage does Yates own in this proration unit?

A. Mr. Yates owns 56.25 percent of it.

Q. What is the status of the well that is drilling in the north half of this section?

A. It's currently drilled.

Q. And how close to total depth is the well?

A. We expect to be there in several days.

Q. Why did Southland Royalty Company spud the subject well prior to obtaining a final pooling order from this Commission?

A. Southland Royalty's interest in the

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2 north half of Section 21 is derived from farm-outs from two
3 different parties. We had a continuous development obligation
4 under the farm-outs which required that we commence operations
5 on a well within 120 days, which was June the 26th. We also
6 had a rig available at the time and it was doubtful that we
7 could get another rig available by the expiration of the ob-
8 ligation date.

9 Q Mr. Sledge, on what date did you actually
10 spud this well?

11 A It was May the 23rd.

12 Q Will you please refer to what have been
13 marked for identification as your Exhibits Numbers Four and
14 Five, identify these and explain what they are?

15 A Exhibit Four is a letter dated March
16 23rd from Southland Royalty to S. P. Yates, wherein we propose
17 the drilling of the Pecos River Federal 21-A Well. With the
18 letter we forwarded him copies of the AFE, proposed operating
19 agreement and communitization agreement offering them the
20 opportunity to participate in the well or to farm-out, and
21 sets out the terms under which we would accept a farm-out.

22 The letter of May 29th, Exhibit Five,
23 is a --

24 Q Is that May 19 or May 29th?

25 A May 19th, I'm sorry. Is a letter to

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2 S. P. Yates wherein we informed him that because of the
3 reluctance to join in our proposed well, that we had filed for
4 voluntary pooling in the north half of Section 21.

5 Q And do you believe that Southland has
6 made a good faith effort to obtain voluntary joinder in the
7 drilling of this well?

8 A Yes, I do.

9 Q Are you prepared to make a recommendation
10 to the Commission concerning the charges for overhead and ad-
11 ministrative costs while drilling and producing the well?

12 A Yes, sir.

13 Q And what would those figures be?

14 A Drilling charges would be \$3340 per
15 month.

16 Q And what would the charges while
17 producing the well be, if in fact it came in as a producer?

18 A \$334.

19 Q How do these figures compare with those
20 charged by other operators in the area?

21 A Equal or possibly lower. In comparison,
22 under the Eastern Shore Unit that we are in with Yates
23 Drilling as operator, their rates are \$3800 for the drilling
24 and \$380 for a producing well.

25 Q Is it your recommendation that these

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2 figures be incorporated in any order which will result from
3 this hearing?

4 A Yes, sir.

5 Q Will Southland call another witness who
6 will testify as to geological and engineering considerations?

7 A Yes, we will.

8 Q And does Southland request to be desig-
9 nated operator of the well?

10 A Yes, we do.

11 Q In your opinion will granting this
12 application be in the best interest of conservation, the pre-
13 vention of waste, and the protection of correlative rights.

14 A Yes, sir.

15 Q Were Exhibits One through Five prepared
16 by you or under your direction?

17 A Yes, sir, they were.

18 MR. CARR: At this time we would offer
19 Southland Exhibits One through Five.

20 MR. RAMEY: Exhibits One through Five
21 will be admitted.

22 MR. CARR: I have nothing further of
23 this witness on direct.

24 MR. RAMEY: Any questions of Mr. Sledge?

25 MR. DICKERSON: A few, Mr. Ramey.

CROSS EXAMINATION

BY MR. DICKERSON:

Q Mr. Sledge, when you say that Southland Royalty Company represents 43.75 percent of the acreage in the proration unit, what do you mean by that?

A Southland Royalty has under farm-out 25 percent of the acreage. Fair Oil Limited has signed our AFE and our operating agreement, agreeing to join in the well.

Q So while FAir Oil is participating with you, you don't actually, you're not paying Fair's percentage or anything like that, are you?

A No, sir, we aren't.

Q Why was it -- when, Mr. Sledge, if you know, was approval given to spud this well by Southland management?

A I don't recall offhand.

Q Do you recall approximately when it was?

A The actual spudding of the well?

Q When you were, when Southland management made the decision to drill this well?

A Oh --

Q Or when you were notified that Southland

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intended to drill this proposed well.

A I really couldn't even make a guess.
I don't have any idea.

Q Was it during 1981?

A Yes, sir, it was.

Q Did you personally conduct any correspondence or telephone calls, or anything of that nature, with personnel in the Yates Land Department?

A Yes, sir, I did.

Q They just outright refused to sign your AFE, no explanation?

A We wrote them and followed up with several telephone calls. Several times I called and couldn't get any response. I talked to secretaries or land support people, I don't know. I finally did talk to Randy Patterson on I believe it was April the 16th, and told him that, you know, we wanted to drill the well. We had obligations, and that if Yates was not willing to give us an answer then we would be forced to force pool them.

Q Did you tell him at that time, Mr. Sledge, where Southland proposed to drill its well?

A I don't know that I told him the location and all the other information that was on the AFE.

Q Was there any discussion between you

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and Yates land personnel as to the proposed location?

A. He did state, I believe, that they didn't like that location. They thought another location would be better.

Q. Do you know when he stated that to you?

A. I assume as I recall in that telephone conversation. I don't know for certain. I do remember talking to him and having that come out in the discussion.

Q. Do you know whether or not that telephone conversation was prior to or subsequent to your letter of March 23rd of 1981?

A. No, I don't. I don't know that I even contacted him before the letter was sent.

Q. Your Exhibit Number Two, Mr. Sledge, shows what appears to be a well in the south half of Section 21. Whose well is that?

A. Southland Royalty Company is the operator of the well.

Q. When was that well drilled?

A. That was drilled, it was spudded in November of 1980 and completed February 26th of 1981.

Q. And what's the status of that well currently?

A. As far as I know, it is shut-in waiting

1
2 on a pipeline.

3 Q And your Exhibit Number Two shows S. P.
4 Yates with 31-1/4 percent interest in that well. What disposi-
5 tion was made of Yates' interest in that well?

6 A Mr. Yates participated in that well.
7 MR. DICKERSON: I have no further
8 questions.

9 MR. RAMEY: Any other questions of Mr.
10 Sledge?

11 MR. CARR: Nothing further.

12 MR. RAMEY: He may be excused.

13 MR. CARR: At this time I'd call Mr.
14 James.

15
16 A. DARRYL JAMES

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

19
20 DIRECT EXAMINATION

21 BY MR. CARR:

22 Q Will you state your name and place of
23 residence?

24 A My name is Darryl James. My full name
25 is Arthur Darryl James. I live at 1429 Street in

1
2 Midland, Texas.

3 Q Mr. James, by whom are you employed and
4 in what capacity?

5 A Southland Royalty Company, and I'm a
6 District Geologist for the Southwestern District.

7 Q Have you previously testified before this
8 Commission and had your credentials made a matter of record?

9 A Yes, I have.

10 Q And how were you so qualified? How were
11 you qualified at that time?

12 A I was qualified as an expert geological
13 type witness.

14 Q Are you familiar with the application
15 filed by Southland in this case?

16 A Yes.

17 Q Are you also familiar with the subject
18 well subject well and the proration unit?

19 A Yes.

20 Q And the general area?

21 A

22 MR. CARR: Are the witness' qualifications
23 as an expert witness in geology acceptable?

24 MR. RAMEY: Yes, they are.

25 Q Mr. James, have you prepared certain

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exhibits for introduction in this case?

A. Actually, Jack Becker prepared the exhibits. Jack Becker is a geologist with Southland Royalty and he works for me and this exhibits were prepared under my direct supervision.

Q. And have you reviewed them?

A. Yes, I have.

Q. Can you testify as to their accuracy?

A. Yes, I can.

Q. Will you please refer to what has been marked for identification as Southland Exhibit Number Six and explain to the Commission what it is and what it shows?

A. I plan to present nine exhibits, which the objectives of my testimony in presenting these exhibits are to, one, compare -- well first of all, to show the technical data that Southland Royalty used to drill, to support the drilling of the well that is currently drilling, and that is the SRC Federal 21-A No. 1.

I also would like to compare the location for the SRC Federal 21-A No. 1 with the proposed well that was earlier proposed in the same proration unit, the Yates Fair Federal No. 1.

The third thing I'd like to show is I'd like to demonstrate this area as risky and this particular

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18

2 well has substantial risk.

3 This well is currently drilling, or was
4 drilling at 9:30 a. m. central standard time, at 10,283 feet,
5 drilling at 20 minutes per foot in 100 percent shale, which
6 we think is Lower Morrow.

7 It's nearing its expected -- its expected
8 TD was 10,500 feet. We expect to reach a TD tonight or early
9 tomorrow, 10,350 feet, 10,400 feet. The well is running
10 slightly higher than we thought and it looks good from that
11 standpoint.

12 Exhibit Number Six, all my exhibits
13 will be very similar, so I'll take a little longer explaining
14 this one but the other exhibits will be very similar and easy
15 to follow.

16 Exhibit Number Six is a structure map
17 on top of the Cisco carbonate. We have three zones that are
18 prospective in this particular well, Cisco carbonate, Atoka
19 Sand, and the Morrow Sand. Our primary objective is the
20 Cisco carbonate, which we show in Exhibit Number Six. This
21 map is on a scale of one inch to 2000 feet, has a 50-foot
22 contour interval. The red shaded areas are areas that we
23 believe to be prospective, or interpreted to be prospective,
24 these are interpreted. Productive gas wells are shown with
25 red dots with whiskers. There is one productive oil well and

1
2 it is shown with a green dot and whiskers.

3 Gas shows are shown as half moons with
4 no whiskers and a zone that we think is a probably producer
5 from this mapped zone is shown as a half red circle with
6 whiskers, as indicated.

7 Southland Royalty leases are indicated
8 by the gray hachured area.

9 Cisco carbonate is carbonate mounds, or
10 thicks, that developed along a Cisco shelf edge, which trends
11 in a general northeast/southwest direction, open waters to
12 the southeast.

13 A nearby look alike to this production,
14 this is new production for this area, would be the Spring
15 Field located 10 miles to the southwest of the drilling SRC
16 well. Spring Field has five producing gas wells that produced
17 a total of 19.7 Bcf and 609,000 barrels of oil as of 1-1-81.

18 I would like to call your attention to
19 two units that are -- well, actually all the units that we're
20 involved with are shown on this map. Units are shown as
21 rectangular boxes with kind of a dashed line, as shown. The
22 north half of Section 21 is the subject proration unit, and
23 in that particlar unit, as was previously testified, Southland
24 owns 25 percent of the working interest unit and we're
25 trying to operate this unit.

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2 I'd like to call your attention to a
3 2-1/2 section working interest unit consisting of Section 17,
4 8, and the south half of Section 5. It's called the Eastern
5 Shore Working Interest Unit. Yates, et al, owns 32.5 percent
6 of this unit and Southland Royalty Company owns 40 percent of
7 this unit. This unit is operated by -- by Yates.

8 Southland Royalty drilled its first
9 well in the southeast quarter of Section 20, Southland Royalty
10 Pecos River Com 20 No. 1. This well, after several squeeze
11 jobs in the Cisco, we were able to potential this thing, cal-
12 culated open flow, at 5.36 million. In this particular well
13 we're waiting on Phillips to install a plant and hook up a
14 flow line to it.

15 We had a problem with the gas in this
16 area, small problem, in that the gas is sour and it contains
17 approximately 3500 parts per million sulphur. That's primarily
18 the reason we haven't been able to get this thing hooked up
19 sooner.

20 Southland next drilled a well in the
21 south half of Section 21, the SRC 21 No. 1. In this particular
22 well we were able to complete in the Lower Sand, which I'll
23 show you later, an Atoka Sand, and this well is currently
24 waiting on a flow line hookup and it should be on line sooner
25 than the previously mentioned well in the southeast quarter of

1
2 Section 20.

3 We also think the Cisco zone is pros-
4 pective in this zone. We think this from log analysis and
5 core -- mud log and show information, as well as it's in the
6 same correlative zone that has -- we were able to complete in
7 the southeast quarter of Section 20, as I mentioned, for a
8 calculated open flow of 5.36 million a day. We are not -- no
9 drill stem tests were taken for this well.

10 Yates drilled a well in the north half
11 of Section 17 that Southland Royalty participated in, which
12 appears to have two zones in the Morrow that are productive,
13 which I'll briefly mention later, and also we think that this
14 particular zone, the Cisco carbonate, appears to be productive
15 from -- from logs.

16 The green rim that's shown around the
17 feature that the Yates Eastern Shore OB Federal No. 1 is on,
18 is an interpreted associated oil layer. We make this inter-
19 pretation from Coquina Watkins Federal Well, located in the
20 northwest quarter of Section Four. This particular well was
21 completed back in 1974 and produced only 4000 barrels of oil,
22 and some unspecified amount of gas, we're not sure, but it
23 appears to be from information we have as an oil well.

24 Q Will you now refer to your Exhibit Number
25 Seven and review this for the Examiner -- Commission?

1
2 A Exhibit Number Seven is a cross section.
3 The line of cross section is shown on Exhibit Number Six. It
4 runs generally from the south, or it's indicated SW, on the
5 left to NE on the right.

6 It cover three wells and it runs through
7 our proposed -- not proposed, our drilling location.

8 This particular exhibit will show you
9 our interpretation of a possible gas/water contact that we
10 see in the structural feature that appears on Exhibit Number
11 Six, and also that there appears to be good reservoir present.
12 This is shown by the Yates Pecos River No. 1 Deep Unit well,
13 which is now depleted Morrow well, located in Section 28. This
14 particular well drill stem tested the Cisco zone and recovered
15 a lot of water, you can read the specific for yourself, and
16 a show of gas, indicating that there's very good reservoir
17 there but the well is situated below the possible gas/water
18 contact.

19 The next well on there is the second
20 well Southland Royalty drilled in this -- this field, or this
21 area. It's the Southland No. 1 Pecos River 21 Federal Com,
22 which I mentioned earlier. In this well we did not drill stem
23 test this zone but it appears to be prospective, as I mentioned,
24 from log analysis, sample information, mud log information,
25 and because it's correlative with the offset Southland Royalty

1
2 well in the southeast quarter of Section 20, which did complete
3 in this zone.

4 The third well in this cross section is
5 the Yates No. 5 Pecos River Deep Unit, which also drilled stem
6 tested the Cisco and recovered sulphur water, a substantial
7 amount of sulphur water, and a show of gas.

8 Q Will you now review Exhibit Number Eight
9 for the Commission?

10 A Exhibit Number Eight is a secondary
11 objective. It shows the secondary objective that we have in
12 this well, drilling well.

13 This map is actually, it's a combination
14 of two maps. It's a sand that we call the Atoka "A" Sand,
15 which is shown on the type log, which is the Pecos River 21
16 No. 1 in the south half of Section 21. The type log is shown
17 on the righthand side of your exhibit.

18 As I mentioned, this is a combination
19 map consisting of a gross sand Isopach, which is shown in the
20 solid contours, and a net effective porosity Isopach of the
21 sand within this -- of this sand, pardon me, and it's showing
22 gas contours.

23 The productive area again is shown in
24 red. There are only two wells that appear to be -- that are
25 productive in this particular sand in this area. There's a

1
2 zone.

3 The trapping mechanism in this zone is
4 complicated because water occurs and permeability barriers, as
5 well as the distribution of the sand are important in setting
6 up the traps.

7 Therefore, Exhibit Number Nine is a
8 structure map on top of the Lower Morrow. Actually it's --
9 it's a map on the base of the Lower Morrow Sand, which is
10 shown on the type log again to the right, what we map on.
11 This particular -- not sand, I'm sorry, shale. This particular
12 shale is a marine shale that covers the area and it's a very
13 good mapping horizon to kind of see the Lower Morrow. And
14 we believe the Lower Morrow might be -- the present day
15 structural configuration of the Lower Morrow might also re-
16 present some of the topographic configuration of the Morrow
17 Sands during the time that they were deposited, and this may,
18 this particular topography may have influenced the sand depo-
19 sition in the Lower Morrow.

20 The yellow lines that are shown on this
21 Exhibit are, will correspond to the next exhibit I will show
22 you, which is a gross sand isopach. It corresponds to the axes
23 of the gross Lower Morrow Sand isopach. It is also showing
24 you the direction of sediment movement.

25 Q Will you now proceed with Exhibit Number

1
2 Ten?

3 A Exhibit number Ten is a Lower Morrow
4 gross sand Isopach. Again on this exhibit two numbers are
5 shown for each data point. The number on the left is the
6 gross sand, which the number that -- which is the contours.
7 The number to the right is net effective porosity.

8 Q Are you ready to go to Exhibit Number
9 Eleven?

10 A The same, excuse me, Bill, the same
11 format is used as far as showing of wells that were produced
12 in this zone, wells that had only shows in this zone, and
13 quite a number of wells in this particular sand zone, as you
14 can see from the test data, which is indicated by the side
15 of each well, produced a lot of water, so water is definiely
16 a problem. You have a structural confiuration in a particular
17 sand body is important in whether you're going to have a pro-
18 ducing well or have a well below the gas/water contact and
19 be in its water lay.

20 Q Will you now proceed with your Exhibit
21 Number Eleven, explain what it is and what it's designed to
22 show?

23 A Exhibit Number Eleven is an exhibit
24 that will illustrate the trapping mechanism of the Lower Morrow
25 Sand sequence. It consists of an Isopach of the net porosity

1
2 and in conjunction it's also showing the structural configura-
3 tion of the previous exhibit, Nine, that I showed you, of
4 the Lower Morrow.

5 The structural position is shown in
6 thin contours and the effective porosity is shown in thicker
7 contours. The red area is showing you areas that we believe
8 to be productive or prospective, and yellow areas are showing
9 effective porosity that will be wet below the gas/water con-
10 tact.

11 The red arrows on there are again
12 showing you the axis, the general axis of the Lower Morrow
13 gross sand thicknesses.

14 It's important to define the individual
15 reservoirs in this particular sand sequence because I can
16 show you several examples on this map of water being produced
17 up dip from gas and in what appears to be the same sand. This
18 is -- this is impossible, if they are the same sand, unless
19 they're separated by a permeability barrier, or by lack of
20 sand between them, and the white areas are showing areas where
21 we don't believe effective porosity is present.

22 And on this exhibits and the other ex-
23 hibits I've presented, I'd like you to compare the location
24 in the Southland Royalty Pecos River Federal 21-A No. 1, and
25 each time I'm showing also the proposed location for the

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2 Yates FAir Federal No. 1.

3 In each map that I'm showing you we feel
4 that Southland's location is -- is either as good or is better,
5 according to our interpretation, and this, I believe, supports
6 us very well.

7 Q Will you now refer to your gross sand
8 Isopach on the Middle Morrow, which is your Exhibit Number
9 Twelve?

10 A I'm showing Exhibit Number Twelve and
11 Thirteen for completeness because the Middle Morrow sand se-
12 quence is one of the viable objectives in the area, but we did
13 not feel it was prospective at this particular location.

14 Exhibit Number Twelve is Middle Morrow
15 gross sand Isopach. I've colored in yellow, or shaded in
16 yellow, thicknesses of greater than 30 feet, and again the
17 same format on the wells and the well symbols is being used.
18 We also did not think the proposed Yates location was pros-
19 pective at this line -- I mean at this horizon.

20 And this particular horizon -- not
21 horizon, but this particular sand sequence, water is very
22 rarely a problem, so to define an effective or define the zone
23 or the area that will be prospective or productive you simply
24 have to find effective porosity. We don't feel structural
25 position is very important in this particular sand sequence.

1
2 Q Mr. James, will you now review Exhibit
3 Number Thirteen?

4 A Exhibit Thirteen is net effective poro-
5 sity for this Middle Sand -- Middle Morrow Sand sequence.
6 All the yellow area on this particular sand sequence we believe
7 to be prospective. And again, Southland's location and the
8 proposed Yates location we did not believe is prospective at
9 this particular -- on this particular sand sequence.

10 Q Will you now review your Exhibit Number
11 Fourteen with the Commission?

12 A Exhibit Number Fourteen is kind of a
13 base map that's showing you the deep wells that are -- deep
14 wells as defined as wells that have gone to the Pennsylvanian,
15 or deeper in this area, and the wells that have been success-
16 ful -- I'm defining successful in this sense as a commercial
17 gas well, or what appears to be a commercial gas well.

18 And what I mean by that is a well that
19 will pay out; simply a well that will get your money back.

20 The dry holes are shown by the circles
21 with four cross hairs on them. Those are bona fide dry holes.
22 Wells that were successful in the sense that they produced
23 paying quantities of oil or gas but that we did not believe,
24 or do not believe will pay out, or would pay out, are shown
25 as circles and are not colored.

1
2 There are 22 wells shown on this parti-
3 cular exhibit; 5 we believe were successful, or appear to be
4 successful at this time . You'll notice I put some question
5 marks by Southland's wells Yates discovery well up there, be-
6 cause those wells are not on line and there is -- there is a
7 certain amount of risk when you're not on line.

8 There are 6 bona fide dry holes and there
9 are 11 wells that did not pay out.

10 That success rate of 6 out of 22 or I
11 mean 5 out of 22 -- sorry, let me go back.

12 Well, you can see the success rate is
13 very low, about 25 percent.

14 Q Mr. James, what conclusions can you
15 reach from the evidence you've presented here today?

16 A Well, Southland obviously thinks it's
17 an economic venture to drill this well. We took on consider-
18 able risk and in a sense we had to carry Yates. We went ahead
19 and drilled this well because we feel it's an economic venture
20 although there is considerable risk in the area, and I've
21 shown the technical data that we used to justify the drilling
22 of this well.

23 I also showed that our documentation --
24 or our exhibits show that our location is an optimum location.
25 It is preferable to Yates location overall, and every one of

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2 our objectives that we had in the well. And I've also pre-
3 sented data that suggests this is a risky area and that we
4 are justified in requesting the 200 percent risk factor.

5 Q So based on your experience in the area
6 and the data you've presented, you're asking for the maximum
7 risk factor be assessed against any who do not join in the
8 drilling of the well?

9 A Yes, I am.

10 Q In your opinion will granting this
11 application be in the best interest of conservation, the pre-
12 vention of waste, and the protection of correlative rights?

13 A Yes.

14 Q Were Exhibits Seven through Fourteen
15 prepared by you or under your direction?

16 A They were.

17 MR. CARR: At this time we'd offer
18 Southland Exhibits Six through Fourteen.

19 A Six.

20 MR. RAMEY: Exhibits Six through Four-
21 teen will be admitted.

22 MR. CARR: I have one follow-up question.

23 Q Mr. James, a few minutes ago Mr. Dicker-
24 son asked Mr. Sledge if he knew when actual approval had been
25 given by Southland for the actual drilling of the well. Do

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2 you happen to know what that date is?

3 A Yes. The date it was signed by manage-
4 ment was 4-8-81.

5 MR. CARR: I have nothing further on
6 direct.

7 MR. RAMEY: Any questions of Mr. James?

8 MR. DICKERSON: Yes, sir.

9

10

CROSS EXAMINATION

11

BY MR. DICKERSON:

12

Q Mr. James did you have any discussions
13 with Yates personnel regarding the proposed location?

14

A In a casual sense. I talked with Ray
15 Beck about it when I visited him, just in a very casual
16 sense.

17

Q And when would that have been?

18

A Maybe he remembers. It would have been
19 perhaps April, or thereabouts; March, maybe.

20

Q After April 8th, do you think?

21

A I could check. I could find out the
22 exact date for you but I'm not really sure.

23

Q The question really is did Southland
24 allow Yates any input whatsoever into the proposed location
25 for this well?

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2 A. Well, we went through our normal sequence
3 of getting the well approved and drilled and we do not own 100
4 percent of the well.

5 Q. Your normal internal sequence, you mean?

6 A. Internal and external. We did not handle
7 this any way differently than the many other wells we've
8 drilled.

9 Q. Now you said, "I think, Mr. James, that
10 your primary objective in your subject well is the, I think
11 you called it --

12 A. Cisco --

13 Q. -- this Cisco carbonate? Would that be
14 the same formation which is sometimes called the Upper --
15 Upper Penn Dolomite?

16 A. I don't know for sure, but I will say
17 for sure that it's the same zone as indicated on the type log,
18 as shown on Exhibit Number Six, the Southland Royalty Pecos
19 River 21 NO. 1.

20 Q. That well in the south half of Section
21 21?

22 A. Yeah, on this exhibit right here.

23 Q. And what about the well in the south
24 half of Section 20,

25 A. Yeah, same zone.

1
2 Q Are there any other wells in this area
3 that produce from this zone?

4 A The wells that are producing from this
5 zone are -- are shown on the map, indicated on the map.

6 Q How far in terms of miles north and
7 south have you gone? I notice you go, for your Exhibit Number
8 Fourteen, Mr. James, you draw attention to dry holes which are
9 five or six miles away.

10 A Well, let me check. I thought we covered
11 the exact same area. Yeah, I believe we do.

12 Q So within the same five or six miles --

13 A Each exhibit covers the exact same area.

14 Q -- from your subject well there are no
15 other wells currently producing from this Cisco carbonate?

16 A I don't want to imply that, no. Simply,
17 I just want to say that the area that we had selected, which
18 actually we selected this area for your information, before
19 we prepared Exhibit Number Fourteen, so we really didn't try
20 to isolate a particular area and then make it more favorable
21 or less favorable.

22 But you're right. I'm sure there are --
23 I know there are wells that are productive 10 miles in this
24 direction, to the southwest, and I know there are wells pro-
25 ductive due west.

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2 Q How far due west? 10 miles?
3 A 7, 10 miles, something.
4 Q From the same Cisco carbonate you're
5 referring to.
6 A Yes.
7 Q How is it that you feel Morrow dry holes
8 five miles away bear on the risk factor for the subject loca-
9 tion and you don't feel that productive wells in the same
10 area bear on this?
11 A Well, I think it bears on the -- in
12 essence, this being a risky area. But you're right, an offset
13 well would have a different risk consideration than a -- than
14 a well that's drilled five miles away as a dry hole.
15 Q Would you say, Mr. James, I understood
16 you to say that you had not drill stem tested this Cisco
17 carbonate in the well on the south half of Section 21?
18 A That's right.
19 Q Why is that?
20 A We did not drill stem test that for a
21 number of reasons. We had some technical problems at that
22 particular point. I've forgotten the exact details but per-
23 haps there's someone in this room that could give you the
24 exact details. We twisted off either right before or right
25 after and caused us a little problem with -- with the well

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2 and the hole.

3 And also there is a safety consideration
4 that we were a little -- slightly concerned about, or somewhat
5 concerned about, with the fact that some -- this gas is sour,
6 and we would have liked to have drill stem tested it but
7 frankly, I don't know if a drill stem test would tell us the
8 answer. And I'd like to point out that the Yates well in the
9 north half of 17 was not drill stem tested in this zone, and
10 I would like to point out that the Southland well drilled in
11 the southeast quarter of Section 20, the drill stem test that
12 recovered water, with only a very small amount of gas in the
13 sample chamber through this zone. It was not conclusive at
14 all and Southland did drill stem test the drilling well
15 through this area. It was a rather large interval, but we
16 have received -- recovered no gas, again just the sulphur
17 water. We had a slight, oh, I think there was just a smell
18 of gas in the sample chamber.

19 Drill stem test we don't believe is con-
20 clusive. It shows you that there might be reservoir there.
21 Apparently the water permeability is -- is perhaps more favor-
22 able than the permeability to gas, or you have to isolate a
23 very small zone.

24 In the southeast quarter of Section 20
25 we are only perforated in a 2 or 3 foot zone. I believe it's

1
2 a 4 foot zone, and we took three squeeze jobs before we could
3 get all the water out and we completed water free.

4 So my point is I don't think a drill stem
5 test is -- may not be valid. I'm not sure if it is or not.

6 Q Did you attempt a drill stem test on
7 your well in the southeast quarter of Section 20?

8 A Oh, yes, I said we did, and we recovered
9 a large quantity of sulphur water and no gas. I think we had
10 a very small amount of gas scent in the chamber.

11 Q So you drill stem tested the well in
12 Section 20. You drill stem tested this zone in the subject
13 well in the north half of Section 21. You did not drill stem
14 test --

15 A That's right.

16 Q -- the south half of Section 21. You
17 made reference to the Yates well in Section 17, was there any
18 indication that you saw that a drill stem test would have been
19 at all necessary in this zone in that well?

20 A I guess, I'd like, at this point I
21 could probably say you're right, that a drill stem test wouldn't
22 be valid.

23 But at the time the well was drilled we
24 thought that a drill stem test would be valid and that's the
25 reason we drill stem tested our drilling well in Section 21,

1
2 and we would have liked to have drill stem tested our well in
3 the south half of 21, too.

4 Q From your drill stem test on the subject
5 well in your Cisco carbonate, what were your pressures?

6 A I could give you those. This is field
7 data, too. It might not be exactly the same, if I can find
8 it.

9 Drill stem test no. 2, 8100 feet to
10 8230 feet. Five minute preflow, we had to reset the packer,
11 and we had a 50 minute flow, strong blow, air; 60 minute
12 flow, decreased to weak, died, no gas. Recovered 5000 feet
13 of sulphur water. Hydrostatic pressure was 3937 at the be-
14 ginning and 3937 at the end of the test. First flowing pres-
15 sure was 1065 at the beginning and 2077 at the end. Second
16 flowing pressure was 2077 at the beginning, 3050 at the end.
17 A third flowing pressure was 3050 at the beginning, 3175 at
18 the end. Initial shut-in 60 minutes, 3200 pounds. Final
19 shut-in 120 minutes, 3200 pounds. Sampler had .8 cubic feet
20 of gas, 410 psi, and recovered 2200 cc's of sulphur water in
21 the sample chamber. Bottom hole temperature is 147 degrees.

22 Q Mr. James, what was -- or to get us a
23 little reference in time, when was your Exhibit Number Six
24 prepared, do you know?

25 A It was prepared, let's see, some -- in

1
2 June sometime. I can't tell you the exact date; probably
3 about a month ago it was updated when the well went through
4 this zone and the only update was adding the field top, which
5 was 4718, as estimated from the field data, and that was the
6 only information that was added to it and that was added at
7 the time that we drilled through the -- this particular zone,
8 which was probably a few weeks ago, a couple weeks ago, or
9 something.

10 Q The top of that Cisco carbonate was
11 actually found at 4718? That's subsea, I presume?

12 A Well, yes, subsea. Let me say it this
13 way to be very accurate.

14 Our initial indication from the field
15 indicated it was 4718 but since then there's been a correction
16 in the pipe measurement, or there's been some slight correction,
17 and it appears now from field data, I would like to put that
18 in quotes "field data", that it's 4710. We, you know, of
19 course we don't have wireline logs in the well yet. That
20 might change, but it should be something like that.

21 Q And what -- from -- so it's now apparently
22 actually 4710, what was your projection for the status of
23 your map which you corrected? What would you have projected?

24 A Oh, essentially the way it came in,
25 perhaps a few feet lower, but that didn't change the map when

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it came in.

So it came in about as we expected.

Q Substantially what you'd expected. Now, none of these other surrounding wells, I'd think you'd agree, Mr. James, with the exception of the wells in the south half of Section 20 and 21, are really attractive for this Cisco carbonate you're looking for here, are they?

A Also we think the well in the north half of 17 might be productive in this zone, too, but those three wells appear to be productive from data that we have.

Oh, and as I mentioned, the well in the northwest quarter of Section 4 produced some oil, a small amount of oil from that zone, but it was not an economic venture.

Q Well, this was not an oil objective that you had and that Southland has in these, in the subject well, is it --

A No.

Q -- in this Cisco carbonate?

A No, it's a gas objective, that's right.

Q Was Yates given any input at all, to your knowledge, Mr. James, into whether or not to drill stem test the carbonate in the south half of Section 21?

A I just don't know, I would hope they

1
2 were. I just don't know. I would hope that Yates would have
3 been given that opportunity to -- we normally, our routine
4 procedure is to call, although sometimes these things happen
5 at odd hours and that sort of thing, but we should have, if
6 we didn't, we should have given Yates every opportunity to --

7 Q But you don't know whether you did or
8 not?

9 A No, I don't know.

10 Q Do you know whether or not any type of
11 production test has been run since the well was perforated?

12 A Yes, I do know that no test has been
13 run.

14 Q Do you know whether or not Yates has
15 been given any input into whether or not any such test should
16 be run prior to drilling another well in the north half at
17 your proposed location?

18 A I don't know. I would like to make a
19 statement, though. The well that was drilled in the north
20 half of Section 17, the Yates OB Federal No. 1, Jack Becker,
21 our geologist who handles this area, tried, I'm aware that
22 he tried, he told me that he tried, let me put it that way,
23 to convince Yates or encourage Yates to drill stem test that
24 zone, also.

25 Q To drill stem test --

1

2

A. The Cisco zone.

3

Q. In which well?

4

A. The north half of Section 17, Yates

5

Eastern Shores No. 1 OV.

6

Q. Let's talk about that well just a little

7

bit. Cisco the best zone in that well?

8

A. No.

9

Q. What's the best zone?

10

A. Well, there are two attractive zones in

11

the Morrow.

12

Q. How attractive are they?

13

A. Well, from this point they appear to be

14

very attractive. We have just a, you know, production -- a

15

calculated open flow test on it, but --

16

Q. Any stimulation given to that well --

17

A. I don't know the specifics on it, but

18

as I recall, the -- an Upper Morrow zone was drill stem tested,

19

had a very attractive rate, I've forgotten exactly, it will

20

be on one of my exhibits, and that the Lower Morrow Sand was

21

actually completed, and that completion data will be on one

22

of my exhibits, also.

23

And this zone appears to be behind pipe,

24

appears to be attractive.

25

Q. How far away is that well approximately

1
2 in Section 17 from the subject well in Section 21? Is it a
3 mile, a little over?

4 A Looks like a mile and a half, or so,
5 something like that.

6 Q And yet your Exhibit Number Fourteen
7 shows dry holes as far out as, what, six miles away from the
8 subject proration unit?

9 A Yes, it also shows --

10 Q So if you went as far as six miles away
11 to show dry holes, do you really feel that that is -- is a
12 very accurate indication of the Morrow --

13 A Well --

14 Q -- prospectives in the subject proration
15 unit?

16 A Well, in a mile and a half I could show
17 you -- well, let's see. Let's say just a mile and a half.
18 I can show you one, two, three, four, five wells that were
19 dry in this zone, in that same mile and a half.

20 Q And dry is your definition being that
21 will not pay out?

22 A That this zone is not productive. If
23 you want a bona fide dry holes, there are one, two, there are
24 two bona fide dry -- one, two, three, three bona fide dry
25 holes within a mile and a half and there are two additional

1
2 wells that do not -- or one additional well that does not
3 appear very attractive, and two wells that would appear to
4 pay out. Let me say it that way, one well that will not pay
5 out --

6 Q Well, let's talk specifically. Which
7 wells are you referring to?

8 A Okay.

9 Q What about the north half of Section 28?
10 There appears to be a well there.

11 A That well produced 700 -- approximately
12 700 million cubic feet of gas from commingled Lower Morrow and
13 Middle Morrow zones, and it's now abandoned, and that well
14 did not have the Cisco attractive in it. That well for
15 Southland Royalty would not be an attractive well. We could
16 not drill that well.

17 Q When was that well drilled, though?

18 A Let's see, in '63, and in '63 that
19 wouldn't have been an attractive well. This well would pay
20 out, though. It would be close. Yeah, it would pay out.

21 Now the well in the northeast quarter
22 of Section 29, the Huber Corporation Pecos River Deep Unit,
23 dry hole, Morrow test.

24 The -- a recent well in the southeast
25 quarter of Section 30, which would be a mile and a half south-

1
2 west of the -- a mile and three-quarters southwest of the
3 proposed well, is a very pool looking well. It's completed
4 in the Wolfcamp and it has a very unattractive, skinny looking
5 Atoka Sand zone that hasn't been tested yet. We don't -- I'm
6 very sure that well will not pay out.

7 There's also a dry hole in the northwest
8 quarter of Section 22, which is approximately one mile, perhaps
9 a little less, oh it's a half mile from our drilling well.
10 It's the Yates Pecos River Deep Unit No. 5. That's a dry hole
11 drilled in '67.

12 Q What was the problem with that well, do
13 you know?

14 A Oh --

15 Q No sand in it?

16 A In which?

17 Q In the Morrow?

18 A I have to check each exhibit. It looks
19 like it had plenty of sand. It was wet. Drill stem test
20 recovered 1389 feet of salty sulphur water from the Lower
21 Morrow Sand sequence.

22 Q According to your maps, would the subject
23 proration unit, should it be higher in the Morrow than that
24 well in Section 22 that you're referring to?

25 A Yes, both --

1
2 Q And the fact, I think you testified that
3 your well is higher structurally in the Morrow than you had
4 expected.

5 A Uh-huh.

6 Q How much higher?

7 A I don't know that. It's running, I'm
8 guessing now, but it's just running a little bit higher than
9 we had it mapped; perhaps 20 feet or something like that.

10 But for that Lower Morrow Sand sequence
11 to be productive you'd have to find effective reservoir and
12 we need to wait until we can examine the wireline logs.
13 Sample information indicates that there's some sand present
14 that did not have drilling breaks associated with it. We
15 don't know if it's productive or not.

16 Q One final question, Mr. James. Would
17 you concede that your well as far as your major objective,
18 the Cisco carbonate, and by your well I'm referring to the
19 subject well in the north half of Section 21, is better located
20 as far as your exhibits reflect than either the well in Sec-
21 tion 20 or the well in Section 21, the south half?

22 A It's better located. We do not know if
23 it's productive yet. We hope.

24 Q It appears to be productive at this
25 time?

1
2 A I couldn't say that. I couldn't say
3 whether it's a dry hole or it's a successful well at this
4 time. I wish we knew more about this particular zone. There's
5 some risk in this zone.

6 Q Has a decision been made to, whether or
7 not to run production casing on this well as yet?

8 A No, a decision has not been made yet.

9 MR. DICKERSON: No further questions.

10 MR. RAMEY: Mr. Carr.

11
12 REDIRECT EXAMINATION

13 BY MR. CARR:

14 Q Mr. James, is S. P. Yates a partner
15 with Southland in the other wells in this area?

16 A I believe so.

17 Q And as such they would have a right to
18 have input as to testing and other procedures in these wells?

19 A Yes.

20 MR. CARR: I have nothing further.

21 MR. RAMEY: Any other questions of Mr.
22 James? He may be excused.

23 MR. CARR: That concludes our direct
24 case.

25 MR. RAMEY: That's your direct case.

1
2 MR. DICKERSON: Mr. Ramey, I wonder if
3 we could have about a 10-minute recess?

4 MR. RAMEY: Let's take about a 10 minute
5 recess and let Sally move her car.

6
7 (Thereupon a recess was
8 taken.)

9
10 MR. RAMEY: The hearing will come to
11 order.

12
13 RAY BECK
14 being called as a witness and being duly sworn upon his oath,
15 testified as follows, to wit:

16
17 DIRECT EXAMINATION

18 BY MR. DICKERSON:

19 Q Will you state your name, occupation,
20 and by whom you're employed?

21 A Ray Beck, geologist, Yates Petroleum,
22 Artesia, New Mexico.

23 Q Mr. Beck, have you previously testified
24 before this Commission as an expert geologist and had your
25 credentials made a matter of record?

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A. Yes.

Q. Are you familiar with the application of Southland in these proceedings and Yates' position in these proceedings?

A. Yes.

MR. DICKERSON: Mr. Ramey, we tender Mr. Beck as a geologist.

MR. RAMEY: Mr. Beck is so qualified.

Q. Mr. Beck, what, if anything, do you have to say with regard to the method used by Mr. James in calculating the risk factor which should be assessed in this well, with specific regard to the Morrow section?

A. Well, I just thought it was too large an area. I thought a smaller number of sections.

Q. Do you think it would be more realistic to concentrate on a smaller area?

A. The Morrow is widely known as a so called erratic formation and you start applying it over large areas and it doesn't hold as much credence, I don't think, as it does right in the very near area that you're working in.

Q. Mr. Beck, have you prepared two exhibits upon which you intend to rely in your testimony?

A. Yes, sir.

Q. Would you please refer to what you've

1
2 marked as Exhibit Number One and describe what this exhibit
3 represents?

4 A. Exhibit Number One is a combined
5 structure and Isolith map. Dotted contours show the structure
6 on the Lower Morrow, which is the same pick as Mr. James had.
7 Solid contours are Isoliths, showing the total amount of
8 Morrow Sand which is cleaner than 50 API gamma ray units,
9 just a method of showing the whole Morrow without any regard
10 to environments of deposition.

11 The red colored well spots represent
12 wells completed in the Morrow. Other gas symbol well spots
13 represent wells completed in other zones.

14 The red outlined rectangle is the pro-
15 ration unit under question.

16 Q. What else, Mr. Beck, is indicated by
17 your Exhibit Number One?

18 A. It may be noted that the Pecos River
19 Federal 21-A is located with a Morrow Sand thick trend. The
20 21-A location has been moved in a favorable direction away
21 from the Southland Royalty Federal 21 Well in Unit K of Section
22 21, which had only 9 feet of clean Morrow Sands and was un-
23 economical in the Morrow, apparently, but was subsequently
24 completed in the Atoka.

25 Q. Anything else pertinent reflected by

1
2 your Exhibit Number One?

3 A It may be also pointed out that the
4 Pecos River Federal 21-A is projected to encounter about 40
5 feet of clean Morrow sand, and that is more sand, for instances,
6 than was found in the Yates Drilling Company No. 1 Pecos River
7 Deep Well, a well that's paid out in March of 1972.

8 Q Mr. Beck, you've made mention of the
9 Morrow prospects in this subject location. What if anything,
10 do you have to say about other possible productive zones?

11 A It should be mentioned that within a
12 2-mile radius of the Pecos River Federal 21-A location wells
13 have been completed in the Morrow, Atoka, Upper Penn, and
14 Wolfcamp; that is, the area is one in which there are multiple
15 pay horizons.

16 Q And it would follow from that that
17 when you are in an area with multiple pay horizons that your
18 risk factor is -- for any one zone is lowered by reason of
19 those multiple horizons?

20 A That is correct.

21 Q Would you briefly discuss, Mr. Beck,
22 what your Exhibit Number One shows with regard to other Morrow
23 penetrations in the more contiguous sections to the subject
24 proration unit?

25 A All right. In Section -- let's take

1
2 the nine sections around the north half of 21. It would be
3 15, 16, 17, 20, 21, 22, 27, 28, and 29.

4 Section 17 Yates Petroleum has an excel-
5 lent Morrow well, the Eastern Shore OV Federal No. 1, in which
6 the Upper Morrow was tested for over 2 million and the Lower
7 Morrow was perforated natural for 18-1/2 million. This well
8 has not been put on line but every indication is that it's
9 going to be a very good well.

10 In Section 20 Southland Royalty com-
11 pleted a well in the Upper Penn for an AOF of 5362 Mcf per
12 day.

13 In Section 21 the south half, Southland
14 Royalty completed a well in the Atoka for an AOF of 1154 Mcf
15 per day.

16 In Section 22 Yates Drilling has a
17 plugged and abandoned well which was drilled in 1967. This
18 well was tested in the Upper Morrow and yielded 90 Mcf per
19 day and shut-in pressures of 4052 to 4757.

20 Had this well been drilled with modern
21 methods today, with KCL water -- mud and proper log -- and
22 better logging tools, we think that we could probably have
23 made a small well out of this, at least.

24 In Section 28 Yates Drilling has a Morrow
25 well which has made in excess of 785 million and as we men-

1
2 tioned earlier, paid out in March of 1972.

3 Q Now that's the well that Mr. James
4 testified to as shut-in or abandoned?

5 A It's actually making about 15 Mcf a
6 day.

7 Q What, if any, conclusions have you drawn
8 from your analysis of these Morrow penetrations in the sur-
9 rounding sections?

10 A There have been five deep penetrations
11 in the nine surrounding sections and only one plugged and
12 abandoned well, even though we think it might have made a
13 small one, for a ratio of four apparent successes in five at-
14 tempts, for a success ratio of 80 percent.

15 And that's just on the Morrow.

16 Q Mr. Beck, I notice that within the --
17 on your Exhibit Number One within the rectangle outlined in
18 red there is also a triangle which is not denominated on your
19 exhibit.

20 What's the significance of that triangle?

21 A Well, that's the location that Yates
22 would have preferred to drill. Has S. P. Yates drilled the
23 well in the north half of 21, this is where we would have
24 located it, principally we thought because it would encounter
25 more sand in the Morrow and it would have been just as high

1
2 on the Cisco.

3 Q Is your opinion still that that location
4 would have been a better measurement of the Morrow prospectives
5 in this proration unit?

6 A Well, as the Isolith line shows, we
7 would have probably gotten 60 feet of sand as compared to
8 what we project with them is 40, and in the Yates Eastern
9 Shore Well we have 56 and it is a tremendous well.

10 Q Mr. Beck, refer to Exhibit Number Two,
11 please, and describe what you show with that exhibit.

12 A Exhibit Number Two is a cross section
13 hung on the Morrow Clastics showing the pertinent correlations
14 and the means by which the total feet of clean Morrow Sand
15 was counted up for each well in Exhibit Number One.

16 Q Mr. Beck, based on your review of this
17 information, have you formed an opinion as to what you feel
18 would be a reasonable penalty which would be imposed by the
19 Commission for the drilling -- for the risk imposed in drilling
20 the subject well by Southland?

21 A Yes. Considering that Pecos River
22 Federal 21-A is located within a Morrow Sand thick trend and
23 that the well is projected to encounter enough sand to pay
24 out, and it is drilling in an area of multiple pay horizons,
25 and that in the surrounding nine sections there have been

1

2 four apparent successes in five attempts, I would assign a
3 a risk of 20 percent to the location.

4

Q Do you feel that a 20 percent risk factor
5 would be a reasonable risk penalty assessed for the drilling
6 of a Morrow well in this area?

7

A Yes.

8

MR. DICKERSON: Mr. Examiner, I move --
9 or Mr. Ramey, move the admission of Exhibits One and Two.

10

MR. RAMEY: Yates Exhibits One and Two
11 will be admitted.

12

MR. DICKERSON: And I have no further
13 questions.

14

MR. RAMEY: Mr. Carr.

15

MR. CARR: Mr. Ramey, Mr. Beck.

16

17

CROSS EXAMINATION

18

BY MR. CARR:

19

Q In determining what the risk factor should
20 be assessed it's my understanding you looked at a smaller
21 area, being the nine sections which, with the subject well more
22 or less in the center of them, is that correct?

23

A Yes, sir.

24

Q On Exhibit 29, did you omit a well in
25 the northeast quarter of Section 29, which was also a Morrow

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attempt?

A. Well, the well there was a Huber. It was a Huber well and it was only -- it's a Cisco well. It didn't go to the Morrow so I did not count it. This is a Morrow map.

Q. Now if we look at the well, the Pecos River Deep Well in Section 28. Do you know what -- how much that well actually has produced?

A. Through March '81 it has produced just over 785 million cubic feet of gas.

Q. Would you consider that an attractive prospect today?

A. 785 million would pay out a well today.

Q. Would drill a well expecting to --

A. There are other -- there are other zones up the hole, too, that we haven't even attempted to complete in, so that would add to the -- to the attractiveness of drilling that well.

Q. Do you consider a well that just pays out an attractive prospect?

A. No, sir. It --

Q. Mr. Beck, as I look at this exhibit, this is your interpretation of the structure in the Lower Morrow, is that correct?

A. Structure and Isolith map.

1
2 Q All right. And you have used in pre-
3 paring this basically the same data that Mr. James used, is
4 that correct, in preparing similar exhibits?

5 A That's right, the same wells.

6 Q So what we have here is your interpreta-
7 tion of the same data that Mr. James used?

8 A That's right.

9 Q And is it fair to say that different
10 geologists can reach different interpretations based on the
11 same raw data?

12 A Yes. Yes.

13 Q And the triangle indicates where you be-
14 lieve would be the better location based on your interpretation.

15 A Yes, sir.

16 MR. CARR: We have nothing further of
17 Mr. Beck.

18 MR. DICKERSON: One question, Mr. Ramey.

19
20 REDIRECT EXAMINATION

21 BY MR. DICKERSON:

22 Q Mr. Beck, was it also your interpretation
23 of this geologic data which led to the completion of the
24 well in Section 17, calculated open flow of in excess of
25 18 million feet per day?

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A. This is one of the maps we used.

MR. DICKERSON: No further questions of Mr. Beck.

MR. RAMEY: Any other questions of Mr. Beck? He may be excused.

MR. DICKERSON: That concludes our case, Mr. Ramey.

MR. RAMEY: Anything further in this case? Any statements? Anything?

If no one has anything further, this case will be taken under advisement, and the hearing is adjourned.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREPY CERTIFY that
the foregoing Transcript of Hearing before the Oil Conserva-
tion Division was reported by me; that the said transcript
is a full, true, and correct record of the hearing, prepared
by me to the best of my ability.

Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.

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



Southland Royalty Company

1100 WALL TOWERS WEST, MIDLAND, TEXAS 79701

EXHIBIT "I" AUTHORIZATION FOR EXPENDITURE

COMPANY NO 01

RECORD ID 02
2-1
SLD 009
14 10

A/E NUMBER 10-11

ADD A CHANGE TT DELETE TT PROPERTY NUMBER 1A - 11 - 76

A/E DATE 3/20/81 NAME SRC-Pecos River Federal "21-A" Com. No. 1

ORIGINAL 0 SUPPLEMENTAL TT PRODUCER TT DRY HOLE TT SRC OPERATOR Y MANUAL TT

AUTHORITY IS REQUESTED TO:

WILDCAT TT DEV. D Drill and complete to TD of 10,500' as an Atoka gas well, complete with tank battery

LOCATION: 1980' FNL, 1980' FEL, Section 21, T-19-S, R-27-E, Eddy County, New Mexico

FOOTAGE	TANGIBLE - 249	ESTIMATED COST	
		PRODUCING	DRY HOLE
	01 01 Conductor or Drive Pipe	\$	\$
<u>250'</u>	01 02 Casing <u>11 3/4" 42# H-40 ST&C @ \$20.65</u>	5,160	5,160
<u>2,000'</u>	03 <u>8 5/8" 21# K-55 ST&C @ \$12.26</u>	24,520	24,520
<u>4,380'</u>	04 <u>4 1/2" 11.6# N-80 ITC @ \$9.14</u>	40,040	
<u>5,200'</u>	05 <u>4 1/2" 11.6# K-55 ST&C @ \$6.22</u>	32,340	
<u>920'</u>	06 <u>4 1/2" 11.6# I-80 ITC @ \$10.70</u>	9,850	
	07		
	08		
<u>10,500'</u>	02 09 Tubing <u>2 3/8" EUE 4.7# N-80 @ \$5.16</u>	54,180	
	03 10 Wellhead	29,000	6,000
	04 11 Packer	5,000	
	04 12 Artificial Lift		
	05 13 Tank Battery	43,000	
	10 14 Other Equipment	11,910	3,320
	15		
	TOTAL TANGIBLE 100%	\$ 255,000	\$ 39,000
	16		
	SRC <u>.25</u>	\$ 63,750	\$ 9,750
	INTANGIBLE - 248		
	01 17 Drilling <u>11</u> ft. @ \$ <u> </u> /ft.		
	01 18 R.C. Day Work <u>43</u> Days @ \$ <u>6,200</u> /day	266,600	266,600
	01 19 Rig Moving Costs	20,000	20,000
	01 20 Completion Rig <u>18</u> Days @ \$ <u>1,200</u> /day	21,600	
	02 21 Roustabout & Miscellaneous Labor	4,000	1,000
	03 22 Auto, Trucking, Barge, Tug	4,500	2,000
	03 23 Roads, Canals, Location, Damages, Cleanup	16,000	16,000
	05 24 Mud, Oil, Water, Chemicals	80,000	80,000
	06 25 Drill Stem Tests	8,000	8,000
	06 26 Electric Logs & Bond Logs	35,000	35,000
	07 27 Cement, Centralizer, Scratchers, Service	42,000	18,000
	08 28 Bits, Fuel	24,000	24,000
	08 29 Rental Equipment & tubular inspection	25,000	9,000
	09 30 Core & Analyses	8,500	8,500
	09 31 Bottle Tests & Sidewall Cores		
	09 32 Perforate	10,000	
	09 33 Acid & Frack	25,000	
	09 34 Geological & Engineering	5,000	2,500
	09 35 Mud Logger <u>41</u> days @ \$575	23,580	3,580
	10 36 Cost of Control Insurance (SRC Only)	4,280	4,280
	10 37 Miscellaneous & Unforseen	43,940	36,540
	11 38 District & Overhead Expense	3,000	2,000
	11 39		
	TOTAL INTANGIBLE 100%	\$ 670,000	\$ 557,000
	SRC <u>.25</u>	\$ 167,500	\$ 139,250
	GRAND TOTAL COSTS	\$ 925,000	\$ 596,000
	SRC <u>.25</u>	\$ 231,250	\$ 149,000

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7270 Exhibit No. 1
Submitted by Dennis Sledge
Hearing Date 7-8-81

AUTHORIZATION REQUESTED

AUTHORIZATION APPROVED

Dennis Sledge

COMPANY: _____

BY: _____

DATE: _____

YATES UNIT
OPER

EASTERN SHORE
Working Int. Unit
Yates, et al. 32.5%
SRC 40.0%
GULF 17.5%
AMOCO, HANAGAN,
OTHERS 10.0%

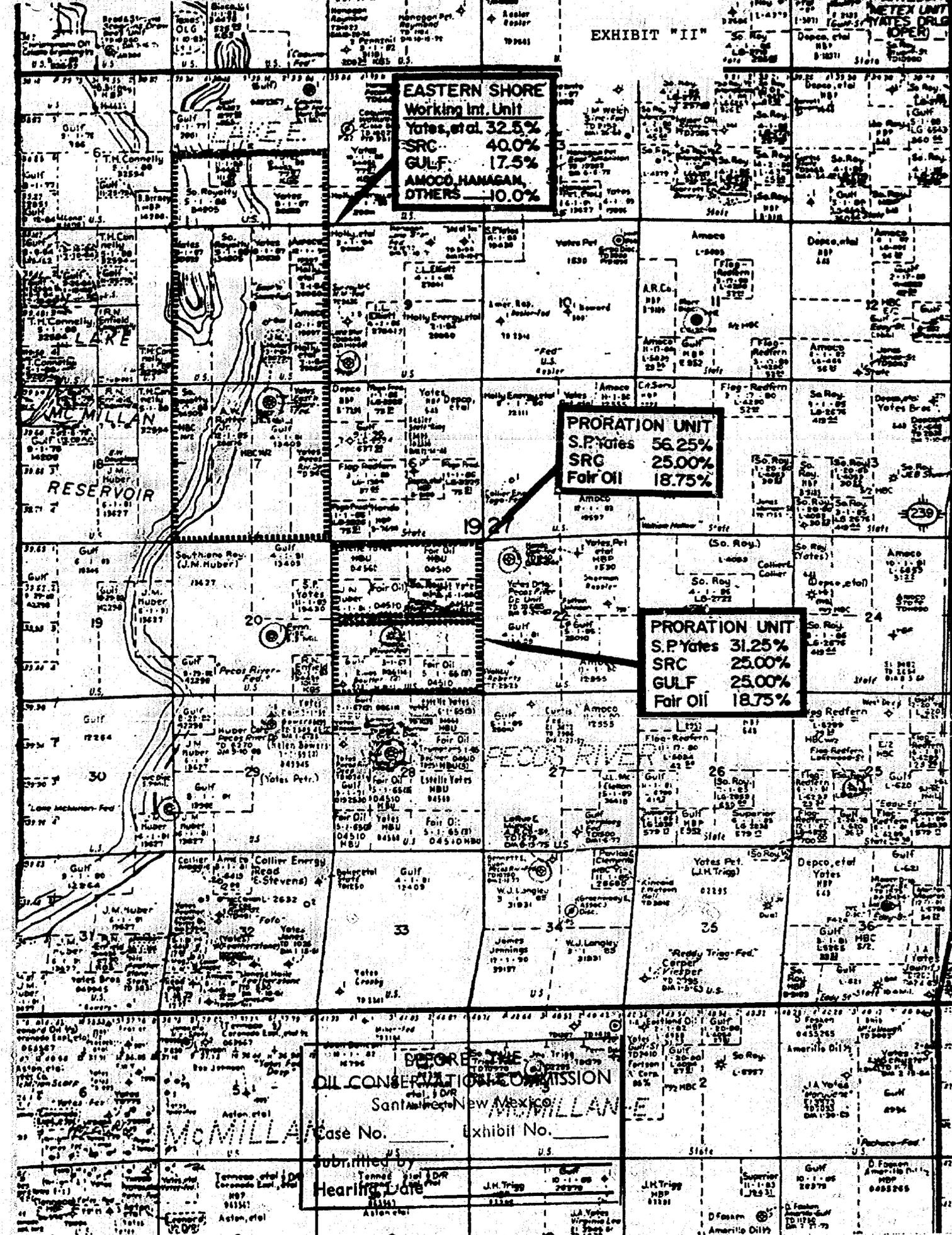
PRORATION UNIT
S.P. Yates 56.25%
SRC 25.00%
Fair Oil 18.75%

PRORATION UNIT
S.P. Yates 31.25%
SRC 25.00%
GULF 25.00%
Fair Oil 18.75%

BEFORE THE
OIL CONSERVATION COMMISSION
San Antonio, Texas

Case No. _____ Exhibit No. _____

Submitted by _____
Hearing Date _____



McMILLAN

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EXHIBIT "III"

S. P. YATES HBU NM-04560 TRACT #1.		FAIR OIL LTD S. P. YATES V. P. SHELTON NM-04510 TRACT #3	
J. M. HUBER NM-13627-A TRACT #4	FAIR OIL LTD S. P. YATES V. P. SHELTON NM-04510 TRACT #3	R. B. JOHNSTON N.M. - 17797 TRACT #2 ○	S. P. YATES NM-04560 TRACT #1.

21

TOWNSHIP 19 SOUTH, RANGE 27 EAST, N.M.P.M.
N/2 SECTION 21
EDDY COUNTY
NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. _____ Exhibit No. _____
Submitted by _____
Hearing Date _____

Tract No. 1

LESSOR: Bureau of Land Management

Lessee of Record: S. P. Yates

Serial No. of Lease: NM-04560

Date of Lease: July 1, 1951

Description of Land Committed: N/2NW/4, SE/4NE/4 Sec. 21, T19S, R27E, Eddy County, New Mexico

Number of Net Acres: 120.00

Working Interest and Percentage: S. P. Yates, etux, 100%

ORI Interest and Percentage: Featherstone Farms, Ltd., 2%; Tenneco Oil Company 1.5%

Tract No. 2

Lessor: Bureau of Land Mangement

Lessee of Record: Randall B. Johnston

Serial No. of Lease: NM-17797

Date of Lease: March 1, 1973

Description of Land Committed: SW/4NE/4 Sec. 21, T19S, R27E, Eddy County, New Mexico

Number of Net Acres: 40.00

Working Interest and Percentage: Southland Royalty Company 100%

ORI Interest and Percentage: None

Tract No. 3

Lessor: Bureau of Land Management

Lessee of Record: S. P. Yates (40%); Fair Oil, Ltd. (40%); Vilas P. Sheldon (20%)

Serial No. of Lease: NM-04510

Date of Lease: June 1, 1951

Description of Land Committed: N/2NE/4, SE/4NW/4 Sec. 21, T19S, R27E, Eddy County, New Mexico

Number of Net Acres: 120.00

Working Interest and Percentage: S. P. Yates, 50%; Fair Oil, Ltd. 50%

ORI Interest and Percentage: Featherstone Farms, Ltd. 2%

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7770 Exhibit No. 3
Submitted by Dennis Sledge
Hearing Date 7-8-81

Tract No. 4

Lessor: Bureau of Land Management

Lessee of Record: J. M. Huber Corporation

Serial No. of Lease: NM-13627-A

Date of Lease: June 1, 1971

Description of Land Committed: SW/4NW/4 Sec. 21, T19S, R27E, Eddy County, New Mexico

Number of Net Acres: 40.00

Working Interest and Percentage: Southland Royalty Company 100%

ORI Interest and Percentage: Lucinda Bartlett (2.7%); Sherman Nelson (0.15%); Jon Nelson (0.15%); David W. Sorenson (1.0%); G. Dee Williams (0.60%); Lanita G. Williams (0.26666%); Glenn G. Stiff (0.06667%); Charles D. Olmsted (0.06667%)

RECAPITULATION

<u>Tract Number</u>	<u>Number of Acres Communitized</u>	<u>Percentage Interest In Communitized Area</u>
1	120	37.5%
2	40	12.5%
3	120	37.5%
4	40	12.5%

BEFORE THE OIL CONSERVATION COMMISSION SANTA FE, NEW MEXICO	
Case No. _____	Exhibit No. _____
Submitted by _____	
Hearing Date _____	

EXHIBIT "IV"

March 23, 1981

S. P. Yates
c/o Yates Petroleum
207 S. Fourth Street
Artesia, New Mexico 88210

Attention: Randy Patterson

Re: SBC Pecos River Federal "21-A" #1
1980' FN&EL Sec. 21, T19S, R27E
Eddy County, New Mexico
Pecos River Prospect

Gentlemen:

Southland Royalty Company proposes the drilling of a 10,500' Atoka test at a location of 1980' FN&EL of Section 21, T19S, R27E, Eddy County, New Mexico, on a N/2 proration unit. Estimated costs for the test well are \$925,000 for a producer and \$596,000 for a dry hole.

Enclosed for your review and execution are two copies of Southland's drilling AFE, one copy of the proposed Joint Operating Agreement and two extra signature pages, and one copy of the Commitment Agreement and two extra signature pages. If these instruments meet with your approval, please sign and return one copy of the AFE and the extra signature pages to the Operating Agreement and Commitment Agreement.

As an alternative to your participation in the proposed well, Southland would be willing to farm your acreage on the basis of the following:

1. Within 90 days of acceptance of a mutually acceptable Farmout Agreement, Southland will commence the drilling of a 10,500' Atoka test in the N/2 of Section 21.
2. Should Southland complete the test well as a producer, Southland will earn an assignment of 100% of your interest in the proration unit to a depth of 100' below total depth, subject to your reserving a 1/16th of 8/8ths overriding royalty interest with an option to convert said override to a 50% working interest at payout, both proportionately reduced.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7270 Exhibit No. 4
Submitted by Dennis Sledge
Hearing Date 7-8-81

Should you desire to farmout your interest, we will be happy to prepare a Farmout Agreement containing the provisions set out above.

It is anticipated that drilling operations on the captioned well will be commenced within 30-45 days, therefore, your earliest possible attention to this proposal will be appreciated.

Should you have any questions, or require additional information, please advise.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

Dennis Sledge

Dennis Sledge
Landman

DS:lh

BEFORE THE	
OIL CONSERVATION COMMISSION	
Santa Fe, New Mexico	
Case No. _____	Exhibit No. _____
Submitted by _____	_____
Hearing Date _____	_____

Should you desire to farmout your interest, we will be happy to prepare a Farmout Agreement containing the provisions set out above.

It is anticipated that drilling operations on the captioned well will be commenced within 30-45 days, therefore, your earliest possible attention to this proposal will be appreciated.

Should you have any questions, or require additional information, please advise.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

Dennis Sledge

Dennis Sledge
Landman

DS:lh

BEFORE THE	
OIL CONSERVATION COMMISSION	
Santitas Fe. New Mexico	
Case No. _____	EXHIBIT No. _____
Submitted by _____	
Hearing Date _____	

EXHIBIT "V"

May 19, 1981

Mr. S. P. Yates
207 S. Fourth Street
Artesia, New Mexico 88201

Attention: Mr. Randy Patterson

Re: Pecos River Federal "21-A" #1
1980' FW&KL Section 21, T19S, R27E
Eddy County, New Mexico
Pecos River Prospect
SEC 500645 ✓

Gentlemen:

Reference is made to Southland's letter to you dated March 23, 1981, and to the telephone conversation of April 16, 1981, between Dennis Sledge and Randy Patterson concerning Southland's request that S. P. Yates either participate in the drilling of the captioned well or farmout his interest to Southland and Fair Oil, Ltd.

Please be advised that, in view of Mr. Yates' reluctance to join in the drilling of the proposed well or farmout, Southland has instructed its attorney to file an application for compulsory pooling covering the N/2 of Section 21. Southland's leasehold ownership in the N/2 of Section 21 is derived through farmouts and consequently, Southland has drilling obligation dates that it must honor to hold this acreage.

Although Southland has requested the compulsory pooling hearing, we hope that Mr. Yates will agree to join or farmout prior to the date of the hearing.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

Dennis Sledge

Dennis Sledge
Landman

DS:am

BEFORE THE OIL CONSERVATION COMMISSION Santa Fe, New Mexico Case No. <u>7270</u> Exhibit No. <u>5</u> Submitted by <u>Dennis Sledge</u> Hearing Date <u>7-8-81</u>



Southland Royalty Company

1100 WALL TOWERS WEST, MIDLAND, TEXAS 79701

EXHIBIT "I"
AUTHORIZATION FOR EXPENDITURE

COMPANY NO 01

REC'D. 10 07
2-1
\$10,000
14-14

A/E NUMBER _____

ADD A CHANGE TT DELETE TT PROPERTY NUMBER 10 - 11 - 76

A/E DATE 3 / 20 / 81 NAME SRC-Pecos River Federal "21-A" Com. No. 1

ORIGINAL 0 SUPPLEMENTAL TT PRODUCER TT DRY HOLE TT SRC OPERATOR Y MANUAL 76

AUTHORITY IS REQUESTED TO:

WILDCAT TT DEV. D Drill and complete to TD of 10,500' as an Atoka gas well, complete with tank battery

LOCATION: 1980' FNL, 1980' FEL, Section 21, T-19-S, R-27-E, Eddy County, New Mexico

FOOTAGE	TANGIBLE - 249	ESTIMATED COST	
		PRODUCING	DRY HOLE
01 71	Conductor or Drive Pipe	\$	\$
250'	01 02 Casing <u>11 3/4" 42# H-40 ST&C @ \$20.65</u>	5,160	5,160
2,000'	03 <u>8 5/8" 21# K-55 ST&C @ \$12.26</u>	24,520	24,520
4,380'	04 <u>4 1/2" 11 6# N-80 LT&C @ \$ 9.14</u>	40,040	
5,200'	05 <u>4 1/2" 11 6# K-55 ST&C @ \$6.22</u>	32,340	
920'	06 <u>4 1/2" 11 6# L-80 LT&C @ \$10.70</u>	9,850	
10,500'	02 09 Tubing <u>2 3/8" EUE 4.7# N-80 @ \$5.16</u>	54,180	
	03 10 Wellhead	29,000	6,000
	04 11 Packer	5,000	
	04 12 Artificial Lift		
	05 13 Tank Battery	43,000	
	10 14 Other Equipment	11,910	3,320
	15 TOTAL TANGIBLE 100%	\$ 255,000	\$ 39,000
	16 SRC <u>.25</u>	\$ 63,750	\$ 9,750
	INTANGIBLE - 248		
01 17	Drilling <u>ft. @ \$ /ft.</u>		
01 18	Rig, Day Work <u>43 Days @ \$ 6,200 /day</u>	266,600	266,600
01 19	Rig Moving Costs	20,000	20,000
01 20	Completion Rig <u>18 Days @ \$ 1,200 /day</u>	21,600	
02 21	Roustabout & Miscellaneous Labor	4,000	1,000
03 22	Auto, Trucking, Barge, Tug	4,500	2,000
04 23	Roads, Canals, Location, Damages, Cleanup	16,000	16,000
05 24	Mud, Oil, Water, Chemicals	80,000	80,000
06 25	Drill Stem Tests	8,000	8,000
06 26	Electric Logs & Bond Logs	35,000	35,000
07 27	Cement, Centralizer, Scratchers, Service	42,000	18,000
08 28	Bits, Fuel	24,000	24,000
08 29	Rental Equipment <u>& tubular inspection</u>	25,000	9,000
09 30	Core & Analyses	8,500	8,500
09 31	Bottle Tests & Sidewall Cores		
09 32	Perforate	10,000	
09 33	Acid & Frack	25,000	
09 34	Geological & Engineering	5,000	2,500
09 35	Mud Logger <u>41 days @ \$575</u>	23,580	23,580
10 36	Cost of Control Insurance (SRC Only)	4,280	4,280
10 37	Miscellaneous & Unforseen	43,940	36,540
11 38	District & Overhead Expense	3,000	2,000
	TOTAL INTANGIBLE 100%	\$ 670,000	\$ 557,000
	SRC <u>.25</u>	\$ 167,500	\$ 139,250
	GRAND TOTAL COSTS	\$ 925,000	\$ 596,000
	SRC <u>.25</u>	\$ 231,250	\$ 149,000

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7270 Exhibit No. 1
Submitted by Dennis Sledge
Hearing Date 7-8-81

AUTHORIZATION REQUESTED
[Signature]

AUTHORIZATION APPROVED
COMPANY: _____
BY: _____
DATE: _____

EASTERN SHORE
Working Int. Unit
Yates, et al. 32.8%
SRC 40.0%
GULF 17.5%
AMOCO, HANSON,
OTHERS 10.0%

PRORATION UNIT
S.P. Yates 56.25%
SRC 25.00%
Fair Oil 18.75%

PRORATION UNIT
S.P. Yates 31.25%
SRC 25.00%
GULF 25.00%
Fair Oil 18.75%

OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. _____ Exhibit No. _____
Submitted by _____
Hearing Date _____

McMILLAN

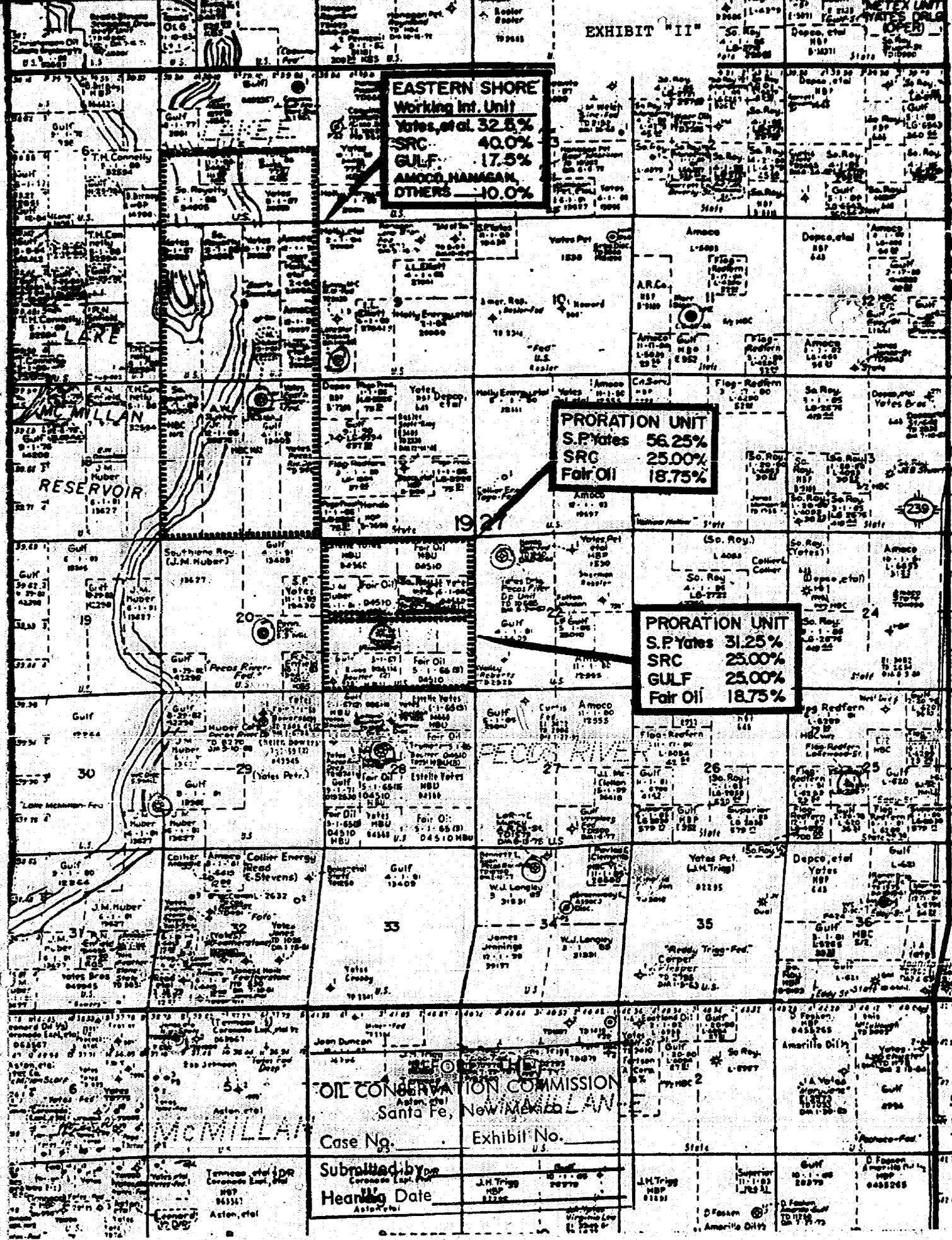


EXHIBIT "III"

S. P. YATES HBU NM-04560 TRACT #1		FAIR OIL LTD S. P. YATES V. P. SHELTON NM-04510 TRACT #3	
J. M. HUBER NM-13627-A TRACT #4	FAIR OIL LTD S. P. YATES V. P. SHELTON NM-04510 TRACT #3	R. B. JOHNSTON N.M. - 17797 TRACT #2	S. P. YATES NM-04560 TRACT #1

*Committed
143 - 43.75%
Ownership
Yates 56.25%*

TOWNSHIP 19 SOUTH, RANGE 27 EAST, N.M.P.M.
N/2 SECTION 21
EDDY COUNTY
NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, N.M.
Case No. 7270 Exhibit No. 3
Submitted by Dennis Sledge
Hearing Date 7-8-81

Tract No. 1

LESSOR: Bureau of Land Management

Lessee of Record: S. P. Yates

Serial No. of Lease: NM-04560

Date of Lease: July 1, 1951

Description of Land Committed: N/2NW/4, SE/4NE/4 Sec. 21, T19S, R27E, Eddy County, New Mexico

Number of Net Acres: 120.00

Working Interest and Percentage: S. P. Yates, etux, 100%

ORI Interest and Percentage: Featherstone Farms, Ltd., 2%; Tenneco Oil Company 1.5%

Tract No. 2

Lessor: Bureau of Land Management

Lessee of Record: Randall B. Johnston

Serial No. of Lease: NM-17797

Date of Lease: March 1, 1973

Description of Land Committed: SW/4NE/4 Sec. 21, T19S, R27E, Eddy County, New Mexico

Number of Net Acres: 40.00

Working Interest and Percentage: Southland Royalty Company 100%

ORI Interest and Percentage: None

Tract No. 3

Lessor: Bureau of Land Management

Lessee of Record: S. P. Yates (40%); Fair Oil, Ltd. (40%); Vilas P. Sheldon (20%)

Serial No. of Lease: NM-04510

Date of Lease: June 1, 1951

Description of Land Committed: N/2NE/4, SE/4NW/4 Sec. 21, T19S, R27E, Eddy County, New Mexico

Number of Net Acres: 120.00

Working Interest and Percentage: S. P. Yates, 50%; Fair Oil, Ltd. 50%

ORI Interest and Percentage: Featherstone Farms, Ltd. 2%

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. _____ Exhibit No. _____
Submitted by _____
Hearing Date _____

Tract No. 4

Lessor: Bureau of Land Management

Lessee of Record: J. M. Huber Corporation

Serial No. of Lease: NM-13627-A

Date of Lease: June 1, 1971

Description of Land Committed: SW/4NW/4 Sec. 21, T19S, R27E, Eddy County, New Mexico

Number of Net Acres: 40.00

Working Interest and Percentage: Southland Royalty Company 100%

ORI Interest and Percentage: Lucinda Bartlett (2.7%); Sherman Nelson (0.15%); Jon Nelson (0.15%); David J. Sorenson (1.0%); G. Dee Williams (0.60%); Lanita G. Williams (0.26666%); Glenn G. Stiff (0.06667%); Charles D. Olmsted (0.06667%)

RECAPITULATION

<u>Tract Number</u>	<u>Number of Acres Communitized</u>	<u>Percentage Interest In Communitized Area</u>
1	120	37.5%
2	40	12.5%
3	120	37.5%
4	40	12.5%

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. _____ Exhibit No. _____
Submitted by _____
Hearing Date _____

EXHIBIT "IV"

March 23, 1981

S. P. Yates
c/o Yates Petroleum
207 S. Fourth Street
Artesia, New Mexico 88210

Attention: Randy Patterson

Re: SEC Pecos River Federal "21-A" #1
1980' FN&EL Sec. 21, T19S, R27E
Eddy County, New Mexico
Pecos River Prospect

Gentlemen:

Southland Royalty Company proposes the drilling of a 10,500' Atoka test at a location of 1980' FN&EL of Section 21, T19S, R27E, Eddy County, New Mexico, on a N/2 proration unit. Estimated costs for the test well are \$925,000 for a producer and \$596,000 for a dry hole.

Enclosed for your review and execution are two copies of Southland's drilling AFE, one copy of the proposed Joint Operating Agreement and two extra signature pages, and one copy of the Communitization Agreement and two extra signature pages. If these instruments meet with your approval, please sign and return one copy of the AFE and the extra signature pages to the Operating Agreement and Communitization Agreement.

As an alternative to your participation in the proposed well, Southland would be willing to farm your acreage on the basis of the following:

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2. Should Southland complete the test well as a producer, Southland will earn an assignment of 10% of your interest in the proration unit to a depth of 100' below total depth, subject to your reserving a 1/16th of 8/8ths overriding royalty interest with an option to convert said override to a 50% working interest at payout, both proportionately reduced.

BEFORE THE OIL CONSERVATION COMMISSION Santa Fe, New Mexico Case No. <u>7270</u> Exhibit No. <u>4</u> Submitted by <u>Dennis Sledge</u> Hearing Date <u>7-8-81</u>

Should you desire to farmout your interest, we will be happy to prepare a Farmout Agreement containing the provisions set out above.

It is anticipated that drilling operations on the captioned well will be commenced within 30-45 days, therefore, your earliest possible attention to this proposal will be appreciated.

Should you have any questions, or require additional information, please advise.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

Dennis Sledge

Dennis Sledge
Landman

DS:lh

BEFORE THE OIL CONSERVATION COMMISSION Santa Fe, New Mexico	
Case No. _____	Exhibit No. _____
Submitted by _____	
Hearing Date _____	

EXHIBIT "V"

May 19, 1981

Mr. S. P. Yates
207 S. Fourth Street
Artesia, New Mexico 88201

Attention: Mr. Randy Patterson

Re: Pecos River Federal "21-A" #1
1980' F&E Section 21, T19S, R27E
Eddy County, New Mexico
Pecos River Prospect
SEC 500645 ✓

Gentlemen:

Reference is made to Southland's letter to you dated March 23, 1981, and to the telephone conversation of April 16, 1981, between Dennis Sledge and Randy Patterson concerning Southland's request that S. P. Yates either participate in the drilling of the captioned well or farmout his interest to Southland and Fair Oil, Ltd.

Please be advised that, in view of Mr. Yates' reluctance to join in the drilling of the proposed well or farmout, Southland has instructed its attorney to file an application for compulsory pooling covering the N/2 of Section 21. Southland's leasehold ownership in the N/2 of Section 21 is derived through farmouts and consequently, Southland has drilling obligation dates that it must honor to hold this acreage.

Although Southland has requested the compulsory pooling hearing, we hope that Mr. Yates will agree to join or farmout prior to the date of the hearing.

Yours very truly,

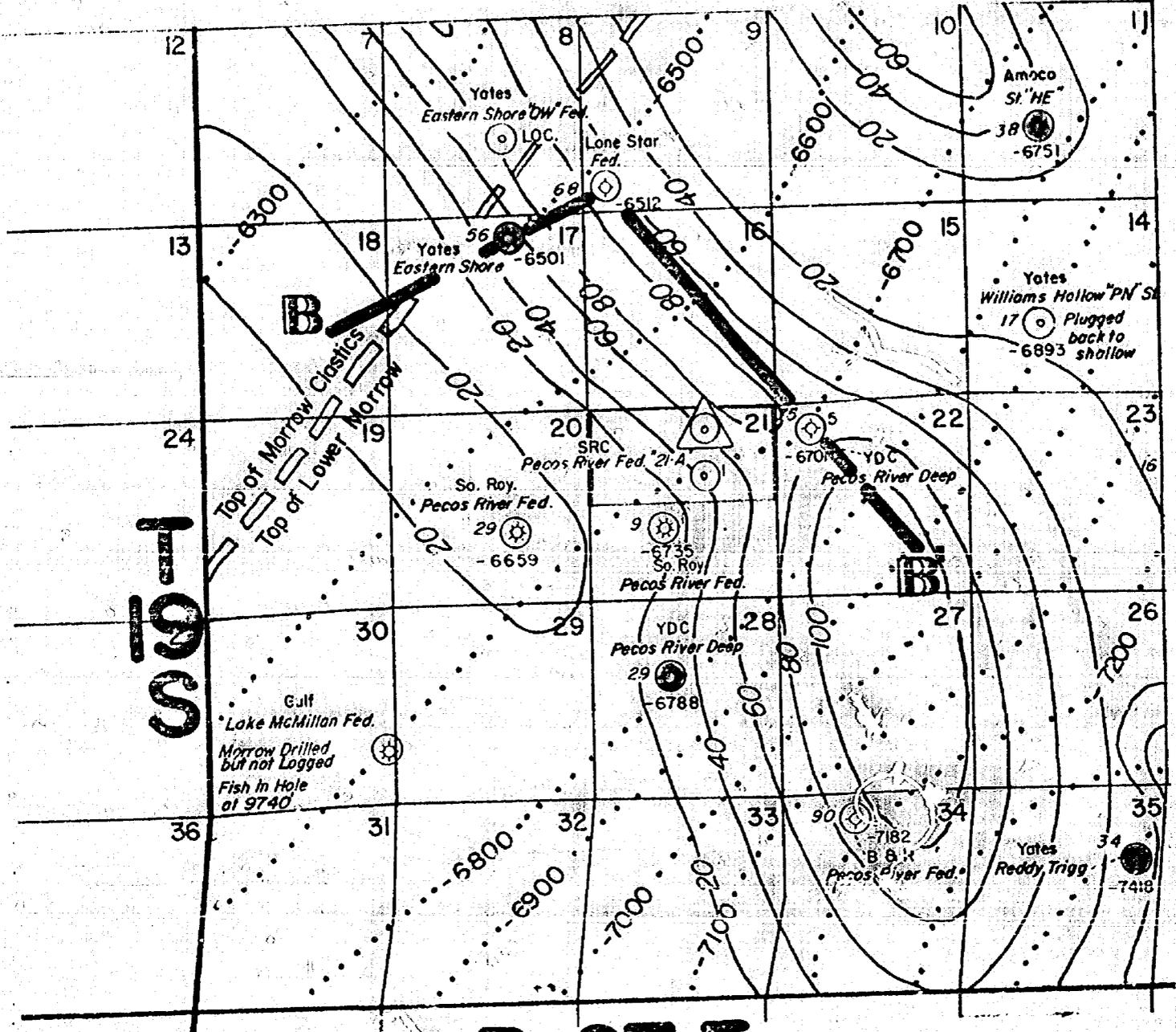
SOUTHLAND ROYALTY COMPANY

Dennis Sledge

Dennis Sledge
Landman

DS:am

BEFORE THE OIL CONSERVATION COMMISSION Santa Fe, New Mexico Case No. <u>7270</u> Exhibit No. <u>5</u> Submitted by <u>Dennis Sledge</u> Hearing Date <u>7-8-81</u>

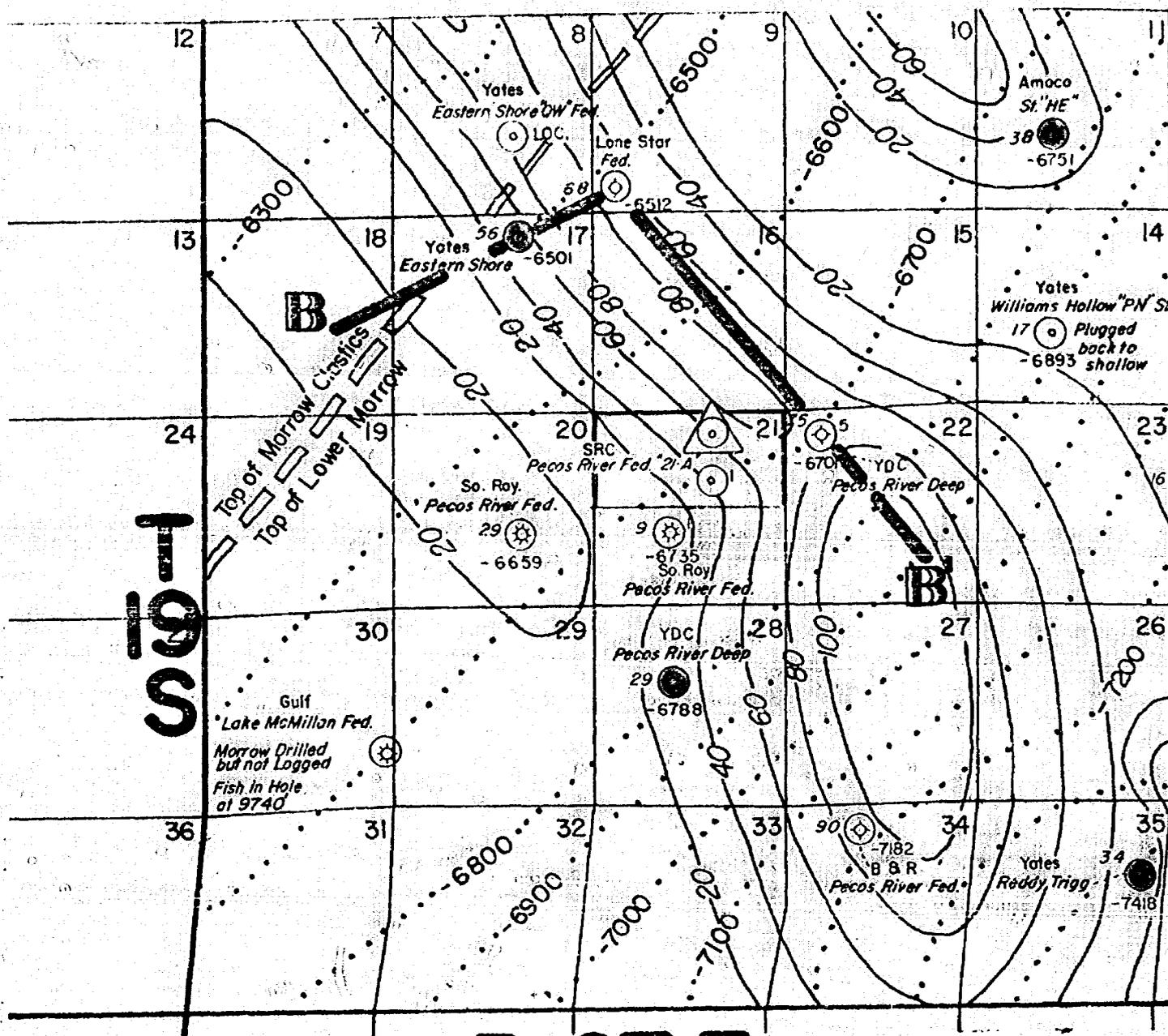


R-27-E

LEGEND

- Morrow Penetrations
- Structural Datum
- Total Feet of Morrow Sand < 50 API Units GR
- Morrow Completion
- Solid Contours:
 - Isolith of Morrow Sand
 - 20 Foot C.I.
- Dotted Contours:
 - Structure of Morrow
 - 100 Foot C.I.

Exhibit # 1
 Yates Petroleum Corp.
 Cases 7270-7275
 July 8, 1981



R-27-E

LEGEND

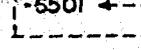
-  Morrow Penetrations
-  Structural Datum
-  Total Feet of Morrow Sand < 50 API Units GR
-  Morrow Completion
- Solid Contours:**
 Isolith of Morrow Sand
 20. Foot C.I.
- Dotted Contours:**
 Structure of Morrow
 100 Foot C.I.

Exhibit # 1
 Yates Petroleum Corp.
 Cases 7270-7275
 July 8, 1981



Southland Royalty Company

1100 WALL TOWERS WEST, MIDLAND, TEXAS 79701

EXHIBIT "I"
AUTHORIZATION FOR EXPENDITURE

COMPANY NO 01

RECORD ID 07
2-1
510 000
14 14

AFE NUMBER 10-11

ADD A CHANGE TT DELETE TT PROPERTY NUMBER 1A 11 76

AFE DATE 3 / 20 / 81 NAME SRC-Pecos River Federal "21-A" Com. No. 1

ORIGINAL 0 SUPPLEMENTAL TT PRODUCER TT DRY HOLE TT SRC OPERATOR Y MANUAL TT

AUTHORITY IS REQUESTED TO:

WILDCAT TT DEV. D Drill and complete to TD of 10,500' as an Atoka gas well, complete with tank battery

LOCATION: 1980' FNL, 1980' FEL, Section 21, T-19-S, R-27-E, Eddy County, New Mexico

FOOTAGE	TANGIBLE - 249	ESTIMATED COST	
		PRODUCING	DRY HOLE
	01 01 Conductor or Drive Pipe	\$	\$
<u>250'</u>	01 02 Casing <u>11 3/4" 42# H-40 ST&C @ \$20.65</u>	5,160	5,160
<u>2,000'</u>	03 <u>8 5/8" 21# K-55 ST&C @ \$12.26</u>	24,520	24,520
<u>4,380'</u>	04 <u>4 1/2" 11.6# N-80 LT&C @ \$ 9.14</u>	40,040	
<u>5,200'</u>	05 <u>4 1/2" 11.6# K-55 ST&C @ \$6.22</u>	32,340	
<u>920'</u>	06 <u>4 1/2" 11.6# I-80 LT&C @ \$10.70</u>	9,850	
	07		
	08		
<u>10,500'</u>	02 09 Tubing <u>2 3/8" EUE 4.7# N-80 @ \$5.16</u>	54,180	
	03 10 Wellhead	29,000	6,000
	04 11 Packer	5,000	
	04 12 Artificial Lift		
	05 13 Tank Battery	43,000	
	10 14 Other Equipment	11,910	3,320
	15 TOTAL TANGIBLE 100%	\$ 255,000	\$ 39,000
	16 SRC <u>.25</u>	\$ 63,750	\$ 9,750
	INTANGIBLE - 248		
	01 17 Drilling <u>ft. @ \$ /ft.</u>		
	01 18 Rig, Day Work <u>43 Days @ \$ 6,200 /day</u>	266,600	266,600
	01 19 Rig Moving Costs	20,000	20,000
	01 20 Completion Rig <u>18 Days @ \$ 1,200 /day</u>	21,600	
	02 21 Roustabout & Miscellaneous Labor	4,000	1,000
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	04 23 Roads, Canals, Location, Damages, Cleanup	16,000	16,000
	05 24 Mud, Oil, Water, Chemicals	80,000	80,000
	06 25 Drill Stem Tests	8,000	8,000
	06 26 Electric Logs & Bond Logs	35,000	35,000
	07 27 Cement, Centralizer, Scratchers, Service	42,000	18,000
	08 28 Bits, Fuel	24,000	24,000
	08 29 Rental Equipment <u>& tubular inspection</u>	25,000	9,000
	09 30 Core & Analyses	8,500	8,500
	09 31 Bottle Tests & Sidewall Cores		
	09 32 Perforate	10,000	
	09 33 Acid & Frack	25,000	
	09 34 Geological & Engineering	5,000	2,500
	09 35 Mud Logger <u>41 days @ \$575</u>	23,580	23,580
	10 36 Cost of Control Insurance (SRC Only)	4,280	4,280
	10 37 Miscellaneous & Unforeseen	43,940	36,540
	11 38 District & Overhead Expense	3,000	2,000
	TOTAL INTANGIBLE 100%	\$ 670,000	\$ 557,000
	SRC <u>.25</u>	\$ 167,500	\$ 139,250
	GRAND TOTAL COSTS	\$ 925,000	\$ 596,000
	SRC <u>.25</u>	\$ 231,250	\$ 149,000

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7270 Exhibit No. 1
Filed by Dennis Sledge
Date 7-8-81

AUTHORIZATION REQUESTED
[Signature]

AUTHORIZATION APPROVED
COMPANY: _____
BY: _____
DATE: _____

ARTESIA UNIT
METEX UNIT
YATES DRUG
(OPER)

**EASTERN SHORE
Working Int. Unit**
Yates, et al. 32.5%
SRC 40.0%
GULF 17.5%
AMOCO, HANAGAN,
OTHERS 10.0%

PRORATION UNIT
S.P. Yates 56.25%
SRC 25.00%
Fair Oil 18.75%

PRORATION UNIT
S.P. Yates 31.25%
SRC 25.00%
GULF 25.00%
Fair Oil 18.75%

**BEFORE THE
OIL CONSERVATION COMMISSION**

Santa Fe, New Mexico

Case No. _____
Submitted by _____

Hearing Date _____

MCMILLAN

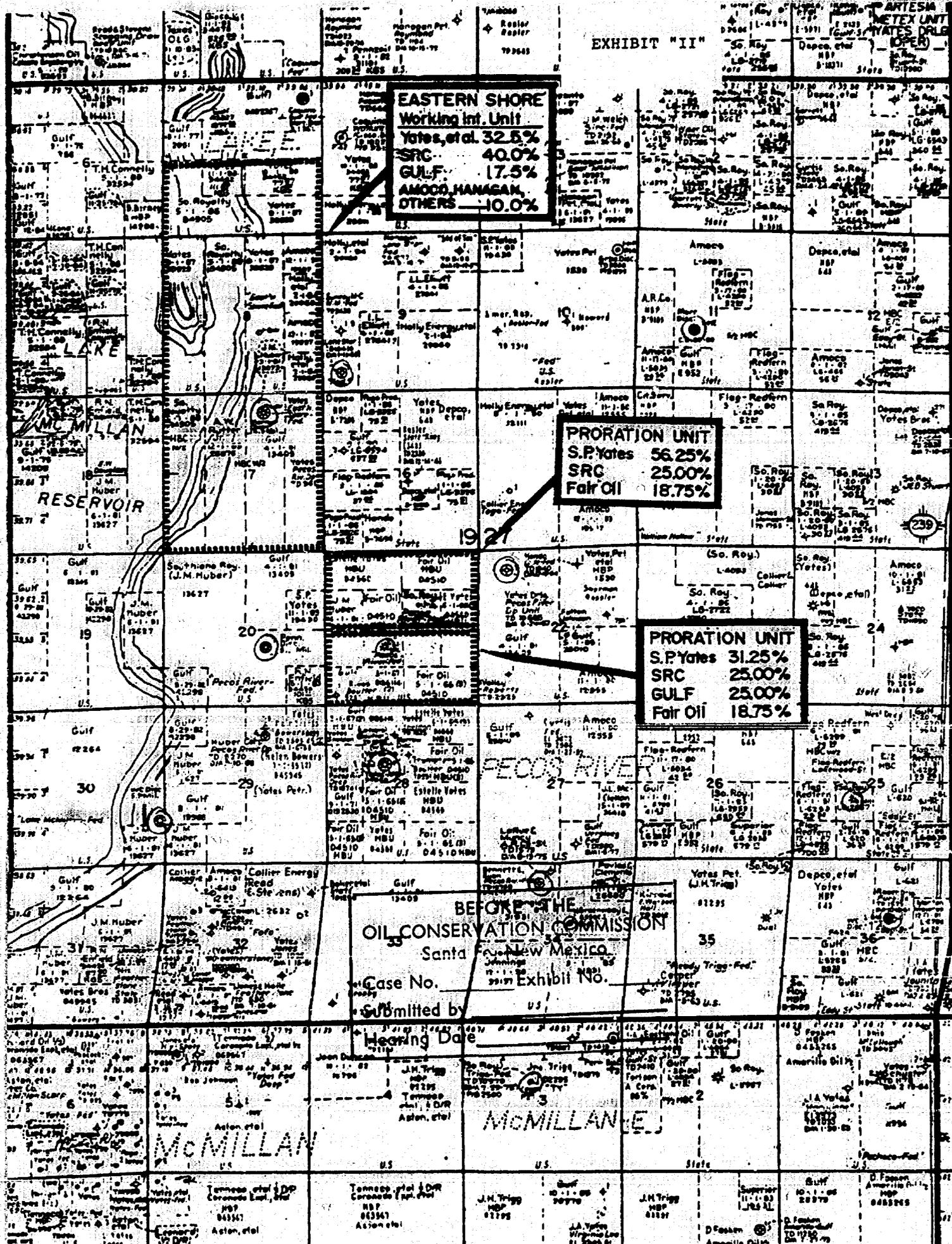


EXHIBIT "III"

S. P. YATES HBU NM-04560 TRACT #1		FAIR OIL LTD S. P. YATES V. P. SHELTON NM-04510 TRACT #3	
J. M. HUBER NM-13627-A TRACT #4	FAIR OIL LTD S. P. YATES V. P. SHELTON NM-04510 TRACT #3	R. B. JOHNSTON N.M. - 17797 TRACT #2 ○	S. P. YATES NM-04560 TRACT #1

21

TOWNSHIP 19 SOUTH, RANGE 27 EAST, N.M.P.M.
N/2 SECTION 21
EDDY COUNTY
NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7270 Exhibit No. 3
Submitted by Dennis Sledge
Hearing Date 7-8-81

Tract No. 1

LESSOR: Bureau of Land Management

Lessee of Record: S. P. Yates

Serial No. of Lease: NM-04560

Date of Lease: July 1, 1951

Description of Land Committed: N/2NW/4, SE/4NE/4 Sec. 21, T19S, R27E, Eddy County, New Mexico

Number of Net Acres: 120.00

Working Interest and Percentage: S. P. Yates, etux, 100%

ORI Interest and Percentage: Featherstone Farms, Ltd., 2%; Tenneco Oil Company 1.5%

Tract No. 2

Lessor: Bureau of Land Management

Lessee of Record: Randall B. Johnston

Serial No. of Lease: NM-17797

Date of Lease: March 1, 1973

Description of Land Committed: SW/4NE/4 Sec. 21, T19S, R27E, Eddy County, New Mexico

Number of Net Acres: 40.00

Working Interest and Percentage: Southland Royalty Company 100%

ORI Interest and Percentage: None

Tract No. 3

Lessor: Bureau of Land Management

Lessee of Record: S. P. Yates (40%); Fair Oil, Ltd. (40%); Vilas P. Sheldon (20%)

Serial No. of Lease: NM-04510

Date of Lease: June 1, 1951

Description of Land Committed: N/2NE/4, SE/4NW/4 Sec. 21, T19S, R27E, Eddy County, New Mexico

Number of Net Acres: 120.00

Working Interest and Percentage: S. P. Yates, 50%; Fair Oil, Ltd. 50%

ORI Interest and Percentage: Featherstone Farms, Ltd. 2%

BEFORE THE	
OIL CONSERVATION COMMISSION	
Santa Fe, New Mexico	
Case No. _____	Exhibit No. _____
Submitted by _____	
Filing Date _____	

Tract No. 4

Lessor: Bureau of Land Management

Lessee of Record: J. M. Huber Corporation

Serial No. of Lease: NM-13627-A

Date of Lease: June 1, 1971

Description of Land Committed: SW/4NW/4 Sec. 21, T19S, R27E, Eddy County, New Mexico

Number of Net Acres: 40.00

Working Interest and Percentage: Southland Royalty Company 100%

ORI Interest and Percentage: Lucinda Bartlett (2.7%); Sherman Nelson (0.15%); Jon Nelson (0.15%); David J. Sorenson (1.0%); G. Dee Williams (0.60%); Lanita G. Williams (0.26666%); Glenn G. Stiff (0.06667%); Charles D. Olmsted (0.06667%)

RECAPITULATION

<u>Tract Number</u>	<u>Number of Acres Communitized</u>	<u>Percentage Interest In Communitized Area</u>
1	120	37.5%
2	40	12.5%
3	120	37.5%
4	40	12.5%

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. _____ Exhibit No. _____
Submitted by _____
Hearing Date _____

EXHIBIT "IV"

March 23, 1981

S. P. Yates
c/o Yates Petroleum
207 S. Fourth Street
Artesia, New Mexico 88210

Attention: Randy Patterson

Re: SRC Pecos River Federal "21-A" #1
1980' FN&EL Sec. 21, T19S, R27E
Eddy County, New Mexico
Pecos River Prospect

Gentlemen:

Southland Royalty Company proposes the drilling of a 10,500' Atoka test at a location of 1980' FN&EL of Section 21, T19S, R27E, Eddy County, New Mexico, on a N/2 proration unit. Estimated costs for the test well are \$925,000 for a producer and \$596,000 for a dry hole.

Enclosed for your review and execution are two copies of Southland's ~~Application for~~ one copy of the proposed Joint Operating Agreement and two extra signature pages, and one copy of the Communitization Agreement and two extra signature pages. If these instruments meet with your approval, please sign and return one copy of the APE and the extra signature pages to the Operating Agreement and Communitization Agreement.

As an alternative to your participation in the proposed well, Southland would be willing to farm your acreage on the basis of the following:

1. Within 90 days of acceptance of a mutually acceptable Farmout Agreement, Southland will commence the drilling of a 10,500' Atoka test in the N/2 of Section 21.
2. Should Southland complete the test well as a producer, Southland will earn an assignment of 100% of your interest in the proration unit to a depth of 100' below total depth, subject to your reserving a 1/16th of 8/8ths overriding royalty interest with an option to convert said override to a 50% working interest at payout, both proportionately reduced.

BEFORE THE OIL CONSERVATION COMMISSION Santa Fe, New Mexico Case No. <u>7270</u> Exhibit No. <u>4</u> Submitted by <u>Dennis Sledge</u> Hearing Date <u>7-8-81</u>

Should you desire to farmout your interest, we will be happy to prepare a Farmout Agreement containing the provisions set out above.

It is anticipated that drilling operations on the captioned well will be commenced within 30-45 days, therefore, your earliest possible attention to this proposal will be appreciated.

Should you have any questions, or require additional information, please advise.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

Dennis Sledge

Dennis Sledge
Landman

DS:lh

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. _____ Exhibit No. _____
Submitted by _____
Hearing Date _____

EXHIBIT "V"

May 19, 1981

Mr. S. P. Yates
207 S. Fourth Street
Artesia, New Mexico 88201

Attention: Mr. Randy Patterson

Re: Pecos River Federal "21-A" #1
1980' F&M Section 21, T19S, R27E
Eddy County, New Mexico
Pecos River Prospect
SEC 500645 ✓

Gentlemen:

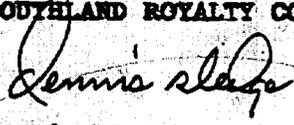
Reference is made to Southland's letter to you dated March 23, 1981, and to the telephone conversation of April 16, 1981, between Dennis Sledge and Randy Patterson concerning Southland's request that S. P. Yates either participate in the drilling of the captioned well or farmout his interest to Southland and Fair Oil, Ltd.

Please be advised that, in view of Mr. Yates' reluctance to join in the drilling of the proposed well or farmout, Southland has instructed its attorney to file an application for compulsory pooling covering the N/2 of Section 21. Southland's leasehold ownership in the N/2 of Section 21 is derived through farmouts and consequently, Southland has drilling obligation dates that it must honor to hold this acreage.

Although Southland has requested the compulsory pooling hearing, we hope that Mr. Yates will agree to join or farmout prior to the date of the hearing.

Yours very truly,

SOUTHLAND ROYALTY COMPANY


Dennis Sledge
Landman

DS:za

BEFORE THE OIL CONSERVATION COMMISSION Santa Fe, New Mexico Case No. <u>7270</u> Exhibit No. <u>5</u> Submitted by <u>Dennis Sledge</u> Hearing Date <u>7-8-81</u>

W F Carr Ense
2 with.

Tom Kellehin
Joe Pezcock
2 with.

Daniel Renault

Montage not producing

1650

750 bbls. max
(Form shows 2880)

3160 psi

Phillips Lambirth 4 A
66' higher than upper parts in Rada #2

No H₂O
En #1 #9 Phil A #2 A #3

3
7900
31600

Core Analysis #16 Phil A-2
#17 En #3

Not capable of letting water migrate within the fiss.

Tom Brown

14

15

Jerry Blevins

Phillip B. Drisko ←
Briscoe

Renault

Ensl. # 17

C

7270

Carr

4 witnesses

Dickerson

3 witnesses

Carr

Dennis Sledge

Well spudded 5/23/81

Charges

Drig. \$3,340

Prod. \$334

Ex 1-5 admitted

Darrel James

Request 200% risk factor ?

Ex. B-14

Notes

Ray Beck

9 surrounding section 6 wells drilled
with 5 successes in Morrow only.

Penalty - 20% risk

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

17 June 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Southland Royalty
Company for compulsory pooling, Eddy
County, New Mexico.

CASE
7270

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

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MR. NUTTER: We'll call also at this time call Case Number 7250, or 7270, I'm sorry.

MR. PADILLA: Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico.

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

Case Number 7270 will be continued to the Commission Hearing which is at this time scheduled to be held at 9:00 o'clock a. m. at this same place on July the 8th, 1981.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 453-7409

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7279 heard by me on 6/17 1981.

[Signature] Examiner
Oil Conservation Division

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

17 June 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Southland Royalty
Company for compulsory pooling, Eddy
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CASE
7270

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
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Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

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Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.

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

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7279 heard by me on 2/17 1981.

[Signature] Examiner
Oil Conservation Division

Dockets Nos. 22-81 and 23-81 are tentatively set for July 15 and 29, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - THURSDAY - JULY 2, 1981

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

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

- CASE 7283:** Application of Harvey E. Yates Company for amendment of Division Order No. R-6387, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Division Order No. R-6382 to provide that said order authorizing the McDonald Unit Agreement shall have an effective date of June 1, 1981.
- CASE 7284:** Application of Energy Reserves Group, Inc. for an unorthodox gas well location, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox Cisco location of its Miller Well No. 1 located 660 feet from the South and West lines of Section 12, Township 6 South, Range 33 East, the S/2 of said Section 12 to be dedicated to the well.
- CASE 7285:** Application of J. C. Williamson for two non-standard gas proration units and two unorthodox locations, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for two non-standard 320-acre Wolfcamp gas proration units in Section 10, Township 23 South, Range 34 East, the first comprising the NW/4, W/2 NE/4, and N/2 SW/4, and the second comprising the E/2 NE/4, S/2 SW/4, and SE/4. Applicant further seeks approval for two unorthodox locations, the first for a well drilled 1560 feet from the North line and 1830 feet from the West line of said Section 10, and the second for a well to be drilled 1980 feet from the South and East lines of the section.
- CASE 7286:** Application of Supron Energy Corporation for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Basin-Dakota and Blanco Mesaverde production in the wellbore of its Jicarilla F Well No. 6 located in the SW/4 of Section 34, Township 26 North, Range 4 West.
- CASE 7287:** Application of Benson-Montin-Greer Drilling Corporation for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the West Puerto Chiquito-Mancos Oil Pool underlying a previously approved 640-acre non-standard proration unit comprising the W/2 of Section 17 and the W/2 of Section 20, Township 26 North, Range 1 West, to be dedicated to a well to be drilled thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.
- CASE 7288:** Application of Southern Union Exploration Company of Texas for contraction of the West Puerto Chiquito-Mancos Oil Pool, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the contraction of the West Puerto Chiquito-Mancos Oil Pool by the deletion of Section 36, Township 24 North, Range 1 West, therefrom.
- CASE 7251:** (Continued from June 3, 1981, Examiner Hearing)
- Application of Southern Union Exploration Company of Texas for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the West Puerto Chiquito-Mancos Oil Pool underlying all of Section 36, Township 24 North, Range 1 West, to be dedicated to its Mobil Federal Well No. 1 drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.
- CASE 7289:** Application of Exxon Corporation for a salt water disposal well, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Queen formation at a depth of 2638 feet to 2774 feet in its Strange Federal Well No. 3 in Unit J of Section 25, Township 7 South, Range 31 East, Tomahawk-San Andres Pool.
- CASE 7290:** Application of Yates Petroleum Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Abo formation underlying the NE/4 of Section 26, Township 5 South, Range 24 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7291: Application of ARCO Oil and Gas Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order for pooling all mineral interests in the Silurian and Fusselman formations underlying the N/2 of Section 6, Township 25 South, Range 37 East, Custer Field, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7292: Application of ARCO Oil and Gas Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Devonian thru Ellenburger formations underlying the S/2 of Section 6, Township 25 South, Range 37 East, Custer Field, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7293: Application of ARCO Oil and Gas Company for an amendment to Order No. R-6649, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an amendment to Division Order No. R-6649 which authorized compulsory pooling in Section 33, Township 22 South, Range 36 East, Langlie Field, to extend to February 1, 1982, the commencement of drilling required in said order.

CASE 7294: Application of ARCO Oil and Gas Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Seven Rivers-Queen formation at a depth of 2996 feet to 3186 feet in its R. S. Crosby Well No. A-2 located in Unit L of Section 28, Township 25 South, Range 37 East, Langlie Mattix Pool.

CASE 7248: (Continued from June 3, 1981, Examiner Hearing)

Application of Inexco Oil Company for pool creation, special pool rules, and an oil discovery allowable, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Wolfcamp oil pool for its Federal 10 State Com. Well No. 1 located in Unit L of Section 10, Township 21 South, Range 26 East, and the promulgation of special rules therefor, including provisions for 160-acre spacing. Applicant further seeks the assignment of approximately 42,290 barrels of discovery allowable to the aforesaid well.

CASE 7280: (Continued from June 17, 1981, Examiner Hearing)

Application of Northwest Pipeline Corporation for a dual completion and downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks authority to dually complete its Rosa Unit Well No. 77 located in Unit L of Section 33, Township 31 North, Range 5 West, to produce gas from the Mesaverde formation and commingled Gallup and Dakota production through separate strings of tubing.

CASE 7295: Application of Gulf Oil Corporation for rescission of Division Order No. R-2429-C, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the rescission of Division Order No. R-2429-C which authorized 320-acre spacing units in the White City-Pennsylvanian Gas Pool. Applicant seeks the reinstatement of 640-acre spacing units in said pool with provision for 320-acre infill drilling and appropriate findings relative thereto.

CASE 7296: Application of J. Gregory Merrion and Robert L. Bayless for amendment of pool rules, contraction of the Otero-Gallup Pool, and extension of the Devils Fork-Gallup Associated Pool, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of the Devils Fork-Gallup Associated Pool Rules to provide for 160-acre spacing rather than 80 acres. Applicant further seeks the contraction of the Otero-Gallup Pool by the deletion of the following acreage: E/2 and NE/4 SW/4 of Section 2, Township 24 North, Range 6 West, and the E/2 of Section 35, Township 25 North, Range 6 West. Applicant seeks the extension of the Devils Fork-Gallup Associated Pool to include the following acreage: In Township 24 North, Range 6 West: All of Sections 2 and 3; S/2 and NE/4 of Section 4; S/2 of Section 5; S/2 of Section 6; and N/2 of Section 11. In Township 25 North, Range 6 West: SE/4 of Section 33; S/2 of Section 34; and all of Section 35.

CASE 7297: (This case will be dismissed.)

Application of Amoco Production Company for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the Morrow formation for its Alley Unit Well No. 1 in Unit E of Section 1, Township 19 South, Range 25 East.

CASE 7298: (This case will be dismissed.)

Application of Amoco Production Company for an NCPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the Morrow formation for its Lancaster Springs Com Well No. 1 in Unit I of Section 1, Township 22 South, Range 26 East.

CASE 7299: (This case will be dismissed.)

Application of Amoco Production Company for an NCPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the Morrow formation for its State IL Com Well No. 1 in Unit G of Section 3, Township 19 South, Range 24 East.

CASE 7300: Application of Dome Petroleum Corporation for designation of a tight formation, Sandoval County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Chacra formation underlying portions of Townships 21 and 22 North, Ranges 5, 6, and 7 West, containing 73,018 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271.701-705.

CASE 7301: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, redesignating, and extending vertical and horizontal limits of certain pools in Chaves, Eddy, Lea, and Roosevelt Counties, New Mexico:

(a) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the East Lusk-Morrow Gas Pool. The discovery well is Grace Petroleum Corporation West Tonto Federal Com Well No. 1 located in Unit L of Section 24, Township 19 South, Range 32 East, NMPM. Said pool would comprise:

TOWNSHIP 19 SOUTH, RANGE 32 EAST, NMPM
Section 24: W/2

(b) CREATE a new pool in Roosevelt County, New Mexico, classified as an oil pool for Mississippian production and designated as the Peterson-Mississippian Pool. The discovery well is Enserch Exploration, Inc. Finley Well No. 1 located in Unit A of Section 6, Township 5 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 4 SOUTH, RANGE 33 EAST, NMPM
Section 28: SW/4
Section 29: S/2
Section 32: W/2

TOWNSHIP 5 SOUTH, RANGE 33 EAST, NMPM
Section 5: NW/4
Section 6: NE/4

(c) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Wolfcamp production and designated as the Salado Draw-Wolfcamp Gas Pool. The discovery well is Amoco Production Company State GR Well No. 1 located in Unit G of Section 17, Township 26 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 26 SOUTH, RANGE 33 EAST, NMPM
Section 17: E/2

(d) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Strawn production and designated as the Talco-Strawn Gas Pool. The discovery well is American Trading and Producing Corporation Talco Unit Well No. 1 located in Unit H of Section 11, Township 26 South, Range 35 East, NMPM. Said pool would comprise:

TOWNSHIP 26 SOUTH, RANGE 35 EAST, NMPM
Section 11: E/2

(e) REDESIGNATE the Lusk-Seven Rivers Pool in Lea County, New Mexico, to the North Lusk-Seven Rivers Pool described as:

TOWNSHIP 19 SOUTH, RANGE 32 EAST, NMPM
Section 3: All

(f) EXTEND the vertical limits of the Lusk-Yates Pool in Eddy and Lea Counties, New Mexico, to include the Seven Rivers formation and redesignate pool as the Lusk Yates-Seven Rivers Pool described as:

TOWNSHIP 19 SOUTH, RANGE 31 EAST, NMPM
Section 24: All

TOWNSHIP 19 SOUTH, RANGE 32 EAST, NMPM
Section 19: W/2 and W/2 NE/4

(g) EXTEND the Angell Ranch Atoka-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 27 EAST, NMPM
Section 11: S/2
Section 14: All

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM
Section 32: S/2

(h) EXTEND the Antelope Ridge-Atoka Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 34 EAST, NMPM
Section 2: W/2 and NE/4
Section 11: W/2

(i) EXTEND the Atoka-Yeso Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 26 EAST, NMPM
Section 26: NW/4 SW/4
Section 33: S/2 SE/4

TOWNSHIP 19 SOUTH, RANGE 26 EAST, NMPM
Section 4: NW/4 NE/4

(j) EXTEND the Boyd-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 24 EAST, NMPM
Section 34: S/2

TOWNSHIP 18 SOUTH, RANGE 25 EAST, NMPM
Section 34: E/2

TOWNSHIP 19 SOUTH, RANGE 24 EAST, NMPM
Section 3: All
Section 10: N/2
Section 11: W/2

(k) EXTEND the Bull's Eye-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 28 EAST, NMPM
Section 12: N/2 SE/4

TOWNSHIP 8 SOUTH, RANGE 29 EAST, NMPM
Section 7: N/2 SW/4

(l) EXTEND the South Culbra Bluff-Bone Springs Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM
Section 27: N/2 NE/4

(m) EXTEND the Dublin Ranch-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 28 EAST, NMPM
Section 33: N/2

(n) EXTEND the East Eagle Creek Atoka-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 26 EAST, NMPM
Section 30: N/2

- (o) EXTEND the Southwest Eunice-San Andres Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM
Section 17: NE/4

- (p) EXTEND the Gem-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 33 EAST, NMPM
Section 31: E/2

- (q) EXTEND the Gladiola-Wolfcamp Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 12 SOUTH, RANGE 38 EAST, NMPM
Section 20: NE/4
Section 21: N/2

- (r) EXTEND the Grayburg Jackson Seven Rivers-Queen-Grayburg-San Andres Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 31 EAST, NMPM
Section 1: W/2 SW/4

- (s) EXTEND the North Illinois Camp-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 28 EAST, NMPM
Section 16: E/2

- (t) EXTEND the Langlie Mattix Seven Rivers-Queen-Grayburg Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM
Section 31: SW/4

- (u) EXTEND the North Loving-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM
Section 7: S/2

- (v) EXTEND the West Nadine-Blinebry Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM
Section 5: E/2
Section 8: NE/4

- (w) EXTEND the East Red Lake Queen-Grayburg Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM
Section 25: W/2 NE/4 and NW/4 SE/4

- (x) EXTEND the Richard Raob Atoka-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 25 EAST, NMPM
Section 9: N/2

- (y) EXTEND the West Sawyer-San Andres Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 9 SOUTH, RANGE 37 EAST, NMPM
Section 16: S/2

- (z) EXTEND the Scharb-Wolfcamp Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 35 EAST, NMPM
Section 5: E/2

(ra) EXTEND the Tomahawk-San Andres Pool in Roosevelt County, New Mexico, to include therein:

TOWNSHIP 7 SOUTH, RANGE 32 EAST, NMPM
Section 19: NW/4

(bb) EXTEND the Wantz-Abo Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM
Section 11: SW/4
Section 14: NW/4

Docket No. 21-81

DOCKET: COMMISSION HEARING - WEDNESDAY - JULY 8, 1981

OIL CONSERVATION COMMISSION - 9 A.M. - ROOM 205 -
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

CASE 7226: (DE NOVO)

Application of Enserch Exploration, Inc. for salt water disposal, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Montoya formation in the interval from 7902 feet to 7930 feet in the Pacer Well No. 2 in Unit E of Section 32, Township 5 South, Range 33 East.

Upon application of Enserch Exploration, Inc. this case will be heard de novo pursuant to the provisions of Rule 1220.

CASE 7215: (Continued from June 17, 1981, Examiner Hearing)

Application of S. P. Yates for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp-Pennsylvanian formations underlying the N/2 of Section 21, Township 19 South, Range 27 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7270: (Continued from June 17, 1981, Examiner Hearing)

Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 21, Township 19 South, Range 27 East, to be dedicated to its Pecos River Federal 21-A Com-Well No. 1 drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

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MR. STAMETS: Call next Case 7270.

MR. PADILLA: Application of Southland
Royalty Company for compulsory pooling, Eddy County, New
Mexico.

MR. STAMETS: At the request of the
applicant this case will be continued to the June 17th
Examiner Hearing.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

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

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7276 heard by me on 6-3 1981.

Richard S. Stamm, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
3 June 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Southland Royalty)
Company for compulsory pooling, Eddy) CASE
County, New Mexico.) 7270

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

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MR. STAMETS: Call next Case 7270.

MR. PADILLA: Application of Southland
Royalty Company for compulsory pooling, Eddy County, New
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MR. STAMETS: At the request of the
applicant this case will be continued to the June 17th
Examiner Hearing.

(Hearing concluded.)

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Sally W. Boyd CSR

I do hereby certify that the foregoing is a correct record of the proceedings in the hearing of Case No. _____, heard by me on _____ 19____.

_____, Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.

Rt. 1 Box 191-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
WILLIAM G. WARDLE

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

June 16, 1981

OK

Mr. Daniel S. Nutter
Chief Engineer
Oil Conservation Division
New Mexico Department of
Energy and Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Case 7270: Application of Southland Royalty
Company for Compulsory Pooling, Eddy County,
New Mexico

Dear Mr. Nutter:

Southland Royalty Company hereby requests that the above-referenced case be continued from the examiner hearing scheduled for June 17, 1981, and be set for hearing before the full Commission at the earliest possible date.

As you are aware, Southland and S. P. Yates are each seeking an Order pooling the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 21, Township 19 South, Range 27 East, Eddy County, New Mexico. I have discussed this case with Chad Dickerson and it is apparent that this dispute will not be resolved with an examiner hearing. In an effort to avoid unnecessarily burdening the Commission and the parties with an additional hearing, Chad and I have agreed to request that both cases be continued from June 17, and be set at an early date before the Commission. Mr. Dickerson will be in Santa Fe on the 17th of June and will confirm this request.

Very truly yours,

William F. Carr

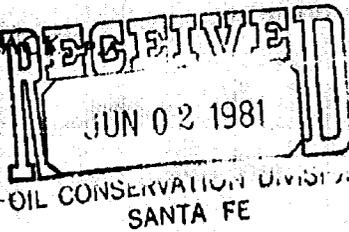
William F. Carr

WFC:lr

cc: Mr. Chad Dickerson
Mr. Dennis Sledge

CAMPBELL, BYRD & BLACK
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
WILLIAM G. WARDLE



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June 1, 1981

Mr. Joe D. Ramey
Director
Oil Conservation Division
New Mexico Department of
Energy and Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

A large, stylized handwritten signature or set of initials, possibly "JDR", written in dark ink.

Re: Case 7270: Application of Southland Royalty
Company for Compulsory Pooling, Eddy County, New Mexico

Dear Mr. Ramey:

Southland Royalty Company hereby requests that the above-referenced case be continued to the examiner hearing scheduled for Wednesday, June 17, 1981.

Your attention to this request is appreciated.

Very truly yours,

A handwritten signature in dark ink that reads "William F. Carr".

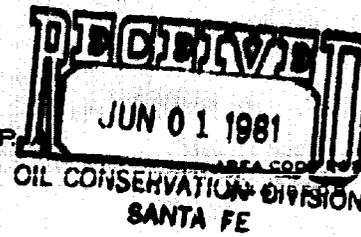
William F. Carr

WFC:lr

cc: Mr. Dennis Sledge
Mr. Chad Dickerson

A. J. LOSEE
JOEL M. CARSON
CHAD DICKERSON
DAVID R. VANDIVER

LAW OFFICES
LOSEE, CARSON & DICKERSON, P.A.
300 AMERICAN HOME BUILDING
P. O. DRAWER 259
ARTESIA, NEW MEXICO 88210



May 28, 1981

Mr. Joe D. Ramey, Director
Energy and Minerals Department
Oil Conservation Division
Santa Fe, New Mexico 87501

Re: Case No. 7270
Southland Royalty Company
Examiner Hearing of June 3, 1981

Dear Mr. Ramey:

Enclosed for filing, please find original and two copies of the Motion of S. P. Yates for Continuance.

At this time I have been unable to speak with Mr. William F. Carr, attorney for Southland Royalty Company, but will have spoken to him by tomorrow. We will call the Oil Conservation Division tomorrow for a ruling, if our motion is opposed.

Sincerely yours,

LOSEE, CARSON & DICKERSON, P.A.

Chad Dickerson

Chad Dickerson

CD:pvm
Enclosures

cc w/enclosure: Mr. S. P. Yates
Mr. William F. Carr

RECEIVED
JUN 01 1981
OIL CONSERVATION DIVISION
SANTA FE

BEFORE THE OIL CONSERVATION DIVISION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION :
OF SOUTHLAND ROYALTY COMPANY FOR : Case No. 7270
COMPULSORY POOLING, EDDY COUNTY, :
NEW MEXICO :
:

MOTION FOR CONTINUANCE

COMES NOW S. P. Yates, by his attorneys, and moves that the captioned matter be continued from the June 3, 1981, Examiner Hearing, and in support hereof states:

1. S. P. Yates desires to contest the application of Southland Royalty Company herein.
2. The issues in dispute require adequate time for preparation of witnesses and geological and engineering exhibits.
3. No notice of the docket setting for June 3, 1981, was received by S. P. Yates until noticed in the State House Reports on May 20, 1981, and inadequate time for preparation remains.

WHEREFORE, S. P. Yates prays that the hearing set upon the Application of Southland Royalty Company herein be continued until the June 17, 1981, Examiner Hearing.

S. P. YATES

By: Chad Dickerson
Chad Dickerson

LOSEE, CARSON & DICKERSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for S. P. Yates

I CERTIFY THAT I MAILED A TRUE
COPY OF THE FOREGOING MOTION
TO WILLIAM F. CARR, ATTORNEY
FOR SOUTHLAND ROYALTY COMPANY,
THIS 28TH DAY OF MAY, 1981.

Chad Dickerson
Chad Dickerson

RECEIVED
JUN 01 1981
OIL CONSERVATION DIVISION
SANTA FE

BEFORE THE OIL CONSERVATION DIVISION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION :
OF SOUTHLAND ROYALTY COMPANY FOR : Case No. 7270
COMPULSORY POOLING, EDDY COUNTY, :
NEW MEXICO :
:

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S. P. YATES

By: Chad Dickerson
Chad Dickerson

LOSEE, CARSON & DICKERSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for S. P. Yates

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Chad Dickerson
Chad Dickerson

RECEIVED
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OIL CONSERVATION DIVISION
SANTA FE

BEFORE THE OIL CONSERVATION DIVISION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION :
OF SOUTHLAND ROYALTY COMPANY FOR : Case No. 7270
COMPULSORY POOLING, EDDY COUNTY, :
NEW MEXICO :
:

MOTION FOR CONTINUANCE

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WHEREFORE, S. P. Yates prays that the hearing set upon the Application of Southland Royalty Company herein be continued until the June 17, 1981, Examiner Hearing.

S. P. YATES

By: Chad Dickerson
Chad Dickerson

LOSEE, CARSON & DICKERSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for S. P. Yates

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CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

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HARL D. BYRD
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WILLIAM F. CARR
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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

May 14, 1981

Mr. Joe D. Ramey
Division Director
Oil Conservation Division
New Mexico Department of
Energy and Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Case 7270

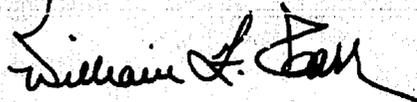
Re: Application of Southland Royalty Company for Compulsory
Pooling, Eddy County, New Mexico

Dear Mr. Ramey:

Enclosed in triplicate is the application of Southland Royalty
Company in the above-referenced matter.

The applicant requests that this matter be included on the docket
for the examiner hearing scheduled to be held on June 3, 1981.

Very truly yours,



William F. Carr

WFC:lr

Enclosures

cc: Mr. Dennis Sledge

BEFORE THE
OIL CONSERVATION DIVISION
NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

IN THE MATTER OF THE APPLICATION
OF SOUTHLAND ROYALTY COMPANY
FOR COMPULSORY POOLING
EDDY COUNTY, NEW MEXICO

CASE 7270

APPLICATION

Comes now, SOUTHLAND ROYALTY COMPANY, by and through its undersigned attorneys and, as provided by Section 70-2-17, New Mexico Statutes Annotated, 1978 Compilation, hereby makes application for an order pooling all of the mineral interests in the Wolfcamp and Pennsylvanian formations in and under the N/2 of Section 21, Township 19 South, Range 27 East, N.M.P.M., Eddy County, New Mexico and in support thereof would show the

Division:

1. Applicant owns or has obtained by farmout 25% of the working interest in and under the N/2 of Section 21, and applicant has the right to drill thereon.
2. Applicant proposes to dedicate the above-referenced pooled unit to its Pecos River Federal 21-A Com No. 1 Well to be drilled at an orthodox location 1980 feet from the North and East lines of said Section 21.
3. Applicant has sought and obtained either voluntary agreement for pooling or farmout from all other working interest owners in the N/2 of said Section 21 except S.P. Yates, owner of a 56.25% working interest.
4. Said pooling of interest and well completion will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

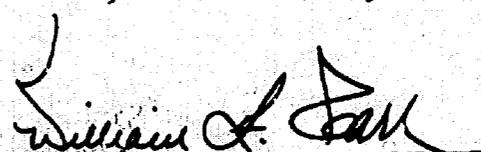
5. In order to permit the applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interest should be pooled, and applicant should be designated the operator of the well to be drilled.

WHEREFORE, applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the lands, including provisions designating the applicant as operator of the well, providing for applicant to recover its costs of drilling, equipping and completing the well and including overhead charges, and setting a risk factor for the risk assumed by the applicant in drilling, completing and equipping the well, and making such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By



William F. Carr

Post Office Box 2208

Santa Fe, New Mexico 87501

Attorneys for Applicant

BEFORE THE
OIL CONSERVATION DIVISION
NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

IN THE MATTER OF THE APPLICATION
OF SOUTHLAND ROYALTY COMPANY
FOR COMPULSORY POOLING
EDDY COUNTY, NEW MEXICO

CASE 7270

APPLICATION

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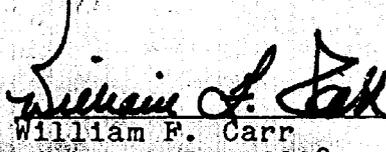
1. Applicant owns or has obtained by farmout 25% of the working interest in and under the N/2 of Section 21, and applicant has the right to drill thereon.
2. Applicant proposes to dedicate the above-referenced pooled unit to its Pecos River Federal 21-A Com No. 1 Well to be drilled at an orthodox location 1980 feet from the North and East lines of said Section 21.
3. Applicant has sought and obtained either voluntary agreement for pooling or farmout from all other working interest owners in the N/2 of said Section 21 except S.P. Yates, owner of a 56.25% working interest.
4. Said pooling of interest and well completion will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

5. In order to permit the applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interest should be pooled, and applicant should be designated the operator of the well to be drilled.

WHEREFORE, applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the lands, including provisions designating the applicant as operator of the well, providing for applicant to recover its costs of drilling, equipping and completing the well and including overhead charges, and setting a risk factor for the risk assumed by the applicant in drilling, completing and equipping the well, and making such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By 
William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

BEFORE THE
OIL CONSERVATION DIVISION
NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

IN THE MATTER OF THE APPLICATION
OF SOUTHLAND ROYALTY COMPANY
FOR COMPULSORY POOLING
EDDY COUNTY, NEW MEXICO

CASE 7270

APPLICATION

Comes now, SOUTHLAND ROYALTY COMPANY, by and through its undersigned attorneys and, as provided by Section 70-2-17, New Mexico Statutes Annotated, 1978 Compilation, hereby makes application for an order pooling all of the mineral interests in the Wolfcamp and Pennsylvanian formations in and under the N/2 of Section 21, Township 19 South, Range 27 East, N.M.P.M., Eddy County, New Mexico and in support thereof would show the Division:

1. Applicant owns or has obtained by farmout 25% of the working interest in and under the N/2 of Section 21, and applicant has the right to drill thereon.
2. Applicant proposes to dedicate the above-referenced pooled unit to its Pecos River Federal 21-A Com No. 1 Well to be drilled at an orthodox location 1980 feet from the North and East lines of said Section 21.
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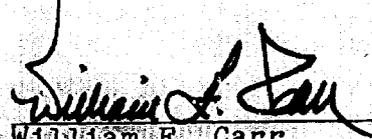
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Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By


William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

DRAFT

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

COMMISSION

APPLICATION OF SOUTHLAND CASE NO. 7270
ROYALTY COMPANY FOR COMPULSORY Order No. R- 6730
POOLING, EDDY COUNTY, NEM MEXICO.

[Handwritten initials]

[Handwritten signature]

COMMISSION *[Handwritten signature]*

ORDER OF THE DIVISION

COMMISSION
BY THE DIVISION:

[Handwritten initials]

This cause came on for hearing at 9 a.m. on July 8
1981, at Santa Fe, New Mexico, before ~~Examiner~~ *the Oil Conservation Commission of New Mexico, herein after referred to as the "Commission."*
NOW, on this _____ day of _____, 19____, ~~the Division~~ *the Commission,*
~~2 quorum being present,~~ *and exhibits received at said*
~~Director,~~ having considered the testimony ~~of the~~ *and* ~~the~~ *hearing,*
~~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 ~~Division~~ *Commission* has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Southland Royalty Company, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 21, Township 19 South, Range 27 East NMPM, North McMillen Field, Eddy County, New Mexico.

(3) That the applicant has the right to drill and ~~proposes~~^{is} drill^{ing} a well 1980 feet from the north east lines of said Section 21

(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.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) 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.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who 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.

(11) That \$ 3,340⁰⁰ per month while drilling and \$ 334⁰⁰ per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges 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.

(12) 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.

~~(13) 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, in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 21, Township 19 South, Range 27 East, NMPM, North McMillan Field, Eddy County, New Mexico, are hereby pooled to form a standard 320 acre gas spacing and proration unit to be dedicated to a well ~~to be drilled~~ currently drilling at a standard location thereon in Unit 06.

~~PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the _____ day of _____, 19____, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the _____ formation;~~

~~PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the _____ day of _____, 19____, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.~~

(11) That \$ 3,340⁰⁰ per month while drilling and \$ 334⁰⁰ per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges 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.

(12) 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.

~~(13) 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, in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 21, Township 19 South, Range 27 East, NMPM, North McWilliam Field, Eddy County, New Mexico, are hereby pooled to form a standard 320 acre gas spacing and proration unit to be dedicated to a well ~~to be drilled~~ currently drilling at a standard location thereon in Unit No. _____

~~PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the _____ day of _____, 19____, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the _____ formation;~~

~~PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the _____ day of _____, 19____, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.~~

(11) That \$ 3,340⁰⁰ per month while drilling and \$ 334⁰⁰ per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges 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.

(12) 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.

~~(13) 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, in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 21, Township 19 South, Range 27 East, NMPM, North McMillan Field, Eddy County, New Mexico, are hereby pooled to form a standard 320 acre gas spacing and proration unit to be dedicated to a well ~~to be drilled~~ currently drilling at a standard location thereon in Unit No.

~~PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the _____ day of _____, 19____, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the _____ formation;~~

~~PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the _____ day of _____, 19____, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.~~

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

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

(3) That ^{within 30 days} after the effective date of this order ~~and within 90 days prior to commencing said well~~, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within ²⁰ ~~30~~ days from the date the schedule of estimated well costs is furnished to him, 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 Division 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 Division and the Division 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 Division 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 who has paid his share of estimated costs in advance as provided

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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.

(B) As a charge for the risk involved in the drilling of the well, 200 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 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That \$ 3,340⁰⁰ per month while drilling and \$ 334⁰⁰ per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges 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.

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(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 immediately 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 Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.