

BEFORE THE
Oil Conservation Commission
SANTA FE, NEW MEXICO

IN THE MATTER OF:

CASE NO. 853 (Special)

TRANSCRIPT OF PROCEEDINGS

ADA DEARNLEY AND ASSOCIATES
COURT REPORTERS
ROOMS 105, 106, 107 EL CORTEZ BUILDING
TELEPHONE 7-9546
ALBUQUERQUE, NEW MEXICO

NEW MEXICO OIL CONSERVATION COMMISSION
MABRY HALL - STATE CAPITOL
SANTA FE, NEW MEXICO

R E G I S T E R

Case 853 -
HEARING DATE March 10, 1955 (SPECIAL HEARING) TIME: 9 a.m.

<u>NAME</u>	<u>REPRESENTING:</u>	<u>LOCATION</u>
E. Vanden Bark	Phillips Petroleum Co.	Midland, Texas
C. F. Keller	Phillips Petroleum Co.	Midland, Texas
Jason Kellahin	Phillips Petroleum Co.	Santa Fe, N. M.

ask that the Commission call a hearing to set pool rules and define the limits of the pool which was discovered by Anderson and Pritchard's well in the same Section. In view of the fact that the Commission has set that matter for hearing on March 16, although we came prepared to submit testimony in support of that part of our petition, unless the Commission desires, we will refrain from presenting that since it has nothing to do with the application for the emergency order. We have one witness, Mr. Charles Keller.

C H A R L E S K E L L E R

called as a witness, having first been duly sworn, testified as follows:

DIRECT EXAMINATION

By MR. KELLAHIN:

Q. Would you state your name, please.

A C. F. Keller.

Q By whom are you employed?

A Phillips Petroleum Company.

Q In what position?

A Division landman.

Q Where are your offices?

A Midland, Texas.

Q Does your jurisdiction include the State of New Mexico?

A Southeastern New Mexico, seven counties including Lea County, New Mexico.

Q In your position as division landman, are you familiar with the application which was filed by Phillips Petroleum Company for unorthodox drilling unit in Section 28, 25, 37 East?

A Yes.

Q Are you familiar, Mr. Keller, with the history of that lease insofar as Phillips Petroleum Company is concerned?

A Yes, I am.

Q Phillips own a lease in that Section?

A Yes, we have two oil and gas leases covering, each covering the north 60 acres of that southeast quarter. The two leases together cover a total of a three-fourths interest in that 60 acres.

(Marked exhibits 1 and 2
for Phillips Petroleum Co.)

Q I hand you what has been marked as Phillips Exhibit No. 1 and ask you to state to the Commission what that is.

A This is an oil and gas lease dated March 13, 1945, between S. M. Gloyd and wife covering the north 60 acres of the north-half southeast Section 28, Township 25 South, Range 37 East.

Q I hand you what has been marked as Phillips Exhibit 2 and ask you to state what that is.

A It is an oil and gas lease dated 2-28-45 from Harry Leonard, et al, covering the north 60 acres of the southeast quarter, Section 28, 25 South, 37 East.

Q Exhibit No. 2 cover the same acreage as the Exhibit 1?

A Yes, it is described a little different, but it covers the same acreage.

Q What is the expiration date?

A The first lease from S. M. Gloyd expires on March 13, 1955; the Harry Leonard, et al, lease expires on February 28, 1955.

Q Was there any manner by which you could perpetuate those leases other than drilling a well?

A No, there was not.

Q The lease so provide?

A No.

Q That is an implied covenant of the lease?

A Sir?

Q The lease provides that the lease would be perpetuated if a well is commenced drilling?

A That is true, yes.

Q Mr. Keller, was any effort made by Phillips Petroleum Company to obtain communitization or unitization of those leases with other lands in order to form an orthodox drilling unit?

A Yes, we attempted to communitize the southeast quarter as a unit to drill a joint test. We didn't meet with much success. Woodley Petroleum Company - -

Q Pardon me, before we go any further. Would you state what interests are covered by the two leases?

A Yes, the Harry Leonard, et al, lease covers a three-eighths interest. The S. M. Gloyd lease covers a three-eighths interest.

Q All in the same acreage?

A All covering the same land, makes a total of three-fourths interest in the 60 acres.

Q In that connection, are you familiar with the royalty ownership?

A Yes, sir.

Q Would you state to the Commission what that is, if you have that available?

A I have that here. I can't quote from memory, but I do

have that.

Q You can refer to the petition and state whether that is correct, if you are familiar with it.

A Harry Leonard is the owner of a one-fourth of the one-eighth royalty; S. M. Gloyd is the owner of three-eighths of the one-eighth royalty; and the Saunders estate is the owner of a one-eighth of the one-eighth royalty.

Q That cover all the royalty interest?

A No, it does not. That covers three-fourths of the one-eighth royalty.

Q That is the interest that you have?

A That is the interest that we have under lease.

Q Are you familiar with the other royalty ownership?

A The other royalty ownership, actually there is one-fourth of the minerals that are unleased. It is presently owned by some forty individuals, about 98 percent of that being owned by Charles B. Wrightsman.

Q The other 2 percent is owned - -

A The other 2 percent is owned by about 39 or 40 individuals.

Q Mr. Keller, you go ahead and tell the Commission the efforts that were made by the Phillips Petroleum Company prior to their application for the emergency order to obtain some kind of a unit operating agreement.

A In August of 1954, we first approached all of the owners under the southeast quarter in an attempt to form a 160-acre unit. Woodley Petroleum Company owned an oil and gas lease covering 100 acres of the southeast quarter and they advised us at that time that they would not consider entering into any kind of a unit operation

except as to all rights below 4,000 feet, and even then they would not consider such a unit until the Anderson-Pritchard well offset the southeast quarter was completed. We continued our negotiations while the well was drilling in an attempt just to reach an agreement on the contents of a unit agreement so that we would be ready immediately upon completion of the Anderson-Pritchard well to form such a unit.

We had every indication that these parties were going to join us in such a unit just as soon as the Anderson-Pritchard well was completed. It was completed in the latter part of January, 1955, at which time we prepared a proposed unit operating agreement covering the southeast quarter of the Section. Time was getting a little short, so we had one of our land man fly the instrument to our office and obtain the execution of our management, after which the land man took the instrument to Abilene, Texas, to the office of Woodley Petroleum Company.

He spent two days with Woodley going over the instrument, after which time he took the instrument to their Houston office where they had an executive who had the authority to execute such an agreement. He spent five days in Houston with Woodley Petroleum Company and finally on the fifth day they told him that they were not going to sign the agreement, for the reason that under the proposed agreement they would own a 100/160 interest in the proposed well in the unit. They didn't feel like taking that percentage of the risk of a dry hole, when in their opinion there was a good possibility that the Oil and Gas Commission might establish 320 or 640 acre proration units, in which event their dry hole risk would be considerably less than it would be under

160 acre unit. After they refused to execute the instrument, we were, of course, stopped, there was no place else to go.

Q Are you familiar with the Anderson-Pritchard well?

A Yes, I am.

Q Is that productive of gas or oil?

A Gas.

Q What formation?

A Devonian formation.

Q Is there any other such production within the area. - -

A No, there is not.

Q - - in this application?

A No.

Q The Anderson-Pritchard well was, then, a wildcat well?

A Yes, it sure was.

Q Do you know what that was tested out, approximately?

A The calculated open-flow was 67,500 M.C.F. gas per day.

Q Do you know from what depth, approximately?

A I have the approximate depth, I believe, it was approximately eighty-five, eighty-six hundred feet--8390.

Q Have you prepared a statement covering Phillips' efforts to communitize this land?

A Yes, I do have one.

Q Do you have an extra copy?

A Yes, I sure do.

Q That covers all the activities which you described?

A Yes, this covers all the activities in the area.

Q To which you have testified?

A Yes, sir, sure enough.

(Marked exhibit No. 3 for
Phillips Petroleum Company)

MR. KELLAHIN: At this time we would like to offer in evidence Exhibits 1, 2 and 3.

MR. MACEY: Without objections they will be received in evidence.

Q Do you have anything to add to your testimony?

A I don't believe I do.

MR. KELLAHIN: That is all we have.

A I might add that we did make an effort to obtain an extension of our oil and gas leases in this area, these particular leases covering this 60 acres. We contacted Mr. Harry Leonard on two different occasions in an attempt to gain just any kind of an extension of time, and were refused in both instances for an extension.

MR. KELLAHIN: Did Mr. Leonard express any opinion about your securing permission to drill a well?

A He made the remark that he could see no reason why we shouldn't go ahead and drill the well, and that if we didn't want to drill a well, he would be happy to have his lease back.

Q Did he express any opposition to this application?

A No, he did not.

MR. KELLAHIN: That is all I have.

MR. WALKER: What interest would Harry Leonard have in this well if you did go ahead and drill it? I think you answered that to start with.

A This particular well that we are drilling? He would own a royalty interest of 1/4 of 1/8.

MR. KELLAHIN: Also, under the terms of the lease, if you

encountered oil he would have an oil payment?

A Yes, he is entitled to an oil payment of 1,000, of 1,000 an acre, 1/16 of 7/8.

MR. WALKER: Why wouldn't it be to his advantage to drill the well?

A We think it would be to his advantage to drill the well.

MR. WALKER: I can't understand why he wouldn't sign the extension of time.

A He would prefer to own a working interest rather than a royalty.

MR. KELLAHIN: Would it not mean a matter of delay in getting production on the land, in the event he didn't grant an extension?

A Yes, it would.

MR. KELLAHIN: He wants production now?

A That is true.

MR. MACEY: I don't know whether you mentioned it or not, but the Anderson-Pritchard well is a direct offset to the north 60 acres of the southeast quarter.

A That is true.

MR. MACEY: Incidentally, in connection with Mr. Leonard's interest, now his interest, 1/4 of 1/8, is under 60 acres, is it not?

A That is true.

MR. MACEY: Is the interest of Wrightsman Standard of Kansas?

A That is true.

MR. KELLAHIN: I have a few more questions.

In view of the Anderson-Pritchard well location as a direct offset, is there a possibility that the land under lease to Phillips

would suffer drainage?

A Yes, there is.

Q Did Phillips participate in the Anderson-Pritchard well?

A We agreed to contribute dry-hole money in support of the Anderson-Pritchard. We gave them a dry-hole letter in the support of \$7,000 in connection with that well.

MR. MACEY: Did Anderson-Pritchard make any effort to unitize possibly the south half of the section or - -

A Not to my knowledge.

MR. MACEY: Do you know if they have made any other efforts in the area in unitization?

A No, I do not.

MR. MACEY: The reason I ask the question is that we have a lot of communitization from various companies in the area who don't know exactly which way to go or what to do. I think most of it is dependent on what Anderson-Pritchard tries to form from their discovery well. It has more or less curtailed any activities in the area at the present time because Anderson-Pritchard as I understand it, they only own 80 acres, being the east half of the southwest quarter.

A I am not sure whether they have any other acreage in there or not.

MR. MACEY: Any other questions? If nothing further, we will take the case under advisement. You have a statement you want to make?

MR. KELLAHIN: I would like to point out in view of the testimony with regards to the drainage; it would indicate that Phillips would have an obligation to drill this well to protect

the Harry Leonard and other interest owners in the area. That is another basis for our application.

STATE OF NEW MEXICO)
 : ss.
County of Bernalillo)

I, ADA DEARNLEY, Court reporter, do hereby certify that the foregoing and attached transcript of proceedings before the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF I have affixed my hand and notarial seal this 17th day of March, 1955.


Notary Public, Court Reporter.

My Commission Expires:
June 19, 1955.