

BEFORE THE
OIL CONSERVATION COMMISSION
DECEMBER 10, 1958

IN THE MATTER OF:

APPLICATION OF PAN AMERICAN PETROLEUM CORPORATION,
CASE 1566

TRANSCRIPT OF HEARING

DEARNLEY - MEIER & ASSOCIATES
GENERAL LAW REPORTERS
ALBUQUERQUE, NEW MEXICO
Phone CHapel 3-6691

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BEFORE:
Daniel S. Nutter, Examiner.

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MR. NUTTER: The next case is Case 1566.

MR. PAYNE: Case 1566, Application of Pan American Petroleum Corporation for approval of a unit agreement.

MR. NEWMAN: Kirk Newman from Roswell representing the applicant. We will have two witnesses.

(Witnesses sworn.)

JOHN H. THOMPSON

the witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. NEWMAN:

Q State your name, please?

A John H. Thompson.

Q Your employment?

A District landman for Pan American Petroleum Corporation in Roswell.

Q Have you worked with the unit agreement, the subject of this application --

A Yes, sir.

Q -- known as the East Saunders Unit?

A Yes, sir.

Q Do you have a plat showing the unit area and ownership?

A I do.

Q Will you tell the Commission, please what lands are included in that unit and the ownership of the royalty interest under it?

A The lands included are all of Sections 12 and 13, the east half of the southeast quarter of Section 14, the east half of Section 28, all of Section 24, Township 14 South, Range 34 East. Since this is all state land within this unit line, the entire royalty is owned by the State of New Mexico.

Q Has the proposed unit agreement been submitted to the Commissioner of Public Lands?

A Yes, sir.

Q Was that form and substance of that agreement approved by the Commissioner?

A It was approved as to form and content by the Commissioner.

Q Has the proposed unit agreement been executed by the owners of all the working interest on the lands comprising the unit area?

A Yes, sir, it has been executed by all the owners.

Q What is the proposed drilling under the terms of the unit agreement?

A Within 60 days after the approval of the unit agreement, we are to commence a test well and drill it to fifteen thousand feet unless the lower Devonian-Silurian formation is tested at a lesser depth.

Q What provision is made in the unit agreement of sharing production from the unit area from all wells in the unit area including the first one?

A All of the production will be shared on the basis of the surface acreage as to the same proportion that is over the entire unit area.

Q That will apply to royalty production as well as royalty interest production?

A Yes, sir.

Q Is the cost of the first test well and subsequent test wells to be born likewise?

A No, sir. The cost of the first well -- there are some, there is some difference in that.

Q In that some of the acreage has been farmed out?

A In that some of the acreage has been farmed out.

Q In fact, the owners of the farm out will pay the cost applicable to that acreage?

A Yes.

Q So it is on an acreage basis?

A That is right.

Q Will the State of New Mexico on the basis of the unit agreement and the various institutions owning the lands and entitled to the proceeds, royalty production from the lands, be protected under the terms of the unit agreement?

A Yes, sir.

Q How long has Pan American been trying to put together a unit agreement to get a drilling deal together in this area?

A Approximately two years. Before that another company was working on a unit in there, a slightly different area, but comprising a large part of these lands; they were unsuccessful in getting commitments to have effective control of the unit area. They gave it up, at which time we took it on and have worked with it ever since.

Q Despite the fact that some of the acreage in the area is running out in 1959, this project has been a continuing one for sometime?

A That's right.

MR. NEWMAN: That's all the direct from this witness.

CROSS EXAMINATION

BY MR. NUTTER:

Q What is the basis for the boundaries of the unit agreement, a structure?

A A seismic structure.

Q The other witness will testify to that?

A Yes, sir.

Q Is all the acreage in this unit area state land?

A Yes, sir.

Q You mentioned 100 percent of the working interest had been committed; how about the royalty interest?

A Of course, the royalty owner is the State.

Q Any overrides?

A There is one overriding royalty; he is under two quarter sections at the very northern part; that is not committed, Ralph Nix.

MR. NEWMAN: As a matter of fact, you haven't got to see him yet, is that right?

A Yes, sir.

Q (By Mr. Nutter) Does this unit agreement call for the drilling of a second well?

A Not unless the first well is productive. If the first well is productive, it provides for the plan of development and the plan of operation.

Q Only one test well?

A Yes.

MR. NUTTER: Any further questions of the witness.

EXAMINATION BY MR. FISCHER:

Q If that first test well is unsuccessful, does that free you from the agreement?

A The agreement stays in force for two years. It depends on what we find. Actually, there is only one obligation well.

MR. FISCHER: Thank you.

MR. NUTTER: If there are no further questions, of the witness, he may be excused.

(Witness excused.)

JOHN J. GILL

the witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. NEWMAN:

Q Would you state your full name and employment, please?

A John J. Gill; I'm a geologist for Pan American Petroleum Corporation.

Q Since you have not previously testified before the Commission or the Examiner, will you give us a brief statement of your educational and professional background?

A I graduated from the University of New Mexico in Albuquerque in June of 1950, took a Bachelor of Science Degree in geology. June of -- September of 1950, I went to work for Pan American Petroleum Corporation; I've been with them ever since, a total of eight and a half years.

Q Have you worked in the New Mexico area involved in this application?

A I've worked in this area for a year and a half.

MR. NEWMAN: Are the witness' qualifications acceptable?

MR. NUTTER: Yes.

Q (By Mr. Newman) You are familiar with the proposed unit area?

A Yes, sir.

Q Would you, in referring to this plat, please --

MR. NEWMAN: This, if the Examiner please, this plat has been submitted. It's a plat of the seismic work. It has been submitted to the Commissioner of Public Lands in connection with the application there, and copies were not brought from Roswell in the multiples ordinarily required for exhibits in these hearings. We trust and hope that one will be satisfactory.

Q Are you acquainted with the -- both the seismograph work and the general geology in the area of the proposed unit?

A Yes, sir.

Q Based on your information in this area and the work available to you from the Pan American files, in your opinion does the unit area conform to the probable productive limit of the structure considered to underlie the unit area?

A Yes, sir.

Q Briefly, what do you in your work base that opinion on?

A Well, I base it on the structure revealed by shooting in this area and sub-surface studies in the area and also nearby production from other fields of which there are three in the

immediate vicinity, the Caudill Field, which is nine and a half miles to the southeast, Ranger Lake Field six miles due north on this structure trend, and the Saunders Field six and a half miles to the southwest.

Q And do you expect to find in this structure typical of that area from the information you have at hand?

A Do I expect to find it productive?

Q Yes.

A Yes.

Q In your opinion, will the development and operation of the leases in the unit area as a unit tend to promote the conservation of oil and gas and a better utilization of reservoir energy?

A Yes, sir.

Q Was this exhibit prepared by you or under your direction?

A Yes, sir.

MR. NEWMAN: That's all the direct, please.

CROSS EXAMINATION

BY MR. NUTTER:

Q What was your name?

A John Gill.

Q Mr. Gill, do you believe the unit area is sufficiently large to afford the operator of the unit adequate control of the structure in the event production is obtained?

A Yes, sir.

Q Do you believe that the unit area is unduly large, that is, including acreage that would not be productive even though production were obtained in the unit?

A No, sir, I do not.

MR. NUTTER: Any further questions of this witness? If not, he may be excused.

(Witness excused.)

MR. NUTTER: Off the record.

(Discussion off the record.)

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recalled as a witness, having been previously sworn, testified further as follows:

REDIRECT EXAMINATION

BY MR. NEWMAN:

Q Mr. Thompson, you testified that after the drilling of the initial test well required under the terms of the unit agreement that in the event the initial test well was not productive of oil and gas or gas, there were no additional drilling requirements. Would you reconsider your answer to that question and in the light of your additional information state what is the obligation notwithstanding that the first well is a dry hole?

A Just to quote from the proposed unit agreement, it says, "Until a discovery of unitized substance capable of being

in paying quantities operator shall continue drilling one well at a time but not more than six months between a drilling of a well and commence with the next until a producing unitized substance in paying quantities is completed."

Q For the information of the Commission, from whence did you get that form of this proposed unit agreement?

A From the Land Commissioner's office, State Land Commissioner's office.

MR. NEWMAN: Thank you, that's all.

MR. NUTTER: Thank you.

EXAMINATION BY MR. UTZ:

Q Do you have a location for the obligation well?

A In the southeast quarter of the northwest quarter of 12, I believe it is.

MR. NEWMAN: That is included in the application to the Commissioner.

A Southeast quarter northwest quarter Section 12.

MR. UTZ: Thank you.

(Witness excused.)

MR. NUTTER: Do you wish to offer this map as an exhibit?

MR. NEWMAN: Yes, please, both of the plats, we will ask to offer them into evidence.

MR. NUTTER: This will be Exhibits One and Two. Without objection, Pan American's Exhibits One and Two in Case 1566

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MR. NUTTER: This will be Exhibits One and Two. Without objection, Pan American's Exhibits One and Two in Case 1566

will be admitted in evidence. Does anyone have anything further in this case? We will take the case under advisement.

STATE OF NEW MEXICO)
)
COUNTY OF BERNALILLO) ss

I, JOHN CALVIN BEVELL, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of hearing before the New Mexico Oil Conservation Commission was reported by me in stenotype and reduced to typewritten transcript by me; that the same is a true and correct record, to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal this 18th day of December, 1958, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

John Calvin Bevell
NOTARY PUBLIC

My Commission Expires:
January 24, 1962

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 1566, heard by me on 12-10, 1958.

[Signature], Examiner
New Mexico Oil Conservation Commission