

I N D E X

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|----|----------------------------------|------|-------|
| 1 | | | |
| 2 | January 10, 1991 | | |
| 3 | Examiner Hearing | | |
| 3 | Case No. 10209 | | PAGE |
| 4 | APPEARANCES | | 3 |
| 5 | | | |
| 6 | APPLICANT'S WITNESSES: | | |
| 7 | MIKE H. MURPHY | | |
| 8 | Direct Examination by Mr. Bruce | | 4 |
| 8 | Examination by Examiner Catanach | | 10 |
| 9 | Examination by Mr. Stovall | | 10 |
| 10 | ALAN FEAR | | |
| 11 | Direct Examination by Mr. Bruce | | 12 |
| 11 | Examination by Examiner Catanach | | 17 |
| 12 | | | |
| 13 | ** ** * | | |
| 14 | APPLICANT'S EXHIBITS: | MRKD | ADMTD |
| 15 | 1. | 6 | 10 |
| 16 | 2. | 7 | 10 |
| 16 | 3. | 8 | 10 |
| 17 | 4. | 9 | 10 |
| 17 | 5. | 14 | 16 |
| 18 | 6. | 15 | 16 |
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A P P E A R A N C E S

BEFORE: DAVID R. CATANACH, Hearing Examiner

FOR THE DIVISION: ROBERT G. STOVALL, ESQ.
General Counsel
Oil Conservation Commission
State Land Office Building
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

FOR THE APPLICANT: HINKLE, COX, EATON, COFFIELD & HENSLEY
Attorneys at Law
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** * **

1 EXAMINER CATANACH: At this time, we'll call case 10209.

2 MR. STOVALL: Application of Petroleum Corporation of
3 Delaware for compulsory pooling, Eddy County, New Mexico.

4 EXAMINER CATANACH: Are there appearances in this case?

5 MR. BRUCE: Mr. Examiner, my name is Jim Bruce from the
6 Hinkle law firm representing the applicant. I have two
7 witnesses to be sworn.

8 EXAMINER CATANACH: Are there any other appearances?
9 Will the witnesses please stand to be sworn in.

10 (Witnesses sworn.)

11 MIKE H. MURPHY

12 the Witness herein, having been first duly sworn, was examined
13 and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. BRUCE:

16 Q. Would you please state your name and city of
17 residence.

18 A. Mike H. Murphy, Dallas, Texas.

19 Q. And who do you work for and in what capacity?

20 A. I work for Presidio Oil Company, and I'm the
21 division land manager for the midcontinent division.

22 Q. And what is the relationship between Presidio and
23 the applicant?

24 A. The Petroleum Corporation of Delaware is a wholly
25 owned subsidiary of Presidio.

1 Q. Have you previously testified before the Oil
2 Conservation Division?

3 A. No, I have not.

4 Q. Would you please summarize your educational and
5 work experience.

6 A. I have a degree, a bachelor of science degree, from
7 North Texas State University in 1955. And I've been working
8 as a full-time landman for 31 years for various companies. Do
9 you want those?

10 Q. Sure.

11 A. I worked for Tenneco Oil Company for about 19
12 years. I worked for the Sabine Corporation for four. I
13 worked for two small independents in Dallas for a short period
14 of time, a year and a half apiece. I was with Synergy
15 Exploration Company for four years, and then we were bought
16 out. And then I've been with Presidio for about two and a
17 half years.

18 Q. And does your area of responsibility at Presidio
19 include southeast New Mexico?

20 A. Yes.

21 Q. And are you familiar with the land matters involved
22 in case 10209?

23 A. Yes, sir, I am.

24 MR. BRUCE: Mr. Examiner, are the witness's credentials
25 acceptable?

1 EXAMINER CATANACH: Yes.

2 Q. (By Mr. Bruce:) Mr. Murphy, would you please state
3 briefly what the Petroleum Corporation of Delaware seeks in
4 this case.

5 A. The Petroleum Corporation of Delaware seeks an
6 order pooling all mineral interests from the surface to the
7 base of the Morrow formation in the north half of Section 1,
8 Township 20 South, Range 29 East. And for all pools or
9 formations, the north half will be dedicated to all pools or
10 formations based on 320 acres. And the northeast will be
11 dedicated for all pools and formations spaced for 160 acres.
12 The south half, northeast quarter will be dedicated to all
13 pools, formations based on 80 acres. And the southwest,
14 northeast will be dedicated to all pools or formations spaced
15 for 40 acres.

16 The unit will be dedicated to the Superior Federal
17 Number 9 well, which is located at a standard location. And
18 we request consideration of the cost of drilling and
19 completing the well, the allocation of those costs, the
20 approval of actual operating costs, and charges for
21 supervision. And then we also ask that we be designated the
22 operator of the well and that a charge for the risk involved
23 in drilling the well be assessed.

24 (Applicant's Exhibit No. 1 was
25 marked for identification.)

1 Q. Referring to Exhibit Number 1, would you describe
2 briefly its contents and identify for the examiner the
3 interest owner whom you seek to force pool.

4 A. Okay. Basically Exhibit 1 is a land plat showing
5 the proposed unit being the north half of Section 1. It's an
6 irregular section containing 321.2 acres. At the time we
7 filed it, we had numerous working interest owners that we
8 didn't know for sure whether they would join with us. They
9 have. The only interest that we're force pooling is the
10 estate of E.J. Rousuck, deceased. His estate is in a trust
11 managed by the NCNB Bank, Texas, National Bank of Dallas, and
12 they are the agent. The trust officer is Mr. J.D. Hasik.

13 (Applicant's Exhibit No. 2 was
14 marked for identification.)

15 Q. Would you please describe your efforts to get the
16 estate to join in the well, and I refer you to the letters
17 marked Exhibit Number 2.

18 A. We've had several telephone conversations with all
19 of our working interest owners leading up to a letter dated
20 October 19th which was sent out to all of the working interest
21 owners proposing a well. We sent an operating agreement for
22 them to review and asked for their comments back.

23 In October 31 of '90, we also sent out an AFE to
24 all the working interest owners so that they would know what
25 the costs were. And then we followed up November 19th with a

1 more detailed letter with the operating agreement that
2 everyone had agreed to sign and the last AFE.

3 And then just on the 3rd of January of '91, I once
4 again wrote a letter to the estate making sure that they were
5 aware of the consequences that they would be faced with if
6 force pooled.

7 (Applicant's Exhibit No. 3 was
8 marked for identification.)

9 Q. Referring to Exhibit Number 3, would you discuss
10 the cost of the proposed well.

11 A. We're talking about drilling a 12,000-foot Morrow
12 test. The dry hole cost is \$462,400, and the completed well
13 cost is \$776,000.

14 Q. Is this proposed well cost in line with those
15 you've normally encountered in this area of New Mexico?

16 A. Right. We drilled the Superior Federal Number 8
17 well in the south half of this same section after the new
18 regulations came out requiring three sets of protection pipe,
19 and this well is right on line with those costs.

20 Q. What do you recommend for supervision and
21 administrative expenses to be paid to Petroleum Corporation?

22 A. Let's see. It's our recommendation that we use
23 \$3,560 per month be allowed for drilling costs and \$495 per
24 month for producing well costs. Those are the combined fixed
25 rates per our operating agreement that we sent out and all of

1 the other participants have signed.

2 Q. Those are fairly low rates, are they not, Mr.
3 Murphy?

4 A. Quite a bit, yes, almost half of what the normal
5 rates are right now.

6 Q. What penalty do you recommend against nonconsenting
7 interest owners?

8 A. Cost plus 200 percent. This is the figure used in
9 many operating agreements. The one that we have signed with
10 all of our partners was 200 and 400 percent, but we're
11 certainly willing to go along with those rates.

12 (Applicant's Exhibit No. 4 was
13 marked for identification.)

14 Q. And referring to Exhibit Number 4, is that a copy
15 of the letter mailed from my office to the Rousuck estate?

16 A. Yes, sir, it is.

17 Q. And were Exhibits 1 through 4 prepared by you or
18 compiled from company records?

19 A. Yes, sir.

20 Q. And in your opinion, will the granting of this
21 application be in the interests of conservation and the
22 prevention of waste?

23 A. Yes, sir.

24 MR. BRUCE: Mr. Examiner, I move the admission of
25 Exhibits 1 through 4.

1 EXAMINER CATANACH: Exhibits 1 through 4 will be admitted
2 as evidence.

3 (Applicant's Exhibits Nos. 1 through 4
4 were admitted into evidence.)

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Mr. Murphy, what percentage of the proration unit
8 is being pooled here?

9 A. I'm sorry. I hate to say this, .510947 percent.
10 Everybody else has signed the operating agreement.

11 MR. STOVALL: One-half a percent?

12 THE WITNESS: A half of one percent. That's correct.

13 Q. (By Examiner Catanach:) .51097?

14 A. .510947 percent. As I stated, we didn't realize
15 that everyone would sign. We had anticipated we would have
16 more.

17 EXAMINATION

18 BY MR. STOVALL:

19 Q. Has the trustee of the estate indicated either an
20 unwillingness or an inability, or they're simply not
21 responding?

22 A. They had indicated that the widow of Mr. Rousuck
23 has let them spend \$200 only for any oil and gas ventures and
24 anything above that, they nonconsent.

25 Q. That doesn't get them in a very deep well, does it?

1 A. No, it really doesn't. But, you know, that's the
2 breaks of the game. I know you're trying to figure out what
3 our expenses are coming out here.

4 (A discussion was held off the record.)

5 Q. (By Examiner Catanach:) We've run across this
6 situation before. All the other interest owners are in fact
7 signed up and committed to the well?

8 A. They've signed the operating agreement and the AFE.
9 That's correct.

10 MR. STOVALL: I was going to ask that question. I heard
11 him say it. Were you here this morning for the --

12 A. Yes, I was.

13 EXAMINER CATANACH: Mr. Bruce, is your other witness
14 going to testify as to the risk penalty?

15 MR. BRUCE: You bet.

16 MR. STOVALL: Is that a yes?

17 MR. BRUCE: Yes.

18 EXAMINER CATANACH: I have no further questions.

19 MR. STOVALL: Let me just take advantage of Mr. Murphy
20 here while he's here for the moment.

21 Q. (By Mr. Stovall:) You say you were here for the
22 questions I asked Mr. Seltzer this morning regarding all this?

23 A. That's correct.

24 Q. And do you remember enough of that to respond as to
25 whether you would prefer to see an order which identified

1 parties who were subject to the order, recognizing that the
2 order would contain a provision that if they joined, it would
3 not affect them? Or do you like an order that more generally
4 says all parties, even recognizing it doesn't mean all parties
5 if they haven't been notified?

6 A. Well, the parties have been notified and --

7 Q. No, I don't mean in your case. I'm talking in a
8 generic sense of a forced pooling order.

9 A. I guess I think if a landman does his job right,
10 that wouldn't be necessary because all parties would be
11 notified. I didn't answer your question.

12 Q. No. Would you rather have that identified and set
13 out in the order naming the specific parties?

14 A. It doesn't make any difference to me one way or the
15 other.

16 MR. STOVALL: That answers my question. I have nothing
17 further.

18 EXAMINER CATANACH: The witness may be excused.

19 THE WITNESS: Thank you.

20 ALAN FEAR

21 the Witness herein, having been first duly sworn, was examined
22 and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Would you please state your name for the record and

HUNNICUTT REPORTING
DEBORAH F. LAVINE, CCR, RPR

1 your city of residence.

2 A. My name is Alan Fear, and I live in Dallas, Texas.

3 Q. And who do you work for and in what capacity?

4 A. I work for Presidio Exploration Company. I think
5 Mr. Murphy already explained the relationship to Petroleum
6 Corp.

7 Q. And what is your job with Presidio?

8 A. I'm a petroleum geologist.

9 Q. And have you previously testified before the OCD?

10 A. No, I haven't.

11 Q. Would you outline your educational and work
12 background.

13 A. I have a bachelor's degree, bachelor of science,
14 from State University of New York College at Geneseo,
15 graduated in '82. I worked for four years for Synergy
16 Exploration and then two years as a consulting geologist. And
17 then since '88, I've been working for Presidio.

18 Q. And your bachelor's degree was in geology?

19 A. Yes.

20 Q. And does your area of responsibility at Presidio
21 include southeast New Mexico?

22 A. Yes, it does.

23 Q. And are you familiar with the geology involved in
24 this prospect?

25 A. Yes, I am.

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

2 EXAMINER CATANACH: He is.

3 Q. (By Mr. Bruce:) Would you please refer to Exhibit 5
4 and discuss its contents for the examiner.

5 (Applicant's Exhibit No. 5 was
6 marked for identification.)

7 A. Yes. Exhibit 5 is a structure map made on the top
8 of the Strawn clean lime. By clean lime, I mean clean gamma
9 ray. It's not the state recognized Strawn on top. It's more
10 of a stratigraphic top. What I'm trying to demonstrate here
11 through the use of the various colored symbols, which are
12 explained in the key, is that basically you have an up dip
13 stratigraphic pinch out of the Strawn. The Strawn in this
14 area is algal carbonate porosity development.

15 The green are indicated as wells that do not have
16 any affected porosity. The red are wells that are currently
17 producing out of the Strawn. And then I've got two wells down
18 here colored in blue that also are considered tight in the
19 Strawn.

20 Q. So as you move away from the Petroleum
21 Corporation's Superior Fed Number 8, you are moving closer to
22 the area where the Strawn porosity pinches out; is that
23 correct?

24 A. Potentially. You know, we'd like to think that
25 it's a good location. But my porosity pinch out, I could have

1 moved it further to the east since, you know, you know that
2 it's definitely gone in those wells, but it could be more of a
3 midpoint.

4 (Applicant's Exhibit No. 6 was
5 marked for identification.)

6 Q. Would you please move on to Exhibit Number 6, Mr.
7 Fear, and discuss that exhibit.

8 A. Exhibit Number 6 is a structural cross section with
9 north on the left and south on the right. And all I'm trying
10 to do is exhibit here that, you know, the first well on the
11 right there drilled by Yates, the Slinkard "UR" Federal Com
12 Number 3, if you look on the porosity scales, you can see that
13 you have a little bit of porosity developed in the Strawn.
14 And it was drill stem tested by Yates. But currently they're
15 producing down in the Morrow right now. Just from petrologic
16 examination, it appears to be tight.

17 And then moving over to our well, you can see that
18 we have better porosity development. And then further over is
19 the Santa Fe Parkway well, the furthest well to the north.
20 And you have to look and see that the caliper on the left-hand
21 column is showing a lot of washout. And you have an
22 indication of porosity, but the zone is tight.

23 Q. And does this show that you can move just one
24 location over and have a bad well next to good well?

25 A. Yes. If you look on Exhibit 5, in Section 2, you

1 have the Yates Petroleum Anthill State well which is a Strawn
2 producer. But if you move to the north, you have the Chevron
3 Eddy State well which was drilled just as a Strawn test. It
4 encountered tight Strawn reservoir. They didn't even try a
5 pipe completion on it. They moved up the hole and made a
6 marginal Bone Springs well out of it. And then for your
7 analogy moving one location away, to the south, you have the
8 Yates in section -- I can't make that out. Section 12 there,
9 you have the same well that's on the cross section. That's
10 moving one location away, and it's noneconomic.

11 Q. Based on your exhibits, what penalty do you
12 recommend against the nonconsenting interest owner?

13 A. We would like to see cost plus 200 percent.

14 Q. And in your opinion, is the granting of this
15 application in the interests of conservation and the
16 prevention of waste?

17 A. Yes.

18 Q. And were Exhibits 5 and 6 prepared by you or under
19 your direction?

20 A. Yes, they were prepared by me.

21 MR. BRUCE: Mr. Examiner, I move the admission of
22 Exhibits of 5 and 6.

23 EXAMINER CATANACH: Exhibits 5 and 6 will be admitted as
24 evidence.

25 (Applicant's Exhibits Nos. 5 and 6

1 were admitted into evidence.)

2 EXAMINER CATANACH: I'm sorry. I didn't get your last
3 name.

4 THE WITNESS: Fear.

5 EXAMINER CATANACH: Spell it.

6 THE WITNESS: F-e-a-r.

7 EXAMINATION

8 BY EXAMINER CATANACH:

9 Q. Mr. Fear, I take it that the Strawn is the primary
10 target of the well?

11 A. Yes, it is.

12 Q. Have you looked at other potential horizons, the
13 Morrow or anything above the Strawn?

14 A. Yes, in this area, you have a lot of serendipity.
15 You have the Delaware which is productive up to the north of
16 us. You have some Morrow production to the south, and you
17 have some Bone Springs production up to the northwest also.
18 But our primary objective is the Strawn.

19 Q. You've got a pretty good chance of making something
20 if there's nothing in the Strawn?

21 A. That's correct.

22 EXAMINER CATANACH: I have no further questions. The
23 witness may be excused.

24 MR. STOVALL: Let me ask one just to see if you know.
25 And if not, I'll get Mr. Murphy and ask him. Do you know if

1 the Rousuck estate is in that 40-acre drilling tract which
2 would be in all potential formations?

3 A. No, sir, I don't know.

4 MR. STOVALL: Okay. I have no further questions.

5 MR. MURPHY: Yes, it is.

6 MR. STOVALL: Okay. Mr. Murphy, I've asked you the
7 question. You say, Yes, it is?

8 MR. MURPHY: Yes, it is.

9 MR. STOVALL: They get force pooled anywhere; right?

10 MR. MURPHY: That's correct.

11 EXAMINER CATANACH: Anything further? There being
12 nothing further in this case, case 10209 will be taken under
13 advisement.

14 (The foregoing hearing was adjourned at the approximate
15 hour of 3:36 p.m.)

16
17
18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
20 the Examiner hearing of case no. 10209,
21 heard by me on January 10 1991.
22 David R. Catnach Examiner
23 Oil Conservation Division
24
25

1 STATE OF NEW MEXICO)
2 COUNTY OF SANTA FE) ss.

3 REPORTER'S CERTIFICATE
4

5
6 I, DEBORAH F. LAVINE, RPR, a Certified Court
7 Reporter and Notary Public, DO HEREBY CERTIFY that I
8 stenographically reported these proceedings before the Oil
9 Conservation Division; and that the foregoing is a true,
10 complete and accurate transcript of the proceedings of said
11 hearing as appears from my stenographic notes so taken and
12 transcribed under my personal supervision.

13 I FURTHER CERTIFY that I am not related to nor
14 employed by any of the parties hereto and have no interest in
15 the outcome hereof.

16 DATED at Santa Fe, New Mexico, this 11th of
17 February, 1991.
18
19

20
21
22 My Commission Expires:
23 August 6th, 1993
24
25


DEBORAH F. LAVINE, RPR
Certified Court Reporter
CCR No. 252, Notary Public