

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date AUGUST 22, 1984 Time: 8:00 A.M.

NAME	REPRESENTING	LOCATION
Natarajan Subramani	Sun Expl. & Production	Dallas, TX
D. J. McCounell	Sun Expl & Prod Co	Dallas, TX
J. T. POWER	" " "	" "
Brie Lehner	Alpha Twenty One	Santa Fe
Robert A. Strand	Atwood, Malone, Mannel Turon	Roswell
Breb Huber	Byram	Santa Fe
W. J. Kellohim	Kellohim & Kellohim	Santa Fe
Anthony Sorrentino	Gulf Oil	Houston
C. E. C. KENNEDY	INDEPENDENT	ALBUQ
Grant L. Kelle	ATTY AT LAW	Santa Fe
William J. Gau	Campbell & Black	Santa Fe
A. Motter	Cities Service	M.S.H. TX
Chad Dickerson	Lawrence Dickerson	Arturo
Eddie Matzgood	Yates & Yates	Arturo
Donald J. Steiner	Getty Oil Co.	Hobbs

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NAME	REPRESENTING	LOCATION
Jay Messers Bob Hahn	Petroleum Services Borpan	Durango Co. Santa Fe

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I N D E X

WILLIAM JOSEPH LEMAY

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E X H I B I T S

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MR. STOGNER: We will now go back and call now Case Number 8302.

MR. PEARCE: That case is on the application of Alpha Twenty-One Production Company for compulsory pooling, Lea County, New Mexico.

Call for appearances at this time.

MR. STRAND: Mr. Examiner, Robert Strand with the firm of Atwood, Malone, Mann and Turner, in Roswell, appearing for the applicant, and I have one witness to be sworn.

MR. PEARCE: Are there other appearances in this matter?

(Witness sworn.)

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

DIRECT EXAMINATION

BY MR. STRAND:

Q Will you please state your name for the record.

A My name is William Joseph Lemay.

Q Mr. Lemay, where do you reside?

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A In Santa Fe, New Mexico.

Q Mr. Lemay, have you been retained by the applicant Alpha Twenty-One Production Company to give testimony in Case 8302 this morning?

A Yes, I have.

Q Have you previously testified before the Division?

A I have.

Q And are your qualifications as a geologist a matter of record?

A They are.

Q Mr. Lemay, do you also have experience in the area of oil and gas land operations, such as purchasing leases, negotiating farmout agreements, operating agreements?

A I have done that on many occasions, yes, sir.

Q Have you also actually operated wells in New Mexico?

A I have.

MR. STRAND: Mr. Examiner, is Mr. Lemay considered qualified to testify as to land and operational matters?

MR. STOGNER: He is so qualified.

Q Would you please state the purpose of the application in Case 8302?

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2 A Yes. The applicant, Alpha Twenty-One
3 Production Company seeks an order pooling all unleased and
4 uncommitted mineral interests underlying the northwest quar-
5 ter of the southeast quarter of Section 32, Township 18
6 South, Range 37 East, in Lea County, New Mexico, from the
7 surface of the ground to the base of the Grayburg formation.

8 This is to be dedicated to a well which
9 will be re-entered or in the alternative a new well drilled
10 at that location.

11 The applicant requests that it be desig-
12 nated as the operator of such pooled unit and that any order
13 entered into by the Commission make a provision for the al-
14 location of well costs and charges for supervision and a
15 risk penalty for the well.

16 Q Mr. Lemay, I refer to what we've de-
17 scribed as Exhibit Number One. Would you please describe
18 that exhibit?

19 A Exhibit Number One is a land map in the
20 subject area. It shows the location of the possible re-
21 entry well, which is located on a standard location, 1980
22 from the south and east lines of Section 32, as well as the
23 surrounding wells in the area and the lease ownership in the
24 area.

25 Q Is the 40-acre tract that we're seeking
the pooling order for shown in red on that exhibit?

 A Yes, it is. It's colored in solid red,
which is the northwest quarter of the southeast quarter of

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said Section 32.

Q Mr. Lemay, with regard to the mineral ownership under that tract, have you examined a current title opinion covering the northwest quarter of the northeast quarter of Section 32?

A Yes, I have. I've conferred with the Alpha Twenty-One attorneys and land staff in reference to the unleased mineral interest. The unleased mineral interest is not committed to the operating agreement and it basically is an undivided 1/124th, 1/24th of the mineral interest, which is owned by Lena B. Rogers.

Q And is that the only mineral interest that is not under lease or otherwise committed to an operating agreement covering this tract?

A Yes, according to the title opinion and the attorney's work that I've looked at, that is the only mineral interest that is not committed to the operating agreement.

Q Mr. Lemay, with regard to what we've designated as Exhibit Number Two, would you please describe that?

A Yes. Exhibit Number Two is a summary of the steps that were taken by a firm called Phipps and Alexander, Consulting Landmen, in Midland, Texas, and they have tried to locate Lena B. Rogers and their efforts, along with the efforts of Alpha Twenty-One Production Company, have resulted in the fact that they still have not been able to

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2 locate Lena B. Rogers and they have taken extensive steps to
3 do so.

4 Q Mr. Lemay, this report from Phipps and
5 Alexander is dated in July of 1984. Have the Alpha Twenty-
6 One Production Company personnel informed you that they have
7 continued to try and locate Lena B. Rogers to this date?

8 A Yes, they have. They've continued after
9 the dated report, as you mentioned, in July of '84. Those
10 continuing efforts have still be unsuccessful.

11 Q Did these efforts to locate Lena B.
12 Rogers include hiring a missing persons bureau to try and
13 locate her in the Los Angeles area?

14 A Yes, they did, and the results of that
15 were -- of that effort were negative. They took extensive
16 steps to go through the records of Los Angeles County and
17 were still unable to locate Lena B. Rogers.

18 Q And that report is included as a part of
19 Exhibit Number Two, I believe.

20 A It is.

21 Q I refer you to what we've described as
22 Exhibit Number Three. Will you please describe that?

23 A Exhibit Number Three is an AFE, Authori-
24 zation for Expenditure, for a Grayburg test. The well is
25 the Mike No. 3 and would -- although not the same location
as the proposed test or re-entry -- does reflect accurately
the anticipated cost for drilling this Grayburg test and the
completion costs involved.

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In the event a re-entry was attempted and mechanically successful on the existing well in that proration unit, then the anticipated costs would be less but there's no guarantee because of the high risk involved in a re-entry.

Q And what is the total cost?

A The total cost for a completed Grayburg well are estimated at \$370,150.

Q I refer you to what we've designated as Exhibit Number Four. Would you please describe that?

A Exhibit Number Four is an operating agreement pertaining to the 40 acres which is the subject of this hearing. It's dated April 1, 1984. It conforms very accurately to the generally accepted provisions common in our industry for an operating agreement. Those provisions specifically reflect a 200 percent penalty provision or 200, 100, 300 percent on the nonconsent penalty provision in the operating agreement. That is common in many operating agreements, 200 percent being the cost of any surface equipment; 100 percent reflecting operating costs; 300 percent reflecting the intangible drilling costs involved in wells.

This is comparable to other operating agreements used in the industry. There is substantial risk, however, involved in obtaining commercial production in the area and for that reason the applicant requests that an order in this case be issued to reflect the maximum penalty provision for -- that's allowed by the statute.

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Q Mr. Lemay, does that operating agreement also contain provisions relating to costs of well supervision, both drilling and operating?

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A It does. The drilling overhead rate is a flat rate of \$2500 per month. The producing rate is \$300 per month. Those are very comparable operating costs with other operators in the area.

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Also, the Oil Conservation Division has recently entered Order R-7601 and R-7602, which pool mineral interests under the northeast quarter of the southeast quarter and the southeast quarter of the southeast quarter of Section 32, and these are offsetting quarter quarter sections or proration units covering this same unleased and uncommitted interest which is the subject of investigations reiterated earlier in my testimony.

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Q Mr. Lemay, what do these orders provide as to risk penalty and supervision rates?

A The risk penalty provision provides for reasonable well costs plus 200 percent and supervision rates are the same as explained earlier, drilling rate of \$200 -- \$2500 per month, and a producing rate of \$300 per month.

Q Mr. Lemay, does the applicant, Alpha Twenty-One Production Company request that these same provisions be included in any order entered in this case, Number 8302?

A They do.

Q Mr. Lemay, further does the applicant re-

1
2 quest that it be designated as operator of the pooled unit
3 consisting of the northwest quarter of the southeast quarter
4 of Section 32?

5 A Alpha Twenty-One does.

6 Q Mr. Lemay, in your opinion will granting
7 of the application in Case Number 8302 prevent drilling of
8 unnecessary wells, promote conservation, and protect corre-
9 lative rights?

10 A In my opinion it will.

11 Q Mr. Lemay, to your knowledge were Exhi-
12 bits Number One through Four prepared by Alpha Twenty-One
13 Production Company's staff and attorneys?

14 A Yes, to my knowledge they were and
15 they've been reviewed by me and I agree with the exhibits
16 presented.

17 MR. STRAND: Mr. Examiner, I
18 move admission of Exhibits Number One through Four.

19 MR. STOGNER: Exhibits One
20 through Four will be admitted into evidence.

21 MR. STRAND: And I have nothing
22 further at this time.

23 MR. STOGNER: Thank you, Mr.
24 Strand.

25 CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Lemay, on Exhibit Number One you show

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2 that well being at a standard location 1980 foot from the
3 south and east lines.

4 A Yes.

5 Q Who was the previous operator of that
6 well and where was it completed?

7 A Well, a number of operators on that well.
8 Schummerhorn (sic) was the initial operator. It was called
9 the No. 1 Linan, L-I-N-A-N, Linan, and they perforated the
10 Grayburg. This was back in 1955, and the well flowed
11 6,304,000 cubic feet of gas per day.

12 That well was subsequently abandoned and
13 re-entered. Of course this is the reason why it may be dif-
14 ficult to re-enter that well, considering the fact it was
15 drilled, produced, depleted, and then re-entered at a later
16 date, sold a couple times; it's got a long production -- or
17 a long history connected with it. I think the last people
18 to be involved in that well were Petro Lewis, they bought
19 the well and then subsequently tried, how hard I don't know,
20 to obtain production from both the Yates Seven Rivers and
21 the Grayburg. I think it can be assumed that the -- that
22 the gas, at least where it was perforated in the Grayburg,
23 may be depleted but there are some potential lower zones
24 that were not perforated and completed.

25 The surrounding wells have shown mixed
production history, some of which is not very exciting. An
older well, the west offset to that proposed tract, has pro-
duced 48,000 barrels of oil, but it was completed in 1955.

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2 The southwest offset to that well has a
3 cum production of only 2,581 barrels of oil to 1-1-84 and
4 it's producing currently at a rate of about 100 and, oh,
5 about one barrel of oil per day, not even 100 barrels per
6 month.

7 So the results around there are very
8 mixed and I would anticipate the commercial risk quite high
9 because the best cumulative production, of course, is from
10 the older wells drilled in 1955. There are no -- the cur-
11 rent, more recent wells have not shown to be that commer-
12 cial.

13 Q Mr. Lemay, where are these more recent
14 wells? In what direction?

15 A Well, the Alpha Twenty-One Well is a
16 fairly recent well. It is southeast of the proposed re-
17 entry. That would be in the southeast southeast of Section
18 32. Now, that well was completed only in June, June 10th of
19 1984, so I have no current production on that; however, it
20 potentialled for flowing 28 barrels of oil and 37 barrels of
21 water in 24 hours. It -- it may be commercial but it, at
22 this point it's really hard to say, since the well was just
23 completed in June.

24 There's also a well which would be the
25 southwest diagonal offset to the subject location. It --
it's the well I mentioned had only 2581 barrels of cumula-
tive oil. It was completed in 1979. That's Kennedy No. 2
NMAK. It perforated both the Yates and the Seven Rivers.

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2 Structurally there's a north plunging
3 nose in the area. The subject location would carry at least
4 as high a risk as that well and considering the fact it's
5 produced a little over 2000 barrels of oil in five years
6 it's hard to state that that doesn't appear to be a commer-
7 cial venture.

8 Q There's no Grayburg production to the
9 north and east, at least that's not what I show on your map,
10 is that correct?

11 A No, to the north, as I mentioned, is a
12 north plunging nose. This would certainly be the northern
13 extension of that nose and the northern extension of produc-
14 tion in the field.

15 Q Did you review the well file on this old
16 No. 1 Linan Well?

17 A Yes, I did. I'm trying to find the notes
18 of all the operators involved in that.

19 Q Let the record show I'll take administra-
20 tive notice of that --

21 A Yes.

22 Q -- well file.

23 Mr. Lemay, is this proration unit within
24 the Eunice-Monument-Grayburg-San Andres Pool?

25 A Yes, it is. It would be an offset to
that pool. It would be classified as Eunice-Monument or Eu-
mont Field, depending on whether Yates Seven Rivers produc-
tion and/or Queen Grayburg would be encountered commer-

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cially productive in the well.

Q However, you're advertising or asking today from the surface to the base of the Grayburg formation.

A That's correct.

Q You don't have any plans to complete into the San Andres formation, is that right?

A That is right. With my understanding with Alpha Twenty-One, they have no plans to try and perforate the San Andres. Water has been recovered, in fact, in that well in the San Andres, so there would be very little reason to attempt a San Andres completion.

Q But this well will be essentially within or within one mile of the Eunice-Monument-Grayburg-San Andres --

A Yes, it would.

Q -- Pool. But you basically are interested in everything from the surface to the base of the Grayburg.

A To the base of the Grayburg, that's correct.

Q If you have to drill a new well, this Mike No. 3 that you have your AFE --

A Yes.

Q -- on Exhibit Number Three, where would that location on that well be?

A It's listed 1320 feet from the south and east line --

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2 MR. STRAND: That's an error.

3 A -- but that would be an error because
4 they would drill a standard location, I would anticipate
5 1650 feet from the south and east lines of Section 32.

6 Q As far as the risk -- I'm sorry, as far
7 as the overhead charges, those would both be the same if you
8 either have to re-enter this old No. 1 Linan Well or drill
9 your new Mike No. 3 Well, is that correct?

10 A That is correct, Mr. Examiner, those
11 charges would apply to either effort.

12 Q Cases Number 7601 and 7602 that you men-
13 tioned earlier, are they for new wells or were they re-en-
14 tries?

15 A They were for new wells that were drilled
16 in the area. One of the wells, of course, is the southeast
17 offset to the proposed 40-acres which is the subject of this
18 hearing. That's the Alpha Twenty-One Well that I mentioned
19 which perforated the Grayburg and potentialled for flowing 28
20 barrels of oil and 37 barrels of water in 24 hours.

21 MR. STOGNER: I have no further
22 questions of Mr. Lemay.

23 Are there any other questions
24 of this witness?

25 MR. PEARCE: Excuse me, just
for clarification, Mr. Lemay, the plan as you understand it,
of Alpha Twenty-One is to go out and try to re-enter the old
well first?

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A That is correct.

MR. PEARCE: So we really need an order allowing you re-entry and if necessary a new well.

A That is correct. The operator, Alpha Twenty-One would certainly prefer to have that option mechanically, as I mentioned, because of all the re-entry and possible problems involved with that old Schemmerhorn well, it may not be possible, but I think they have to examine that mechanical risk and then choose.

MR. PEARCE: Thank you. No further questions, Mr. Examiner.

MR. STOGNER: If there are no further questions of Mr. Lemay, he may be excused.

Mr. Strand, do you have anything further in this case?

MR. STRAND: Nothing further, Mr. Examiner.

MR. STOGNER: Does anybody else have anything further in Case Number 8302 this morning?

If not, this case will be taken under advisement.

(Hearing concluded.)

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

I do hereby certify that the foregoing is a complete and correct transcript of the hearing held before me on August 22, 1984 at 8302

Michael E. Stevens, Examiner
Oil Conservation Division

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