

1 STATE OF NEW MEXICO  
2 ENERGY AND MINERALS DEPARTMENT  
3 OIL CONSERVATION DIVISION  
4 STATE LAND OFFICE BLDG.  
5 SANTA FE, NEW MEXICO

6 3 October 1984

7 EXAMINER HEARING

8 IN THE MATTER OF:

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

CASE  
8362

12 BEFORE: Gilbert P. Quintana, Examiner

13 TRANSCRIPT OF HEARING

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15 A P P E A R A N C E S  
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17  
18 For the Oil Conservation  
19 Division:

Jeff Taylor  
Attorney at Law  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

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22 For the Applicant:

William F. Carr  
Attorney at Law  
CAMPBELL & BLACK P. A.  
P. O. Box 2208  
Santa Fe, New Mexico 87501

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A P P E A R A N C E S

For Cities Service:                   W. Thomas Kellahin  
  Attorney at Law  
  KELLAHIN & KELLAHIN  
  P. O. Box 2265  
  Santa Fe, New Mexico 87501

I N D E X

DON DAVIS

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E X H I B I T S

SR Exhibit One, Plat	5
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SR Exhibit Three, Letter	6
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SR Exhibit Five, Notification	7

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3 MR. QUINTANA: Call next Case  
4 8362.

5 MR. TAYLOR: The application of  
6 Southland Royalty Company for compulsory pooling, Eddy Coun-  
7 ty, New Mexico.

8 MR. CARR: May it please the  
9 Examiner, my name is William F. Carr with the law firm Camp-  
10 bell and Black, P. A., of Santa Fe, appearing on behalf of  
11 Southland Royalty Company.

12 I have one witness who needs to  
13 be sworn.

14 MR. QUINTANA: Are there any  
15 other appearances in this case?

16 MR. KELLAHIN: Mr. Examiner,  
17 I'm Tom Kellahin, Kellahin and Kellahin, Santa Fe, New Mexi-  
18 co, appearing on behalf of Cities Service Oil and Gas Cor-  
19 poration.

20 MR. QUINTANA: Mr. Kellahin, do  
21 you have any witnesses?

22 MR. KELLAHIN: No, sir, we  
23 don't.

24 MR. TAYLOR: Would the witness  
25 please stand and be sworn?

(Witness sworn.)

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DON DAVIS,

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 Don Davis, Midland, Texas.

Q Mr. Davis, by whom are you employed?

A Southland Royalty Company.

Q In what capacity are you employed?

A As a petroleum landman.

Q Have you previously testified before this  
Commission or one of its examiners and had your credentials  
as a petroleum landman accepted and made a matter of record?

A Yes, I have.

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

A Yes, I am.

Q Are you familiar with the subject area --

A Yes.

Q -- and the proposed well?

A Yes.

MR. CARR: Are the witness'  
qualifications acceptable?

MR. QUINTANA: They are.

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Q            Would you briefly state what Southland seeks in this case?

A            Southland is seeking an order pooling the Pennsylvanian formation under the west half of Section 16, 18, 29, Eddy County, New Mexico.

             We're seeking a 200 percent penalty for any party choosing not to support the well and are also seeking that Southland be designated operator of the unit area.

Q            Have you prepared certain exhibits for introduction in this case?

A            Yes, I have.

Q            Would you please refer to what's been marked for identification as Southland's Exhibit Number One and review this for Mr. Quintana?

A            Exhibit Number One is a land plat basically of Township 18 South, 29 East. It shows Southland's well location 1980 from the north, 660 from the west of Section 16, for our SRC Empire State 16 Com No. 1.

             It also hachures in the dedicated proration unit, the west half of Section 16.

Q            Does it indicate marginal Morrow wells in the area?

A            Yes, it does. Just south of Section 16, in Section 21, I've circled a couple of wells there. One, they're both marginal, and one appears like it's going to lose money.

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2 East of there, in Section 22, is a well  
3 Southland drilled three years ago which went to the Morrow  
4 and was a dry hole.

5 Q Mr. Davis, what is the primary objective  
6 in the proposed well?

7 A The Morrow formation.

8 Q And is that the formation for which  
9 you're seeking a pooling order?

10 A Yes, basically for the Pennsylvanian.

11 Well, we're pooling it for the Morrow.

12 Q The application stated the Pennsylvanian.  
13 We're pooling it for the Morrow, is that right?

14 A Yes.

15 Q Will you now refer to Exhibit Number Two  
16 and review that for Mr. Quintana?

17 A Exhibit Number Two is a breakdown of the  
18 ownership in Section -- in the west half of Section 16. It  
19 shows all the parties who own leases and the type of support  
20 they've given Southland, and it shows Mr. John H. Trigg has  
21 chosen, or has not responded to our proposal, and at this  
22 point we have to consider him giving no support.

23 Q What percentage of the working interest  
24 has been voluntarily committed to the well?

25 A With farmins, we have approximately 93.  
-- well, 93.75 percent of the well.

Q Will you now refer to what has been mar-  
ked for identification as Exhibit Number Three, and just

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identify this for the Examiner?

A           Okay, Exhibit Number Three is the letter dated June 28th, 1984, mailed to Mr. John Trigg, requesting that he farmout to our well in the west half of Section 16. In there we propose the depth and also stated some farmout terms.

Q           Have you been in contact with Mr. Trigg since that time?

A           We've been trying to contact him by phone on numerous occasions and have left messages, but he's never returned the calls.

Q           Mr. Davis, in your opinion has Southland made a good faith effort to locate Mr. Trigg and obtain his voluntary joinder in this well?

A           Yes.

Q           Would you now refer to what has been marked for identification as Southland Exhibit Number Four and review that?

A           Southland Exhibit Number Four is a detailed AFE citing the costs to drill and complete the well. It shows a dry hole cost of \$532,000 and a completed producing cost of \$854,000, and these costs are in line with similar wells in the area.

Q           Will you now refer to Exhibit Number Five and identify that Mr. Quintana?

A           Exhibit Number Five is notifications to -- is a notification to Mr. Trigg that this application has

1  
2 been set before the Commission and just notifying him of the  
3 forced pooling.

4 Q Are you prepared to make a recommendation  
5 to the Examiner as to the risk penalty that should be asses-  
6 sed against Mr. Trigg as a nonconsenting working interest  
7 owner?

8 A Yes, I think a 200 percent penalty is the  
9 maximum that can be recommended by the Commission.

10 Q And upon what do you base that  
11 recommendation?

12 A Well, as the map showed earlier, the Mor-  
13 row formation is a -- appears to be a very unpredictable  
14 formation and you can offset a very attractive well and come  
15 up with a marginal or dry hole.

16 So every well is almost -- has to be con-  
17 sidered a wild one.

18 Q And in fact this location does offset  
19 marginal wells to the south.

20 A Yes, it does, and attractive wells to the  
21 west.

22 Q Has Southland made an estimate of the  
23 overhead and administrative costs while drilling this well  
24 and also while producing the well, if it's successful?

25 A Yes, we have a drilling well rate of  
\$4600 and a producing well rate of \$460.

Q Are these costs in line with what's being  
charged by other operators in the area?

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A Yes, they are.

Q Do you recommend that these figures be incorporated into any order which results from this hearing?

A Yes, I do.

Q Does Southland Royalty Company seek to be designated operator of the well?

A Yes, we do.

Q Mr. Davis, in your opinion will granting this application be in the best interest of conservation, the prevention of waste, and the protection of correlative rights?

A Yes, sir.

Q Were Exhibits One through Five prepared by you or have you reviewed them and can you testify as to their accuracy?

A Yes.

MR. CARR: At this time, Mr. Quintana, we would offer Southland Exhibits One through Five into evidence.

MR. QUINTANA: Southland Exhibits One through Five will so be accepted.

MR. CARR: That concludes my direct examination of this witness.

MR. QUINTANA: Mr. Davis.

A Yes, sir.

MR. QUINTANA: I have a question for you.

1  
2 A Okay.

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4 CROSS EXAMINATION

5 BY MR. QUINTANA:

6 Q You mentioned that in the south, south of  
7 your Empire State 16 Com No. 1 Well --

8 A Uh-huh.

9 Q -- there were three wells that were mar-  
10 ginal. What do you consider marginal?

11 A Well, basically marginal to us would be  
12 considered that the wells will pay out and make a small  
13 amount of money but will not meet our corporate objectives.

14 And these wells, the one in the north  
15 half of Section 21 probably will pay out; the one in the  
16 south half, it appears it won't even pay out, pay back our  
17 cost involved in drilling the well.

18 Q Thank you, that will be all.

19 MR. QUINTANA: Are there any  
20 further questions of this witness? The witness may be ex-  
21 cused.

22 Case 8362 will be taken under  
23 advisement.

24  
25 (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 record of the proceedings in the Examiner hearing of Case no. 8362, heard by me on Oct. 3 1984.  
Gilbert P. Quintana, Examiner  
Oil Conservation Division