

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 CASE  
10 Company for compulsory pooling, 8363  
11 Lea County, New Mexico.

12 BEFORE: Gilbert P. Quintana, Examiner

13 TRANSCRIPT OF HEARING

14 A P P E A R A N C E S

15  
16  
17  
18 For the Oil Conservation Division: Jeff Taylor  
19 Attorney at Law  
20 Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

21  
22 For the Applicant: William F. Carr  
23 Attorney at Law  
24 CAMPBELL & BLACK P. A.  
P. O. Box 2208  
Santa Fe, New Mexico 87501

25

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

I N D E X

DON DAVIS

|                                   |   |
|-----------------------------------|---|
| Direct Examination by Mr. Carr    | 4 |
| Cross Examination by Mr. Quintana | 9 |

E X H I B I T S

|                           |   |
|---------------------------|---|
| SR Exhibit One, Plat      | 5 |
| SR Exhibit Two, Breakdown | 6 |
| SR Exhibit Three, AFE     | 6 |
| SR Exhibit Four, Letters  | 7 |
| SR Exhibit Five, Letters  | 7 |

1  
2  
3 MR. QUINTANA: Call next Case  
4 8363.

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

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

12 I would request that the record  
13 in this case show that the witness, Don Davis, has previous-  
14 ly been sworn, remains under oath, and is a qualified petro-  
15 leum landman.

16 MR. QUINTANA: His qualifica-  
17 tions are so recognized.

18 You may proceed, Mr. Carr.

19 MR. CARR: I'd also like to ad-  
20 vise the Examiner at this time that we have been in negotia-  
21 tion with all the other working interest owners in the sub-  
22 ject proration unit; that we are close to reaching agreement  
23 with Marathon, the one remaining interest owner.

24 We're hopeful to have documents  
25 signed by the end of the week, but we're not certain that  
we're going to be able to affect that, and therefore, we  
would like to go forward with the hearing today. We will  
advise the Examiner by the end of the week if, in fact,

1  
2 we're able to reach an agreement, and at that time we would  
3 request, if we're able to reach an agreement, the case be  
4 dismissed at that time.

5 Oh, I'm sorry, it's not Mara-  
6 thon. We have agreement with Marathon. There are several  
7 other individuals, but nonetheless, we're close to reaching  
8 agreement, and we will advise you if we are able to do that  
9 by the end of the week.

10 MR. QUINTANA: And you're close  
11 to reaching agreement with all of them?

12 MR. DAVIS: Yes.

13 MR. CARR: But we do not have  
14 documents signed.

15 MR. QUINTANA: Okay, you may  
16 proceed, Mr. Carr.

17 DON DAVIS,  
18 being called as a witness and having been previously sworn  
19 upon his oath, testified as follows, to-wit:

20 DIRECT EXAMINATION

21 BY MR. CARR:

22 Q Mr. Davis, are you familiar with the ap-  
23 plication filed in this case on behalf of Southland Royalty  
24 Company?

25 A Yes, I am.

Q Are you familiar with the subject prora-

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

tion unit and the proposed well?

A Yes, sir.

MR. CARR: Are the witness' qualifications acceptable?

MR. QUINTANA: He is so accepted.

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

A Southland seeks an order pooling the Pennsylvanian formation under the east half of Section 24, 24 South, 33 East, Lea County, New Mexico.

We're also requesting that a 200 percent penalty be attached to any party choosing not to join and we're requesting that Southland be designated operator of the east half of Section 24.

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

A Yes, I have.

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

A Exhibit Number One is once again a land plat of the -- highlighted is the east half of Section 24, which shows our well location 1980 from the east, 1980 from the south of Section 24.

It also hachures in the east half of Section 24 as the dedicated proration unit.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

Q What is the primary objective of the proposed well?

A The primary objective is the Morrow formation.

Q Will you now refer to what has been marked Exhibit Number Two and review that for the Examiner?

A Exhibit Number Two is a breakdown of the east half of Section 24. It shows the leasehold owner or mineral owners under this section, and shows the type of support of each of the parties and, as you'll note, there are four individuals which at this point we're working, as Bill mentioned, we're working a deal with, but we don't have signed documents.

Q Will you now refer to Southland Exhibit Number Three and review that for Mr. Quintana?

A Exhibit Number Three is a detailed AFE of costs associated with this well. We're showing a dry hole cost of \$1,920,000; a producing well of \$2,471,000, and these costs are in line with similar wells in the area.

Q Would you summarize briefly the efforts that you've made to obtain voluntary interest of those -- of all working interest owners in the area?

A Well, the people that we show on here having no support, we contacted approximately three months ago and we tried to lease their interests and we received no response.

Approximately a month ago we sent a let-

1  
2 ter to them requesting that they either lease under equit-  
3 able terms or join as a working interest partner, and sup-  
4 plied them with the AFE that I have already detailed.

5 Q In your opinion has Southland made a good  
6 faith effort to locate all individuals and obtain their vol-  
7 untary joinder?

8 A Yes.

9 Q Would you identify Exhibit Number Four  
10 for Mr. Quintana?

11 A Exhibit Number Four are letters to the  
12 four individuals who we show as not having support.

13 Oh, excuse me, this is to four indivi-  
14 duals, which shows our latest lease offer, which we have  
15 paid less money for leases in this same area, so these are  
16 what we consider very equitable terms.

17 Q Are these below the amount you've paid  
18 for other leases in the area?

19 A No, they are not.

20 Q Would you refer to what has been marked  
21 as Exhibit Number Five and review that for the Examiner?

22 A Exhibit Number Five is -- are letters to  
23 the four individuals notifying them of this forced pooling  
24 application.

25 Q Mr. Davis, are you prepared to make a re-  
commendation to Mr. Quintana as to the risk factor to be as-  
sessed against any interest owner who may not voluntarily  
join in the drilling of this well?

1  
2 A Yes, 200 percent is the maximum that the  
3 Commission can recommend.

4 Q And upon what do you base this  
5 recommendation?

6 A Well, once again, we're drilling to the  
7 Morrow formation, which, as I've stated on the other well,  
8 is a very unpredictable formation.

9 On this plat, of course, it shows -- I  
10 have not highlighted the wells, but there's a well in  
11 Section 13, in the east half of Section 13, which is once  
12 again a well Southland considers a very marginal producer,  
13 and that's really the closest well.

14 There are attractive wells in the area,  
15 but once again, it's -- it's a very unpredictable formation  
16 to drill.

17 Q Do you believe there's a chance you could  
18 drill a well at this location that would not be a commercial  
19 success?

20 A Yes, sir.

21 Q Has Southland made an estimate of the  
22 overhead and administrative costs of this well while  
23 drilling and also while producing --

24 A Yes, sir.

25 Q -- if in fact it's successful?

A Yes, we have a drilling well rate of  
\$5175 and a producing well rate of \$518, and these are in  
line with similar wells in the area.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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

A Yes, I do.

Q And does Southland seek to be designated operator of the subject well?

A Yes, we do.

Q In your opinion will granting this application be in the best interests of conservation, the prevention of waste, and the protection of correlative rights?

A Yes.

Q Were Exhibits One through Five prepared by you or compiled under your direction?

A Yes, they were.

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

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

MR. CARR: And that concludes my direct examination of Mr. Davis.

CROSS EXAMINATION

BY MR. QUINTANA:

Q Mr. Davis, what were those producing and drilling costs you --

A The drilling costs were \$5180 -- or excuse me, it was -- yeah, \$5180, and the producing was \$518.

1  
2 Q And you stated that these were in line  
3 with costs similar in the area?

4 A Yes.

5 Q You also requested 200 percent penalty.

6 A Yes.

7 Q In view of the fact that you are close to  
8 attaining 100 percent working interest on all operators or  
9 leaseholders in this -- in this case, I will not ask for  
10 further evidence as to the penalty.

11 I've sat in hearings for a short period  
12 of time but it's been evident to me that most of the time  
13 that risk penalties are assessed based on evidence that is  
14 not available. Do you have evidence available like showing  
15 the risk, why it would be -- 200 percent risk would be per-  
16 tinent to this area?

17 A Well, we can show --

18 Q Geologic maps and things of that sort?

19 MR. CARR: I have a geologist  
20 here who can confirm the general conclusions that were  
21 reached by Mr. Davis, if you would like to have us call him.

22 We're not going to put on  
23 structure maps or things of that nature, but he can testify  
24 as to a study, that he's studied the Morrow in the area, and  
25 that any time you put -- you drill a Morrow well, you're in-  
curring a substantial risk.

MR. QUINTANA: Okay, thank you.  
Like I said, Mr. Carr, in the case due to the fact that pro-

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

bably most of these people will join, I will forgo those formalities but in the future I would like to see some type of evidence on the risk penalty that is to be assessed at 200 percent.

Most of the time I've lately seen most people just accept 200 percent as being the risk penalty and it is my belief that I think some evidence should be supportive to show the 200 percent risk factor.

If there's no further questions of the witness, the witness may be excused.

Anything further in Case 8363?

MR. CARR: Nothing further.

MR. QUINTANA: Case 8363 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 record of the proceedings in the Examiner hearing of Case No. 8363, heard by me on OCT. 3 19 84

Gilbert P. Quintana, Examiner  
Oil Conservation Division