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STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO

31 October 1984

EXAMINER HEARING

IN THE MATTER OF:

Application of Pennzoil Company  
for compulsory pooling and an un-  
orthodox location, Lea County,  
New Mexico.

CASE  
8394

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

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

For the Applicant:

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

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I N D E X

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GREG HAIR

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3 MR. STOGNER: We'll call next  
4 Case Number 8394.

5 MR. TAYLOR: The application of  
6 Pennzoil Company for compulsory pooling and an unorthodox  
7 location, Lea County, New Mexico.

8 MR. KELLAHIN: Mr. Examiner,  
9 I'm Tom Kellahin, Santa Fe, New Mexico, appearing on behalf  
10 of the applicant and I have two witnesses to be sworn.

11 MR. STOGNER: Are there any  
12 other appearances in this matter?

13 MS. WALKER: Mr. Examiner, I'm  
14 Louhannah Walker and I represent the Commissioner of Public  
15 Lands, Santa Fe, New Mexico.

16 It is possible the State Land  
17 Office may wish to enter an objection in this application.  
18 We will do so only if the application purports to include  
19 within compulsory pooling the surface to the top of the  
20 Pennsylvanian. In the event that I do enter an appearance  
21 and objection, I will call one witness.

22 MR. STOGNER: Thank you. We  
23 will ask the Pennzoil witnesses to stand at this time to be  
24 sworn, and if your witness needs to be called, we will swear  
25 him at that time, or them, I'm sorry.

(Pennzoil witnesses sworn.)

1  
2 MR. KELLAHIN: Mr. Examiner,  
3 the original application filed by the applicant in this case  
4 on October 9th, 1984, proposed to pool the mineral interests  
5 in the Atoka and the Morrow in addition to the approval of  
6 an unorthodox location.

7 The application as advertised  
8 on the docket included the pooling of all mineral interests  
9 from the surface to the base of the Pennsylvanian formation.

10 Mr. Examiner, neither one of  
11 those is correct and we would seek to amend the application  
12 so that we are obtaining a forced pooling order from the top  
13 of the Wolfcamp to the base of the Pennsylvanian.

14 It's apparent from the adver-  
15 tisement that we're seeking a west half proration unit,  
16 which is the acreage required for deep gas tests. There is  
17 no purpose served by pooling those shallower formations, and  
18 in fact, I think substantially most of that production is  
19 already dedicated to wells in the Abo and above, and there-  
20 fore, we would seek to move to amend the application.

21 I do not believe that it re-  
22 quires us to readvertise the case because the amendment is  
23 less restrictive than the application as advertised and as  
24 the application as advertised has been broader than we now  
25 seek to accomplish in the order, and all parties would have  
had adequate notice with the advertisement, and we would so  
move, Mr. Examiner.

MR. STOGNER: Mr. Kellahin, to

1 clarify a bit.

2  
3 You wish to amend this case.

4 MR. KELLAHIN: Yes, sir.

5 MR. STOGNER: Force pool from  
6 the top of the Wolfcamp to the base of the Pennsylvanian.

7 MR. KELLAHIN: That's correct.

8 MR. STOGNER: Which by standard  
9 rules of the Oil Conservation Division for a gas well is 320  
10 acres, and this particular location, 1320 from the north  
11 line and 1980 from the west line, is a standard location.

12 MR. KELLAHIN: No, sir, the lo-  
13 cation is still unorthodox.

14 MR. STOGNER: Still unorthodox,  
15 okay, I misunderstood you there and I apologize.

16 As Mr. Kellahin said in his  
17 opening statement, there will be no reason to readvertise  
18 this since it was advertised on a broader scale than what  
19 was now amended.

20 You may continue.

21 MR. KELLAHIN: Mr. Examiner, I  
22 wonder if we might inquire as to whether that amendment as  
23 accepted by the Examiner now removes the objection of the  
24 Commissioner of Public Lands from this case?

25 MS. WALKER: It does, Mr. Exa-  
miner.

MR. STOGNER: Thank you, Ms.  
Walker.

1  
2 You may continue, Mr. Kellahin.

3 MR. KELLAHIN: Mr. Examiner,  
4 we'll call our first witness, Mr. Lonnie Whitfield.

5 LONNIE WHITFIELD,

6 being called as a witness and being duly sworn upon his  
7 oath, testified as follows, to-wit:

8  
9 DIRECT EXAMINATION

10 BY MR. KELLAHIN:

11 Q Mr. Whitfield, would you please state  
12 your name and occupation, sir?

13 A My name is Lonnie Whitfield. I'm a pet-  
14 roleum landman for Pennzoil Company.

15 Q Mr. Whitfield, have you previously testi-  
16 fied as a landman before the Division?

17 A No, I have not.

18 Q Would you -- your last name is spelled W-  
19 H-I-T-F-I-E-L-D?

20 A That is correct.

21 Q All right.

22 MR. STOGNER: Please repeat  
23 that.

24 MR. KELLAHIN: W-H-I-T-F-I-E-L-  
25 D.

MR. STOGNER: Thank you, sir.

Q Mr. Whitfield, for the Examiner would you

1  
2 describe your background as it applies to petroleum land  
3 matters?

4 A Yes, sir. I graduated from Texas Tech  
5 University with a Bachelor Business Administration degree.  
6 I received my Master's from West Texas State University,  
7 Master of Education degree.

8 I've worked for Pennzoil for over five  
9 years as a petroleum landman.

10 Q With regards to your degrees, Mr. Whit-  
11 field, would you describe the year in which you got your BA  
12 and then your MA?

13 A Yes, sir. I graduated from Texas Tech  
14 with a Bachelor of Business Administration in 1970.

15 I received my Master's degree from West  
16 Texas State University in 1974.

17 Q Pursuant to your employment as a landman  
18 with Pennzoil, would you describe generally what your duties  
19 are?

20 A Yes, sir. I do all facets of land work  
21 over a four state area, being Texas, New Mexico, Oklahoma,  
22 and Arkansas; everything from lease acquisitions to putting  
23 contracts -- drawing up contracts, farmouts, farmins, oper-  
24 ating agreements, making all types of deals, et cetera.

25 Q Are you familiar with the mineral owner-  
ship with regards to the west half of this section?

A Yes, sir, I am.

Q And are you familiar with the various

1  
2 documents and contracts involved on behalf of your company  
3 in order to drill the proposed well?

4 A Yes, sir, I am.

5 MR. KELLAHIN: Mr. Examiner, we  
6 tender Mr. Whitfield as an expert petroleum landman.

7 MR. STOGNER: Mr. Whitfield is  
8 so qualified.

9 Q Mr. Whitfield, let's direct your atten-  
10 tion to Exhibit Number One and have you identify that for  
11 us.

12 A This is a land plat which has our pro-  
13 posed location located thereon in Section 1, 17 -- Range --  
14 Section 1, Township 17 South, Range 34 East, in Lea County,  
15 New Mexico. It also has our surrounding locations -- excuse  
16 me, our surrounding acreage located thereon, also, colored  
17 in yellow on your exhibit.

18 Q What is the acreage that Pennzoil Company  
19 proposes to dedicate to this well?

20 A We propose to dedicate the west half of  
21 Section 1, containing 320.93 acres.

22 Q And what will be the proposed well loca-  
23 tion?

24 A The proposed well location will be 1320  
25 feet from the north line, 1980 feet from the west line, Sec-  
tion 1.

Q As of the date of the hearing, Mr. Whit-  
field, what, if any, working interest or operating rights

1  
2 have not been dedicated to the well?

3 A The only working interest, operating  
4 rights that have not been dedicated at this time are Shell  
5 Oil Company's.

6 Q Let's turn to the second page that's at-  
7 tached to Exhibit Number One, which is a plat showing var-  
8 ious entries and have you generally describe what's depicted  
9 on this attachment?

10 A Yes, I have. This plat simply shows a  
11 breakdown of everyone's lease ownership in Section 1; the  
12 State lease number; the revenue interest along with the  
13 depth limitations of the rights, the deeper rights, are  
14 shown thereon.

15 Q And following that plat and the informa-  
16 tion is an Exhibit A that shows a tabulation by company and  
17 acreage and working interest.

18 A That is correct. This is an Exhibit A to  
19 our operating agreement which we've sent to all working in-  
20 terest owners.

21 Q If you'll look at entry under paragraph  
22 three, describe for us the status of each of those four com-  
23 panies' participation in the well.

24 A Okay, sir. Paragraph three breaks down  
25 the working interest ownership under the west half of Sec-  
tion 1. It shows the net acreage of each company, the work-  
ing interest before payout and the working interest after  
payout.

1  
2 Our working interest includes Winnoko Oil  
3 and Gas' -- Winnoko Oil and Gas Company's interest as they  
4 have farmed out their interest to Pennzoil Company at this  
5 time. We have the agreement in hand, which increased our  
6 working interest to 24.9276 percent. Winnoko has a back-in  
7 at payout which decreases our working interest at that time  
8 and gives them a working interest.

8 Exxon Company has agreed to participate  
9 with their working interest being 37.5596 percent.

10 Shell Western EP, Inc. has not made a de-  
11 cision at this time as to whether they want to participate  
12 or do anything.

12 Q All right, sir, let's turn to Exhibit  
13 Number Two and have you summarize for us your efforts to get  
14 Shell to participate in the well.

15 A Yes, sir. This is Exhibit Number Two, a  
16 letter dated September 10th, 1984, to Shell Western EP, Inc.  
17 from Pennzoil Company whereby we propose the 320-acre work-  
18 ing interest unit, being the west half of Seciton 1.

19 We ask Shell to either farmout their  
20 working interest or participate in the well. They've done  
21 neither. They have made no decision at this time.

21 Q You are therefore seeking a forced pool-  
22 ing order that will include the Shell's interest in this  
23 proration and spacing unit.

24 A That is correct.

25 Q Let me direct your attention to the at-

1  
2 attachment to that letter, which is an AFE, and have you iden-  
3 tify that one for me.

4 A Yes, sir. This is an AFE to the proposed  
5 well which we propose to drill in the west half of Section  
6 1.

7 Q Is that the AFE that's been approved and  
8 accepted by Exxon in their participation in the well?

9 A It is the AFE that has been sent to all  
10 working interest owners in the unit at this time. As of  
11 this date we've not received any of them back but we've had  
12 no objections to date.

13 Q All right, in your opinion is this a fair  
14 and reasonable estimate of Authority for Expenditures for  
15 this well?

16 A Yes, sir.

17 Q The Commission places in a pooling order  
18 an allocation for overhead charges while drilling and during  
19 operations on a monthly basis.

20 Based upon your experience do you have a  
21 recommendation, Mr. Whitfield, for the Examiner as to what  
22 that rate ought to be for this order?

23 A Yes, sir. We have included that in the  
24 operating agreement that we've sent to all working interest  
25 owners, our rate being \$4000 per well, \$400 per well on a  
monthly basis.

Q And is that a rate that in your opinion  
is fair and reasonable?

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A Yes, sir.

Q The third attachment to Exhibit Number Two is a plat. Following the plat is a letter of October 25th, '84. What's the purpose of this letter?

A This letter, dated October 25th, 1984, was sent to Shell Western EP, Inc.. It was Burlington expressed on October 25th, '84, whereby we enclosed a title opinion covering this unit, also a joint operating agreement with two signatures -- two signature pages attached thereto for their execution to return to Pennzoil Company.

To date we have received no signature page indicating their acceptance to participate in said well.

Q Is Pennzoil in a position where they can continue to wait for Shell to make a decision on their participation in the well?

A No, sir, we are not.

Q Why not?

A We feel that we're being drained presently by Shell's well in the east half. We also have money budgeted to drill this well this year and it's very important to us to get the well spudded this year.

Q In terms of timing an order to spud the well in 1984 by what approximate date do you anticipate needing a pooling order from the Division?

A As soon as possible. Our farmout agreement from Winnoko Oil and Gas Company gives us until Decem-

1  
2 ber 1st of this year to spud a well, so at the latest, De-  
3 cember the 1st, if possible.

4 Q All right, sir.

5 MR. KELLAHIN: Mr. Examiner,  
6 that concludes my examination of Mr. Whitfield.

7 MR. STOGNER: Thank you, Mr.  
8 Kellahin.

9 CROSS EXAMINATION

10 BY MR. WHITFIELD:

11 Q Mr. Whitfield, on Exhibit Two that's  
12 dated September 10th, was this the first contact you had  
13 with Shell?

14 A No, sir, we'd had prior -- excuse me,  
15 previous contacts on the telephone with Mr. Goenner, G-O-E-  
16 N-N-E-R, who is the landman representing Shell Western EP,  
17 Inc.

18 Q And approximately when will -- when were  
19 those telephone conversations?

20 A Those telephone conversations would have  
21 been, well, at least two weeks prior to this letter.

22 Q Approximately the latter part of August.

23 A Yes, sir.

24 Q Have you talked with him on the phone  
25 since that time? I notice on Exhibit Two you have a  
handwritten, or that there is a handwritten statement "will  
advise by September 26".

1  
2           A           Yes, sir, he originally told us that he  
3 would have us an answer by September 26th as to whether or  
4 not Shell would participate. September 26th they did not  
5 return our call or did not get in touch with us. I in turn  
6 called him back several -- several times and Shell was un-  
7 able to make a decision due to various reasons. One excuse  
8 was their geologist was going to be out of the office for a  
couple of weeks.

9           Q           Mr. Whitfield, you made a statement that  
10 you felt that Shell's well on the east half of Section 1 is  
11 draining your property.

12           A           Yes, sir.

13           Q           Or Pennzoil's property, is that right?

14           A           Yes, sir.

15           Q           Do you know the location of that Shell  
well by chance?

16           A           My geologist will be able to better de-  
17 scribe that for you. I'm not sure what the -- exactly what  
18 the location is. I know that it is in the southeast quar-  
19 ter, I believe, southeast quarter of Section 1, and that  
20 statement was based on geological information that has been  
told me -- that has been told to me by our geological staff.

21           Q           Okay, and he will present further evi-  
22 dence on that.

23                       The overhead charges, if I may ask you  
24 again, are \$4000 and \$400 while producing?

25           A           Yes, sir.

1  
2 Q And the total TD on this thing is appro-  
3 ximately 13,000 feet?

4 A That is correct.

5 Q Some people can just drill cheaper than  
6 others.

7 A Yes, sir.

8 MR. STOGNER: I have no further  
9 questions of Mr. Whitfield.

10 Are there any other questions  
11 of this witness?

12 If not, he may be excused at  
13 this time.

14 MR. KELLAHIN: Mr. Examiner,  
15 we'll call Greg Hair, H-A-I-R.

16 GREG HAIR,

17 being called as a witness and being duly sworn upon his  
18 oath, testified as follows, to-wit:

19 DIRECT EXAMINATION

20 BY MR. KELLAHIN:

21 Q Mr. Hair, for the record would you please  
22 state your name and occupation?

23 A Yes. Gregory L. Hair. I'm District Geo-  
24 logist for Pennzoil Company in Midland, Texas.

25 Q Mr. Hair, have you previously testified  
before the Division as a petroleum geologist?

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A I have.

Q And have you made a study of the geologic facts surrounding this application by Pennzoil?

A I have.

MR. KELLAHIN: We tender Mr. Hair as an expert petroleum geologist.

MR. STOGNER: He is so qualified.

Q Mr. Hair, let me direct your attention to Exhibit Number Three and have you first of all identify that exhibit for us.

A This is a plat of the proposed location along with an Isopach map of the Atoka pay sand, which we hope to find gas and gas condensate in.

It shows the wells that were -- that penetrate this horizon, as well as all of the wells in the area.

The wells that penetrate the horizon are circled. Shell's well is in the southeast quarter of Section 1, in answer to your previous question, Mr. Examiner. It's 990 feet from the south line, 990 feet from the east line of Section 1, Township 17 South, Range 34 East.

Q It's the gas well symbol in Unit P that has the number, the dash, and then the Roman numeral VI?

A Yes.

Q All right, sir. Would you identify for us the proposed location that Pennzoil intends to use?

1  
2           A           Yes. Pennzoil proposes to use a location  
3 that's 1320 feet from the north line and 1980 feet from the  
4 west line of Section 1.

5           Q           In terms of a gas well location in the  
6 west half of Section 1, Mr. Hair, a standard location would  
7 be 1980 feet from the north line. Can you express for us a  
8 geologic opinion as to why you prefer an unorthodox location  
9 as opposed to the closest standard location?

10          A           Yes. We've made both geological and geo-  
11 physical surveys of this area.

12                   Geophysical surveys indicate that the  
13 Atoka sand package which we're -- is our primary objective,  
14 pinches out just south of 1980 feet from the north line and  
15 1980 feet from the west line, and we feel a location there  
16 would be far too risky for a well.

17                   By moving the well to the north we feel  
18 we can encounter a much thicker sand section and reduce the  
19 risk considerably.

20          Q           Apart from the Atoka are there any other  
21 possible gas formations or pools that might be productive?

22          A           Yes, possibly the Wolfcamp, the Cisco  
23 Canyon, the Strawn, and the Morrow.

24          Q           All right, sir, let me direct your atten-  
25 tion to Exhibit Number Four and have you identify that.

          A           This is a geophysical structure map on  
the approximate top of the Morrow clastic section. Shown on  
it are structure contours in time. The two purple lines on

1  
2 the map are geophysical faults, which cut across Section 1  
3 there. These faults, while they do cut the Morrow, do not  
4 cut the Atoka. They stop just below the base of the Atoka  
5 section; however, we feel they had bearing upon the deposi-  
6 tion of the Atoka sand and we feel that moving any farther  
7 to the north than 1320 would get us into trouble with this  
8 fault if we drill deeper into -- when we drill deeper into  
9 the Morrow formation.

9 Q All right, sir, let's go to Exhibit Num-  
10 ber Five and have you identify that.

11 A This is a production plat of the same  
12 area. It shows all producing wells in the area. There is  
13 production in the Queen, the San Andres, Grayburg, and the  
14 Abo, which is above our area of interest. There is also  
15 production in the Wolfcamp, the Middle Pennsylvanian and the  
16 Atoka Morrow, which is in our zone of interest. Primary im-  
17 portance here are the Atoka Morrow wells, the two producers  
18 in Section 7, one producer in Section 12, one in Section 11,  
19 and one in Section 1.

19 The well in Section 1 is the Shell well  
20 previously described. It was completed in the Atoka sand  
21 that is mapped on the Exhibit Number Three, and to date has  
22 produced 241-million cubic feet of gas from that zone.

22 Q Do you have an opinion as to whether or  
23 not you believe the Shell well in Unit P of Section 1 is  
24 subjecting the west half of Section 1 to drainage from the  
25 Atoka?

1  
2           A           Yes. As you can see from the Exhibit  
3 Number Three, we feel that it is in the same sand series as  
4 what we are drilling for. Also by Exhibit Number Four, you  
5 can see that we are down dip to the Shell well. Therefore,  
6 I believe that the Shell well is draining us.

7           Q           In terms of an opinion on your part on  
8 the penalty factor to be assessed against Shell in the event  
9 that they elect to go nonconsent under the pooling order,  
10 what is your opinion?

11           A           Yes. I feel that the penalty should be  
12 the maximum 200 percent. This is based primarily on produc-  
13 tion in Section 7 shown on the map.

14                       The two wells there encountered a very  
15 thick Atoka sand and have been offset seven times within one  
16 mile of the locations. Only one well has been successful,  
17 and that's been the Shell well.

18                       The risk shown here is very high for this  
19 sand series, and I think that the penalty should reflect  
20 that.

21           Q           In your opinion, Mr. Hair, will approval  
22 of this application prevent waste and protect correlative  
23 rights?

24           A           Yes, it will.

25                       MR. KELLAHIN: Mr. Examiner, we  
26 move the introduction of Exhibits One through Five.

                      MR. STOGNER: Exhibits One  
27 through Five will be admitted into evidence.

## CROSS EXAMINATION

1  
2  
3 BY MR. STOGNER:

4 Q Mr. Hair, that Shell well in the south-  
5 east quarter, is that a standard or a nonstandard location?

6 A I believe that is a nonstandard location.

7 Q Is that a nonstandard location in the as-  
8 pects of the side boundary or the end boundary?

9 A I believe that that is from the end boun-  
10 dary.

11 Q By looking at this and my simple arithme-  
12 tic, I see that this well is 650-foot, oh, from the Shell  
13 well, 1650 feet from Shell's west half proration unit. Is  
14 that right?

15 A I believe so. I have not done the arith-  
16 metic.

17 Q Okay. And your well will -- your pro-  
18 posed well will be 660 feet from that, from Shell's prora-  
19 tion unit.

20 A Yes.

21 Q Would you go to Exhibit Four and explain  
22 to me again the purple markings on those?

23 A The purple marks are faults. They cut  
24 the Morrow formation displacing the Morrow formation; how-  
25 ever, the Atoka sand deposited directly above the Morrows,  
laps over the top of those faults. It is not displaced by  
those faults.

1  
2 Q Okay. Do you feel that -- let me back up  
3 a little bit.

4 What zone is the Shell well presently  
5 producing from?

6 A The Atoka sand that is mapped on Exhibit  
7 Three.

8 Q So you feel that the Atoka is being  
9 drained from your west half proration unit --

10 A That is --

11 Q -- by this Shell well.

12 A That is correct.

13 MR. STOGNER: I have no further  
14 questions of this witness.

15 Are there any other questions  
16 of Mr. Hair?

17 MR. KELLAHIN: No, sir.

18 MR. STOGNER: If not, he may be  
19 excused.

20 Is there anything further this  
21 morning in Case Number 8394?

22 If not, this case will be taken  
23 under advisement.

24  
25 (Hearing concluded.)

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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

FILED  
OCT 31 1984  
MICHAEL ESTYER  
Oil Conservation Division