

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

19 November 1986

EXAMINER HEARING

IN THE MATTER OF:

Cases called on the docket for 19
November 1986 for which no testimony
was presented.

CASE
2031
9032

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

Jeff Taylor
Legal Counsel for the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

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MR. CATANACH: Call next Case
Number 9031.

MR. TAYLOR: Application of
Yates Petroleum Corporation for a Hardship Gas Well
Classification, Eddy County, New Mexico.

The applicant has requested
that this case be continued.

MR. CATANACH: Case 9031 will
be continued to the December 3rd hearing examiner docket.

* * *

MR. CATANACH: Call next Case
Number 9032.

MR. TAYLOR: Application of
John L. Cox for an unorthodox oil well location, Lea County,
New Mexico.

The applicant has requested
that this case be dismissed.

MR. CATANACH: Case 9032 is
hereby dismissed.

(Hearings 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 the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true, and correct record of this portion 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. 903, 9032 heard by me on Nov 19, 1986.
David R. Catanus, Examiner
Oil Conservation Division

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 17 December 1986

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Estoril Producing Cor- CASE
10 poration for compulsory pooling, non- 9052
11 standard oil proration unit, and an
12 unorthodox oil well location, Lea
13 County, New Mexico.

14 BEFORE: David R. Catanach, Examiner

15 TRANSCRIPT OF HEARING

16 A P P E A R A N C E S

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

22 For the Applicants: George H. Hunker, Jr.
23 Attorney at Law
24 HUNKER, FEDRIC P.A.
25 P. O. Box 1837
Roswell, New Mexico 88201

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I N D E X

STATEMENT BY MR. HUNKER 3

JOSEPH WILLIAM FORAN

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CLIFF DRESCHER

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STEPHEN L. BLAYLOCK

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Estoril Exhibit Three, Unleased Parties 12

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MR. CATANACH: Call next Case
9052.

MR. TAYLOR: The application of
Estoril Producing Corporation for compulsory pooling, non-
standard oil proration unit, and an unorthodox oil well lo-
cation, Lea County, New Mexico.

MR. CATANACH: Are there ap-
pearances in this case?

MR. HUNKER: There are, Mr.
Examiner. I'm George Hunker, Hunker, Fedric, P. A., Ros-
well, New Mexico.

I have three witnesses, five
exhibits. I'd like to have all three witnesses sworn at
this time.

MR. CATANACH: Are there any
other apperances in this case?

(Witnesses sworn.)

MR. HUNKER: If the Examiner
please, I would like to make a very short opening statement.

Commission Orders R-3816 and R-
3816-A, dated September 1st, 1969, and August 21st, 1970,
respectfully, created the Northeast Lovington Pennsylvanian

1 Pool.

2 The pool includes acreage in
3 three townships, including portions of Township 16 South,
4 Range 37 East.

5 Our client, Estoril Producing
6 Corporation of Midland, Texas, has obtained a farmout and
7 the right to drill on a 102.82-acre tract described as Lots
8 1 and 2, Section 7, Township 16 South, Range 37 East.

9 The pool rules of the Lovington
10 Pennsylvanian Pool prescribe 80-acre standard units for oil
11 production with the well to be located on the north half,
12 the south half, the east half, or the west half of the
13 governmental quarter section.

14 Lots 1 and 2 of Section 7 are
15 equivalent of the west half of the northwest of Section 7
16 but due to the excess acreage are described as lots in the
17 governmental survey.

18 The rule also prescribes that
19 each well shall be drilled at a location within 150 feet of
20 the center of a governmental quarter section or lot.

21 Estoril's proposed well loca-
22 tion is 1200 feet from the north line and 600 feet from the
23 west line of Section 7. Our testimony will show that this
24 location is unorthodox in that it is not within 150 feet of
25 the center of a lot, but that such location is appropriate

1 geologically in that it is situated on a seismic shotpoint,
2 which indicates maximum porosity will be obtained at this
3 location.

4 In addition to its request for
5 approval of an unorthodox location on a nonstandard unit,
6 Estoril seeks the compulsory pooling against certain inter-
7 est owners whose interests are not committed to the drilling
8 of the test well.

9 Estoril will seek an order fix-
10 ing the reasonable charge for administrative overhead during
11 drilling and during production.

12 As to those persons who have
13 not joined in the drilling of the well Estoril will ask that
14 a risk factor be specified to compensate operator for this
15 factor.

16 My first witness is Mr. Joe
17 Foran.

18
19 JOSEPH WILLIAM FORAN,
20 being called as a witness and being duly sworn upon his
21 oath, testified as follows, to-wit:

22

23

DIRECT EXAMINATION

24 BY MR. HUNKER:

25

Q And at this time I would ask you, Mr.

1 Foran, to state your name for the record, along with your
2 address and your occupation.

3 A My name is Joseph William Foran. I'm an
4 independent operator and producer out of Dallas, Texas. I
5 currently serve Foran Oil Company as its president and
6 owner.

7 Q How long have you been in the oil
8 business, Mr. Foran?

9 A I grew up in Amarilla, Texas, where my
10 father's in the pipeline construction business and I spent
11 my summers working there.

12 After school I worked as an attorney for
13 a judge in Austin.

14 Afterwards I worked for -- as a lawyer,
15 private practice, in Houston with Vincent & Elkins, doing
16 primarily oil and gas litigation.

17 Subsequent to that time I was Vice
18 President and General Counsel of J. Cleo Thompson in Dallas,
19 Texas, for three and a half years, and for the past four and
20 a half years I've been in business for myself under Foran
21 Oil Company.

22 Q Have you been doing land work during that
23 four and a half year period?

24 A Yes, sir, I've really been doing land
25 work since 1980.

1 Q What is your educational background?

2 A I have an undergraduate degree with high-
3 est honors in accounting from the University of Kentucky.

4 Then I have a Juris Doctorate degree from
5 SMU School of Law.

6 And I've attended numerous seminars and
7 continuing education programs.

8 Q Do you regard yourself as a petroleum
9 landman?

10 A Yes, sir, I do.

11 MR. HUNKER: We tender the wit-
12 ness as an expert, Mr. Examiner.

13 MR. CATANACH: The witness is
14 considered qualified. I have one question at this time.

15 Mr. Foran, what is your asso-
16 ciation with Estoril Producing Corporation?

17 MR. HUNKER: That was my next
18 question.

19 Q What is your position regarding this par-
20 ticular matter?

21 A If you will refer to Exhibit Number One,
22 Mr. Hearing Examiner, you'll see the Anderson No. 1-6 shown.
23 If you remember, in a previous hearing here Estoril and I
24 were the applicants to force pool Texaco, and at that time I
25 testified then; the situation still applies, that I secured

1 the farmouts in Section 6 and in Section 7, which I subse-
2 quently offered to Estoril and Estoril accepted. Estoril is
3 the operator but I'm continuing to do the land work asso-
4 ciated with both prospects.

5 Q How is this particular prospect going to
6 be handled from an investment standpoint by Foran and Esto-
7 ril?

8 A The portion of the farmouts that we have
9 secured from Amerada and Mobil are the leases that we've
10 taken.

11 Estoril will own -- Estoril or Estoril
12 Group will own 25 percent, Sun will own 50 percent, and I
13 will own 25 percent, subject to certain area of mutual in-
14 terest agreements with Mesa and Sequoia.

15 Q Are you familiar with the application
16 that Estoril Producing Corporation has filed in this matter?

17 A Yes, sir, I am.

18 Q Have you done most of the land work that
19 -- or practically all of the land work that's been done in
20 connection with this project?

21 A Yes, sir, I have. The relationship be-
22 tween Estoril and myself is basically Estoril is the opera-
23 tor and tends to the operation matters and I've been doing
24 the land work associated with each prospect.

25 Q Referring to Exhibit Number One, will you

1 state what that is and what it depicts?

2 A Exhibit Number One is a plat showing the
3 offset operators to the Estoril No. 1 Christmas. It was
4 prepared by Estoril as part of their application, but I can
5 from personal knowledge verify the accuracy of the facts de-
6 picted in this exhibit.

7 Q Does that exhibit reflect the location of
8 the No. 1 Christmas?

9 A Yes, sir, the location, proposed location
10 that we are seeking for the No. 1 Christmas is shown in a
11 proration unit outlined in yellow and the exact location it-
12 self is marked with a circle with a red dot in the middle of
13 it.

14 Q I'd like for you to refer to what has
15 been marked as Exhibit Number Two. Will you tell the Exam-
16 iner what that exhibit shows?

17 A This is a New Mexico Oil Conservation
18 Commission Well Location and Acreage Dedication plat.

19 Q Was this filed with the application for
20 permit to drill?

21 A Yes, sir, it 's my understanding that it
22 was and is.

23 Q And this an accurate plat of the location
24 of the well itself?

25 A I did not prepare this. It was prepared

1 by Mr. Drescher, who will testify in a minute, but to the
2 extent of my knowledge of this, everything that I have any
3 knowledge, it is accurate and complete.

4 Q Well, Mr. Drescher approved it, but it
5 looks like it was -- the surveying was done by the John West
6 firm, is that correct?

7 A That's what this exhibit shows, yes, sir.

8 Q All right. What does it show with regard
9 to the dimensions of -- of Lots 1 and 2 in Section 7?

10 A All of the western boundary of this town-
11 ship have lots and in this instance in Section 7, in the
12 west half of Section 7, the lots are 1699.5 feet in an east-
13 west direction.

14 Q What area is to be compulsorily pooled
15 under the application that has been filed by Estoril?

16 A We were seeking to force pool Lots 1 and
17 2. Lots 1 and 2 have common ownership.

18 Q Do you desire to limit that -- that pool-
19 ing to all formations completed for oil and spaced on an 80-
20 acre spacing pattern?

21 A Yes, sir, that's correct.

22 Q In connection with the application that
23 was filed in this -- in this case, it was shown at that time
24 that certain companies and individuals were offset opera-
25 tors.

1 MR. HUNKER: If the Commission
2 please, I've signed the application on behalf of my client,
3 Estoril, and I have served all of the offset operators by
4 certified mail, registered, return receipt requested, and a
5 copy of my certification as to service is handed you at this
6 time.

7 I would also like to hand you a
8 certification with regard to the notice to unleased and un-
9 committed owners, and if you wish, I have copies of the re-
10 turn receipts that we can furnish to the Commission if they
11 so desire.

12 Q Referring to the application, where we
13 list certain unleased, uncommitted interests, I'd like for
14 you to tell the examiner what has transpired since the fil-
15 ing of the application? What has been learned and what --
16 what have you done about these various interests?

17 A All of -- this list was prepared at the
18 time the application was submitted. Since that time we've
19 been able to reach agreement on most of these interests so
20 that at this time all of these interests are now, as indi-
21 cated here, intention to participate or have been leased or
22 other arrangements have been made, with four exceptions on
23 this lease, and I can either go one by one or I can try to
24 summarize it, if you wish.

25 Q Have you prepared an exhibit that re-

1 flects the names and addresses of the parties and their per-
2 centage interest who have -- who have not -- are not shown
3 to have leased their interest at this time?

4 A Yes, sir, I've -- I've prepared an exhi-
5 bit marked Number Three, which indicates the eight interests
6 for which we've been unable to find a recorded lease.

7 In a couple of instances we have been ad-
8 vised by one or more of the working interest owners that
9 they have taken a lease but as of Friday we did not see a
10 lease of record.

11 Those are -- so we -- I prepared Exhbiit
12 Three for -- because of the confusion to whether a lease has
13 been taken or not been taken and wanted to be sure to point
14 this out.

15 Q I notice that the First National Bank of
16 Lubbock, actin as Trustee for J. E. and Beulah Simmons, both
17 deceased, have 6.25 percentage interest in the tract in
18 question. What have been you been advised with respect to
19 that interest?

20 A The bank has advised us that they have
21 granted a lease on this property to a company out of Amaril-
22 la called Orion Resources, and we then called Orion and
23 Orion said that they had not received the lease yet, and we
24 gave Orion notice through its -- one of its partners, Mr.
25 Mike Bennett, that this hearing was taking place and to

1 please let us know if the lease does -- if they do secure a
2 lease whether they wish to participate, to farmout, or to be
3 force pooled.

4 Mr. Bennett said he would pass on this
5 information to his partners and to his principal or to, you
6 know, that he would act upon it. We've not heard anything
7 yet and we still have not found a lease of record and that's
8 why we've included the bank's name and address upon this
9 list, Exhibit Three.

10 Q Mobil Oil Corporation was listed. What
11 is their position at this time?

12 A Mobil has assigned us their leasehold in-
13 terest.

14 Q The Harvey E. Yates Company, what about
15 that interest?

16 A They have indicated their intention to
17 participate.

18 Q The Estate of Carolton J. Carmichael.

19 A He has indicated his intention to partici-
20 pate.

21 Q Were you ever able to find Elizabeth
22 Guest, Adolph Schweizer, or Ann Fox?

23 A No, sir, we have not. These people, the
24 last known address we have for them is forty years old.
25 They, apparently, were neighbors who bought a one mineral

1 acre from somebody than then move off, and we have -- we've
2 searched abstracts and records under this section and other
3 sections in an attempt to find some more recent address for
4 them.

5 Q You have listed as being unleased at the
6 present time, the Cobb and Jung interests. Have you been in
7 touch with them to offer them a -- offer to buy a lease from
8 them or obtain a farmout or --

9 A Yes, sir, we have.

10 Q -- make some other kind of deal?

11 A We've made both a verbal offer and a
12 written offer to Mr. Coff and Mr. Jung.

13 We have been advised by HEYCO that they
14 expect to take a lease from them but again I've included it
15 on Exhibit Number Three because I've yet to see anything of
16 record or in writing of what their intention is.

17 Q Does your Exhibit Three show what percent-
18 tage of mineral interest is unleased at the present time ac-
19 cording to the records in Lea County?

20 A Yes, sir. According to the records in
21 Lea County there's currently 9.165 percent interest un-
22 leased. Two-thirds of that is related to the bank in Lub-
23 bock, who has advised us they've granted a lease, so I pre-
24 sume that that lease is in the mail somewhere and will soon
25 be of record.

1 But both the bank and the company that
2 they have purportedly leased to have both actual knowledge
3 of this proceeding and are aware we're continuing to try to
4 reach -- make some sort of arrangement with them.

5 Q Most of the leases in this particular area
6 were acquired by Amerada Hess, is that correct?

7 A Yes, sir, that's correct.

8 Q Have you looked at the Amerada Hess farm-
9 out?

10 A Yes, sir, I have, and that's one reason
11 we're here today on the forced pooling and requesting relief
12 as soon as possible.

13 Our farmout with Amerada is due to expire
14 January 1, 1987, and we would like to try to spud the well
15 prior to that time.

16 Q Do you know what Amerada's reason was for
17 requiring you to spud the well so soon?

18 A Yes, sir, these leases are starting to
19 expire. Some of their leases have already expired and more
20 are due to expire in the near future.

21 MR. HUNKER: At this time I'd
22 like to tender Exhibits One, Two, and Three, Mr. Examiner.

23 MR. CATANACH: Exhibits One,
24 Two, and Three will be admitted into evidence.

25 A One other point I would like to make, on

1 the listing that's attached to the application, we have two
2 names down Barton Brothers Land & Cattle Company and Norma
3 N. Barton. We have since learned that neither of them ac-
4 tually own interest in Lots 1 and 2.

5 We have also been advised that Roy G.
6 Barton, Jr., who is listed on this, has indicated his inten-
7 tion to participate.

8 Three other interests shown on the appli-
9 cation, Donald A. Brown, Lynn R. Brown, and Alice B. Brown
10 Huntington, we have been advised by HEYCO that they have ob-
11 tained leases from them.

12 Two of those names, we've included, you
13 know, and where we have not seen a lease of record, in an
14 abundance of caution we've included them on Exhibit Three
15 even though HEYCO has advised us they've taken leases. We
16 have no reason to believe that they haven't taken leases or
17 they're about to get them, but we just have -- I've included
18 them on Exhibit three for an abundance of caution.

19 The last name, two last names, on this
20 list, on the application, Gwen G. Hall has leased her inter-
21 est to Mr. John T. Echols and Echols has indicated his in-
22 tention to participate or make other arrangements.

23 And then we have renewed the Mary Scott
24 Gould Horne lease on behalf of Amerada.

25 And I think that accounts -- is an ex-

1 planation for each of the names shown on our application.

2 MR. HUNKER: I have no further
3 questions at this time.

4 Do you have anything further to
5 add?

6 A No, sir. Mr. Hearing Examiner, Your
7 Honor, I'd just like to make a last statement is that in the
8 prior proceeding that I mentioned up there on the Anderson
9 1-6, the Commission was very responsive in ruling the relief
10 that they granted us, and we were able to get that well
11 drilled and it is now producing over 100 barrels a day and
12 appears to be a good well.

13 We're very appreciative of that and
14 wanted to be sure to thank you again for your help and as-
15 sistance.

16 MR. CATANACH: Thank you, Mr.
17 Brown.

18 I don't have any questions at
19 this time.

20 MR. TAYLOR: We just thought of
21 a notice question here.

22 What notice did you give to
23 your offset operators and unorthodox oil well location?

24 Is that included in your other
25 notice?

1 MR. HUNKER: I gave them notice
2 by mailing them a copy of the application.

3 MR. TAYLOR: Okay, so they got
4 the same essential notice as everybody else?

5 MR. HUNKER: That's right,
6 along with the letter inviting them to -- to either be here
7 or --

8 MR. TAYLOR: Are they included
9 on one of these lists here?

10 MR. HUNKER: It is included on
11 that certification.

12 MR. TAYLOR: Okay, thank you.

13

14 CLIFFORD C. DRESCHER,
15 being called as a witness and being duly sworn upon his
16 oath, testified as follows, to-wit:

17

18 DIRECT EXAMINATION

19 BY MR. HUNKER:

20 Q Mr. Drescher, will you state for the re-
21 cord, your name, address, and occupation?

22 A My name is Clifford C. Drescher. I live
23 at 2412 Wildwood in Midland, Texas, and I'm Vice President
24 of Engineering for Estoril Producing Corporation.

25 Q How long have you been employed as a pet-

1 roleum engineer for Estoril?

2 A For three and one-half years.

3 Q What is your educational background and
4 work experience, Mr. Drescher?

5 A I graduated in December, 1974, from the
6 University of Illinois with a Bachelor of Science degree in
7 engineering and a minor in geology.

8 I went to work in January of '75 for Tex-
9 aco as a field engineer in West Texas and was promoted to an
10 area engineer and I left to go to work for Texas American
11 Oil Corporation in Midland in 1977, and shortly went to San
12 Antonio as District Manager of their South Texas operation
13 and was there until 1982, and while I was there we drilled
14 approximately 200 wells and installed a 6000-acre water-
15 flood.

16 In 1982 I went to work with Miranda Ener-
17 gy Corporation as Vice President of Operations and in mid-
18 1983 I went to work for Estoril as a Manager of Engineering
19 and was promoted Vice President of Engineering.

20 I'm responsible for all the production
21 engineering and drilling that's done in Texas and New Mexi-
22 co.

23 MR. HUNKER: I tender Mr. Dres-
24 cher as an expert.

25 MR. CATANACH: Mr. Drescher is

1 so qualified.

2 Q Are you familiar with Estoril's applica-
3 tion filed in connection with this matter?

4 A Yes, I am.

5 Q Did you prepare an AFE for the drilling
6 of Estoril's Christmas No. 1 Well?

7 A Yes, I did.

8 Q Are you looking at a copy of that AFE,
9 which has been marked Exhibit Four?

10 A Yes, I am.

11 Q What are your estimated well costs as
12 shown by that exhibit?

13 A I estimated the total dry hole costs for
14 this well if it's noncommercial to be \$340,150, and a com-
15 pleted well cost of \$499,450.

16 Q What is the basis for your figures on
17 this AFE?

18 A I prepared this AFE based on primarily
19 two considerations; price bids on contract drilling pipe,
20 third party services, and the experience I gained when we --
21 we have just completing drilling a fairly close offset well
22 to this in the Northeast Lovington Pool, which we completed
23 that in October of this year.

24 Q So you know pretty well what the expenses
25 have been in connection with the drilling of this kind of a

1 test?

2 A Yes, sir, I am.

3 Q What, in your opinion, is a reasonable
4 charge for well supervision during the drilling operation?

5 A I determined that the reasonable charge
6 would be \$5500 a month while drilling the well and \$550 a
7 month while producing the well.

8 Base on our -- the Commission granted us
9 those rates in August of 1986 on a similar hearing in the
10 Northeast Lovington Penn Pool.

11 Q You recognize that prices have gone down
12 to a certain extent and the costs are somewhat less, is that
13 correct?

14 A I don't believe they've changed a bit
15 since August.

16 Q I see, all right. Are you qualified to
17 assess the risk involved in the drilling of this test well?

18 A Yes, sir, I am.

19 Q We're thinking in terms of a risk assess-
20 ment against those persons who have not committed their in-
21 terest to the well.

22 What -- what, in your opinion, is the
23 risk that's involved here and upon what is that -- your an-
24 swer based?

25 A I believe it is a very high risk and, Mr.

1 Commissioner, I'd ask for a 200 percent penalty above well
2 costs. Based on research I did while drilling the first
3 well, there's two instances within the Lovington Northeast
4 Penn Pool. There's an 800-acre section which ten wells were
5 drilled in it; only five made producers; and only one of
6 them, in my estimation, will pay out.

7 And in another area just one mile south
8 of our proposed location there is dry hole drilled between
9 two producing wells that have already produced over 100,000
10 barrels of oil, and there's three offset wells, two produc-
11 ing wells that were drilled dry.

12 Q Your recommendation is 200 percent, is
13 that correct?

14 A Yes, sir.

15 Q Has Estoril had extensive experience
16 drilling and testing wells in this particular area, as well
17 as other areas in Lea County?

18 A Yes, sir. We operate three -- or excuse
19 me, four wells in the Antelope Ridge area out of the Cherry
20 Canyon-Strawn-Atoka areas, or zones.

21 We have six wells just east of this area
22 across the Texas border that are 13,000 feet deep, producing
23 from the Devonian formation, which is just below the Strawn,
24 and we just recently completed drilling and completing a
25 well north of this proposed location, our Anderson 6 No. 1.

1 Q Do you have anything else to add to your
2 testimony at this time?

3 A No, sir, I don't.

4 MR. HUNKER: I'm through with
5 my examination of the witness, and I offer in evidence Ap-
6 plicant's Exhibit Number Four.

7 MR. CATANACH: Exhibit Number
8 Four will be admitted into evidence.

9

10 CROSS EXAMINATION

11 BY MR. CATANACH:

12 Q Mr. Drescher, right?

13 A Yes, sir.

14 Q What is the closest producing well to
15 your proposed well?

16 A The Anderson 6 No. 1 would be approxi-
17 mately 1600 feet north of the proposed location and Blanks
18 Energy has a well in the lower portion of Section 7, which
19 is approximately three-quarters of a mile south of it.

20 Q In your Anderson No. 1-6, is that right,
21 or 6-1?

22 A It's really 6 No. 1.

23 Q 6 No. 1, do you have production rates on
24 that well?

25 A Yes, sir, I do. Last rate I has was 108

1 barrels of oil per day.

2 Q Do you have any production figures from
3 the Blanks Energy well?

4 A My best recollection is that well was
5 completed approximately 1981 or 1982 and had made in the
6 neighborhood of, I think, approximately 24,000 barrels. It
7 is -- was not a --

8 Q Cumulative -- cumulative production.

9 A Cumulative production. It is not an
10 economical well.

11 Q Could we go over once again and tell me
12 where the dry holes are that you said have been drilled in
13 the area, just giving the approximate location?

14 A Okay, the area I was speaking of is one
15 mile south begins with what we see on that plat as the
16 Blanks Energy 1-7 and for the next mile south of that
17 there's a conglomeration of maybe 8 to 10 wells, and that is
18 the area that has three dry holes directly offsetting
19 producing wells and has a well drilled dry between two
20 producing wells that have cumulative production to date over
21 100,000 barrels.

22 MR. HUNKER: It's your opinion,
23 then, that a substantial risk is involved in the drilling of
24 the Christmas No. 1?

25 A Yes, sir.

1 MR. CATANACH: I have no further
2 questions of the witness. He may be excused.

3

4

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

7

8

DIRECT EXAMINATION

9 BY MR. HUNKER:

10 Q Mr. Blaylock, will you please state your
11 name, address, and occupation?

12 A Stephen L. Blaylock, 4510 Cardinal Lane,
13 Midland, Texas, and I'm a geophysicist.

14 Q And what is your educational background
15 and work experience?

16 A I have got a Bachelor's degree in physics
17 with minors in mathematics and geology from Baylor Univer-
18 sity.

19 I'm a member of the National Physics
20 Society and a member of the Society of Exploration Geophysi-
21 cists, and the local Permian Basin Society of Geophysicists.

22 I've been a geophysicist since 1970,
23 seven years with Pennzoil Company, one year with Hamilton
24 Brothers out of Denver, and I've been an independent since
25 1978.

1 Q And are you an independent consultant to
2 Estoril in connection with this particular project?

3 A Yes, sir, I am.

4 MR. HUNKER: We tender Mr.
5 Blaylock as an expert, Mr. Examiner.

6 MR. CATANACH: Mr. Blaylock is
7 considered qualified.

8 Q Are you familiar with the application
9 filed in this matter by Estoril Producing Corporation?

10 A Yes, sir, I am.

11 Q Are you familiar with the pool rules pro-
12 mulgated by the Oil Conservation Commission pertaining to
13 the Northeast Lovington Pennsylvanian Pool?

14 A Yes, sir, I am.

15 Q What do these field rules prescribe re-
16 garding the location and spacing of wells?

17 A The field rules prescribe that a well
18 should be drilled on an 80-acre unit plus or minus, consis-
19 ting either of the north half, east half, south half, or
20 west half of a governmental one-quarter section.

21 Also they prescribe that it be within 150
22 feet of the center of a governmental quarter quarter or a
23 lot.

24 Q Referring to Exhibit Number Two, the plat
25 of the location, will you tell the Examiner where the well

1 is located and how far it deviates from the location that's
2 prescribed in the field rules?

3 A Our location would be 600 feet from the
4 west line and 1200 feet from the north line of the Section
5 7.

6 Q You have a 150-foot leeway, I suppose, in
7 connection with the field rules, --

8 A Yes, sir.

9 Q -- is that right?

10 A Yes, sir.

11 Q Your location from the west line would be
12 within that limitation is that correct?

13 A It would be within that limitation if we
14 were in a standard lot.

15 Since we are in an elongated lot east-
16 west, then our distance from the west line lacks approxi-
17 mately 150 feet of being within the directed limits.

18 Q Did you recommend the location that is
19 shown on the plat and --

20 A Yes, sir, I did.

21 Q -- upon Exhibit Number Five?

22 A Yes, sir, this is Exhibit Number Five.

23 Q Why did you recommend that particular lo-
24 cation?

25 A That's the location based on seismic con-

1 trol for the area that shows to have the maximum amount of
2 Strawn porosity development and also the most optimistic
3 structural location out of the Strawn --

4 Q You're looking at Applicant's Exhibit
5 Number Five. Does that plat and survey give you any addi-
6 tional information with -- that would indicate that geologi-
7 cally this particular location is -- is very appropriate?

8 A The plat that he's talking about is just
9 a map on the top of the Strawn formation, which is the gross
10 producing zone for the Lovington Penn.

11 It's a plat that I had made off our seis-
12 mic control based on three different lines of seismic that
13 we just shot.

14 It does show a structural nose at Strawn
15 level, which we will be drilling on. Any further movement
16 to the east from our location would result in the loss of
17 structure in the Strawn level.

18 Q If you moved the location to a standard
19 location, would you also have a loss of structure or a loss
20 of information?

21 A The primary thing, the primary problem
22 with moving to a standard location to the south and east
23 would be a loss of the porosity characteristics from the
24 seismic.

25 To try to move north and east, to try to

1 get to a standard location, would result in not drilling on
2 the information that I have on the seismic. I would not be
3 drilling on the seismic line. I would essentially be pro-
4 jecting from the line to a location where I'd really know
5 nothing about what the porosity level is.

6 Q And in your opinion will this recommended
7 location assure the operator of this particular well a more
8 efficient recovery of reserves?

9 A That is the information that I would gain
10 from the seismic, yes, sir.

11 Q Is this location, in your opinion, pro-
12 tective of correlative rights?

13 A Yes, sir.

14 Q Will waste be prevented by the drilling
15 of -- the fact that you don't have to drill any --

16 A Yes, sir, and also I think it should be
17 the optimum location for the porosity development of the
18 Strawn (unclear)

19 Q I have no further questions. Do you have
20 anything to add to your testimony?

21 A No, sir.

22 MR. HUNKER: We offer into evi-
23 dence Applicant's Exhibit Number Five.

24 MR. CATANACH: Exhibit Number
25 Five will be admitted into evidence.

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Do you have anything further,
Mr. Hunker?

MR. HUNKER: No, Mr. Examiner.

MR. CATANACH: If there is no-
thing further, Case Number 9052 will be taken under advise-
ment.

(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 (Commission) 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 true transcript of the proceedings before the Commission for hearing of Case No. 9052, heard by me on 12/17/1986.

David R. Catanach, Examiner
Oil Conservation Division