

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

6
7 25 May 1988

8 EXAMINER HEARING

9
10 IN THE MATTER OF:

11 Application of McKay Oil Corporation CASE
12 for a unit agreement, Chaves County, 9381
13 New Mexico.

14
15 BEFORE: Michael E. Stogner, Examiner

16
17 TRANSCRIPT OF HEARING

18
19 A P P E A R A N C E S

20 For the Division: Charles E. Roybal
21 Attorney at Law
22 Legal Counsel to the Division
23 State Land Office Bldg.
24 Santa Fe, New Mexico 87501

25 For the Applicant: Randolph M. Richardson
Attorney at Law
Roswell, New Mexico 87201

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I N D E X

GEORGE REDDY

Direct Examination by Mr. Richardson 3

E X H I B I T S

McKay Exhibit One, Map	5
McKay Exhibit Two, Log	6
McKay Exhibit Three, Panel of Maps	6
McKay Exhibit Four, Cross Section	7

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MR. STOGNER: We'll call next Case Number 9381.

MR. ROYBAL: Case 9381, application of McKay Oil Corporation for a unit agreement, Chaves County, New Mexico.

MR. RICHARDSON: Randolph M. Richardson, Roswell, New Mexico, appearing on behalf of applicant and I have one witness.

MR. STOGNER: Let the record show that -- is it Mr. Reddy, Mr. Richardson?

MR. RICHARDSON; Mr. Reddy, and do you need to re-swear him or would you prefer to re-swear him?

MR. STOGNER: No, Let the record show that Mr. Reddy was sworn and had his credentials accepted in Case Number 9380.

GEORGE REDDY,
being called as a witness having been previously sworn and remaining under oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. RICHARDSON:

Q Mr. Reddy, this unit contains over --

1 this is the Camp State Unit. The unit contains over 90 per-
2 cent State of New Mexico lands and is generally referred to
3 at a State Unit.

4 Is the form of unit agreement prescribed
5 by State Land Office regulations and as recently approved by
6 the Commissioner of Public Lands?

7 A Yes.

8 Q Has the Commissioner of Public Lands of
9 the State of New Mexico approved this unit?

10 A He's given verbal, preliminary approval
11 only.

12 Q Could you please tell the Division the
13 townships and ranges in which this unit is located and ap-
14 proximate location with reference to the nearest town?

15 A It's 28 miles north of Roswell in the
16 southeast quarter of Township 5 South, Range 22 East.

17 Q Could you please tell the Division the
18 number of acres within the unit area and the number and per-
19 centages of acreage of Federal, State, and fee lands?

20 A There is a total of 5453.34 acres.

21 Federal lands within that unit would be
22 40 acres, or .7 percent.

23 The State lands are 4,933.34 acres, or
24 90.5 percent.

25 And fee is 480 acres, 8.8 percent.

1 Q Mr. Reddy, Section 8 of the unit
2 agreement provides for the drilling of a test well. In this
3 particular instance is the unit operator planning to drill a
4 test well?

5 A No.

6 Q In lieu of drilling a test well, could
7 you please explain what will be done to qualify as a unit
8 test?

9 A We plan to re-enter the well that's lo-
10 cated in the southeast quarter of Section 25, perforate,
11 frac, and test the zone. It has never been tested.

12 Q This well was drilled and cased but never
13 perforated, never fraced, fractured, and never tested, is
14 that correct?

15 A Yes.

16 Q Has the Commissioner of Public Lands
17 agreed to this procedure of testing as opposed to drilling?

18 A Yes.

19 Q Would you please refer to your geological
20 report, which has been introduced in the case as Exhibits
21 One to Four. Was this report prepared by you?

22 A Yes, it was. This first map, again, in
23 in the text or in the --

24 MR. STOGNER: I don't have a
25 copy of that. Thank you.

1 A And it's merely to locate the unit with
2 respect to the town of Roswell and nearby production.

3 Figure 2 is a log of the well that we
4 plan to re-enter, a detail log showing the top of the Abo
5 formation and that part of the interval, of the Abo, which
6 makes up the West Pecos Slope Abo Field pay interval, near
7 -- near the very top of the Abo formation.

8 We've highlighted the intervals of
9 planner perforations between 3140 and 3344. It's a log that
10 suggests, at least, that there are some clean sands in there
11 that can be made to produce. They run about 8 to 14 percent
12 porosity and about 50 percent water saturation without log
13 calculations.

14 Figure 3, or Exhibit Three, is panel of
15 maps which show -- Map A is the structure map again showing
16 the top of the Abo formation.

17 Map B is a total sandstone isopach of
18 that interval that we intend to perforate. The isopachs are
19 on sandstone that is greater than 8 percent porosity and has
20 neutron density crossover.

21 And then Map C is a summary of the other
22 two maps showing the prospect and its relationship to the
23 proposed unit boundary.

24 And the last exhibit is a cross section
25 through the area. It's a stratigraphic cross section.

1 It shows the field pays over in the West
2 Texas -- the West Pecos Slope Abo Field to the west, on the
3 left side of the diagram. It shows the Camp State Well in
4 the middle and the Yates Bajada ACM Fed 1 in Section 10 of
5 5, 23, over on the northeast end of the cross section.

6 It shows the approximate porosity range
7 that we're looking at and where the wells that are on the
8 cross section with this one have been perforated.

9 And we feel that we have a fairly decent
10 chance of making a well in this zone but the biggest risk is
11 the question of permeability.

12 There's a microlog at the tail end of Fi-
13 gure 2 which indicates that there is very little permeabil-
14 ity suggested by the logs.

15 Q Mr. Reddy, could you tell the Division
16 your conclusions as to the formations to be tested, which I
17 think you have already done, but your main formation consid-
18 ered prospective that's going to be perforated was between
19 what depths?

20 A I think I said 3140 before and it looks
21 like 3154 would be the uppermost zone and 3344 would be the
22 bottom of our perfed interval.

23 It's the Abo sands.

24 Q Could you, Mr. Reddy, read the working
25 interest ownership percentages and have these owners been

1 contacted?

2 A There are 18 total working interest own-
3 ers: the McKay Group, 4,293.34 acres, or 78.73 percent; the
4 Yates Group, 297.2, or 5.45 percent of the unit; and I don't
5 know how to pronounce this, Bigor Energy Corporation, 640
6 acres, 11.74 percent; and the note here is they're in the
7 process of contacting these parties.

8 Q In your opinion what percentage of the
9 working interest will be committed and what percentage of
10 the overriding royalty will be committed?

11 A I don't -- I don't know.

12 Q You don't see it there?

13 A No, I sure don't. I'm sorry, I've got it
14 here.

15 82 to 85 percent working interest and all
16 the overriding royalty.

17 Q And your basic fee royalty --

18 A Yes.

19 Q -- is there a figure for that?

20 A No, there's not one shown there. I don't
21 have that one.

22 Q That's your unleased minerals.

23 In your opinion will the operation of the
24 area under the proposed unit plan be in the interest of con-
25 servation, the prevention of waste?

1 A Yes.

2 Q Will the different institutions of the
3 state, if any, receive their fair share of production?

4 A Yes.

5 Q Will the correlative rights of all the
6 parties be affected -- protected?

7 A Yes.

8 MR. RICHARDSON; I would like
9 to now move to introduce the geological report marked Exhi-
10 bits One through Five --

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

13 MR. RICHARDSON: One through
14 Four, I'm sorry.

15 MR. STOGNER: Note your cor-
16 rection on that, thank you.

17 I have no further questions for
18 this witness at this time.

19 Mr. Richardson, as we have dis-
20 cussed off the record previous to this case, this case will
21 have to be continued to the Examiner's Hearing scheduled for
22 June 22nd, 1988, at which time you'll need to supply us that
23 all working interest owners and all parties of interest have
24 been notified pursuant to Rule No. 1207, general rules of
25 the Oil Conservation Division.

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Is there anything further in
this case at this time.

MR. RICHARDSON: No.

(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 record of the proceedings in the Examiner hearing of Case No. 9381, heard by me on 25 May 1988.

Michael E. Rogers, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION COMMISSION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6
7 22 June 1988

8 EXAMINER HEARING

9 IN THE MATTER OF:

10 Application of McKay Oil Corporation CASE
11 for a unit agreement, Chaves County, 9381
12 New Mexico.

13
14 BEFORE: Michael E. Stogner, Examiner

15 A P P E A R A N C E S

16 For the Division: Robert G. Stovall
17 Attorney at Law
18 Legal Counsel to the Division
19 State Land Office Bldg.
Santa Fe, New Mexico

20 For the Applicant: Randolph M. Richardson
21 Attorney at Law
22 Roswell, New Mexico 88201
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I N D E X

STATEMENT BY MR. RICHARDSON 3

E X H I B I T S

McKay Exhibit Five, Unit Agreement 4
McKay Exhibit Six, Letter 4
McKay Exhibit Seven, Affidavit 4
McKay Exhibit Eight, Tabulation 4

1 MR. STOGNER: Call next Case
2 Number 9381, which is the application of McKay Oil Corpor-
3 ation for a unit agreement, Chaves County, New Mexico.

4 This case was also heard at
5 the hearing, Examiner's Hearing on May 25th, 1988. At this
6 time it's being continued for additional testimony.

7 Call for appearances.

8 MR. RICHARDSON: Randolph M.
9 Richardson, Roswell, New Mexico, appearing on behalf of
10 applicant, and as you mentioned, this case is continued.
11 The last hearing Mr. George Reddy testified. Mr. Reddy is
12 present at this time for additional questions, if neces-
13 sary, and I also have Ms. Sharon Hamilton, Land Manager for
14 McKay Oil Corporation, who is present, and I will not call
15 either witness unless you deem such necessary or
16 advisable.

17 MR. STOGNER: Do you have any
18 further exhibits?

19 MR. RICHARDSON: Yes, I do. I
20 have additional exhibits which I would like to submit and
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1 hand you for the record Exhibit Number Five, which is the
2 finished unit agreement that has been executed by McKay Oil
3 Corporation and you will be furnished a fully, executed,
4 complete agreement after it has been approved by the Com-
5 missioner of Public Lands.

6 May I --

7 MR. STOGNER: Let's proceed;
8 then we'll -- then we will take them all under advisement
9 -- I'll admit them all at the same time.

10 MR. RICHARDSON: I hand you
11 Exhibit Number Six, which is a letter from the Commissioner
12 of Public Lands giving preliminary approval as to form and
13 execution of the -- or form and content of the unit agree-
14 ment.

15 And also I'd like to hand you
16 Exhibit Number Seven, which is an affidavit signed by
17 myself and Ms. Hamilton, which is an affidavit that Divi-
18 sion Rule 1207 has been complied with. Attached to the af-
19 fidavit is a complete list of all the names and addresses
20 of all parties owning an interest within the unit area, to-
21 gether with return certified mail -- receipts from certi-
22 fied mail that was mailed to all owners owning an interest
23 within the unit area.

24 And lastly, I'd like to hand
25 you Exhibit Eight, which is a tabulation tract by tract of

1 the committed and noncommitted acreage within the unit
2 area.

3 And I would like to move that
4 those be admitted.

5 MR. STOGNER; Exhibits Five
6 through Eight will be admitted at this time. They're all
7 self-explanatory since we've had testimony on the May 25th,
8 1988 hearing.

9 Does anybody else have any-
10 thing further in this case?

11 Before I take this under
12 advisement, I've got several correspondence here.

13 One from a Eddie Jean and P.
14 Stuart Motes out of Roswell, New Mexico, objecting to the
15 unitization.

16 Also have correspondence in
17 the form of a letter dated June 17th, 1988, or received
18 June 20th, from Jerry Don Martin objecting to the -- both
19 the Camp State Unit and the West Fork Unit areas.

20 And also came over the Telefax
21 machine over at Energy and Minerals yesterday was a corres-
22 pondence from the Garr Energy Corporation objecting to the
23 formation of the Camp State and the West Fork Units.

24 These will be made part of the
25 record at this time.

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Is there anything further in
this case?

Case Number 9381 will be taken
under advisement.

(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 record of the proceedings in
the Examiner hearing of Case No. 9381,
heard by me on 12 June 1988.
Michael E. Stogers, Examiner
Oil Conservation Division
8/4/88