

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
Santa Fe, New Mexico
14 November 1979

EXAMINER HEARING

IN THE MATTER OF:)	
)	
)	
Application of Depco, Inc., for a)	CASE
unit agreement, Chaves County, New)	6713
Mexico.)	
)	

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation	Ernest L. Padilla, Esq.
Division:	Legal Counsel for the Division
	State Land Office Bldg.
	Santa Fe, New Mexico 87503

For the Applicant:	Jason Kellahin, Esq.
	KELLAHIN & KELLAHIN
	500 Don Gaspar
	Santa Fe, New Mexico 87501

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
3020 Plaza Blanca (505) 471-2462
Santa Fe, New Mexico 87501

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MR. NUTTER: We'll call Case Number 6713.

MR. PADILLA: Application of Depco, Inc.
for a unit agreement, Chaves County, New Mexico.

MR. KELLAHIN: Jason Kellahin, appearing
for the applicant, and we have two witnesses to be sworn.

(Witnesses sworn.)

ROY EDMONDSON

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Would you state your name, please?

A. Roy Edmondson.

Q. What business are you engaged in, Mr.
Edmondson?

A. I'm a self-employed petroleum landman from
Denver, Colorado.

Q. And what is the nature of your business?

A. I specialize in the formation and operation
of units.

Q. And do you negotiate the unit agreements
for --

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CERTIFIED SHORTHAND REPORTER
3020 Plaza Blanca (505) 471-2462
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3020 Plaza Blanca (605) 471-2462
Santa Fe, New Mexico 87501

1 A. Yes, sir.

2 Q. -- oil companies?

3 A. I do, sir.

4 Q. Did you have anything to do with the unit

5 agreement of Depco, Incorporated, which is the subject mat-

6 ter of this hearing?

7 A. I did.

8 Q. And what, what did you do with that?

9 A. Well, I prepared the unit agreement, unit

10 operating agreement, and I have submitted it along with

11 various applications to the United States Geological Survey

12 and to the Land Office of the State of New Mexico.

13 Q. Now, referring to what has been marked as

14 the Applicant's Exhibit Number One, is that a copy of the

15 unit agreement?

16 A. That it is.

17 Q. And is that unit agreement in a form that

18 has heretofore been approved by the Oil Conservation Divi-

19 sion?

20 A. It has, yes, sir. It has already been re-

21 viewed by this State Land Office, yes, sir.

22 Q. I'm talking about the Oil Conservation

23 Division.

24 A. It is. It follows one I've previously

25 submitted to the --

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1 Q It's the same as one that was approved
2 some time ago?

3 A Yes, sir.

4 Q And has that unit agreement been submitted
5 to the State Land Commissioner?

6 A Yes, sir.

7 Q For his approval?

8 A Yes, sir.

9 Q Were there some changes requested?

10 A Yes, sir.

11 Q Are they incorporated in the agreement
12 which is marked as Exhibit Number One?

13 A They are incorporated.

14 Q So that would be the final draft, insofar
15 as you know?

16 A Yes, sir.

17 Q Now, Exhibit Number Two, is that Exhibit A
18 to the unit agreement?

19 A Yes, sir.

20 Q And what information does it contain in it?

21 A Well, that's the land plat which is speci-
22 fied in the unit agreement, and it sets out the legal sub-
23 divisions and the acreage in each section and the ownership,
24 lease expiration, and tract numbers, and follows the 1978
25 form of unit agreement as amended by -- required by the State

1 of New Mexico.

2 Q Now, Exhibit Number Three, Exhibit B to
3 the unit agreement, is that the same information as --

4 A Basically, yes, sir, other than it's more
5 in detail and describes the lands, the number of acres in
6 each lease, and of course the tract number, expiration date,
7 whether it's Federal, State, or fee, the lessee of record,
8 and the overriding royalty interest owners, and the working
9 interest owners.

10 Q Now, is the acreage all Federal, State, or
11 fee, or what is that?

12 A There's three categories of acreage in
13 this unit, Federal, State, and patented.

14 Q And what is the percentage of each? Could
15 you tell us that?

16 A Federal is 15,989.63, or 84.33 percent.
17 State is 1368.15 acres, or 7.21 percent, and patented is
18 1604, or 8.46 percent.

19 Q Now, have the working interest owners
20 agreed to the form of unit agreement?

21 A The owners have been contacted and they
22 have been furnished a copy of the unit and unit operating
23 agreements, and we anticipate that we'll be in a position to
24 submit the unit for final approval with excess of 85 percent
25 of the commitment in the near future.

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1 Q Now what about the royalty owners?

2 A They have also been contacted.

3 Q Do you anticipate that you'll have a sub-
4 stantial percentage of the royalty owners?

5 A So that the proponent will have effective
6 control, yes, sir.

7 Q Other than the State and Federal govern-
8 ment?

9 A Right, sir.

10 Q Now, what about the overriding royalty
11 owners?

12 A They are also contacted.

13 Q And are you anticipating a substantial
14 number of them will agree?

15 A I anticipate substantial commitment.

16 Q Now, turning to Exhibit Number Four, is that
17 the unit operating agreement?

18 A That is the unit operating agreement, which
19 has been submitted.

20 Q And you said submitted to whom?

21 A Well, to the -- I've submitted it to the
22 Commission, or you did, and also to the working interest
23 owners.

24 Q And have you had substantial agreement to
25 that form of unit operating agreement?

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A. I have, sir.

Q. Is it the same type of operating agreement that has been utilized in other cases?

A. True.

Q. And approved by this -- the Commission?

A. Approved by the Commission, yes, sir.

Q. And as I understand, you have submitted the unit agreement and unit operating agreement to the United States Geological Survey?

A. Yes, they have reviewed that.

Q. Now, taking the exhibit out of order, Exhibit Number Seven, would you identify that exhibit?

A. Yes. That is a letter from the United States Geological Survey, which is a preliminary approval of the area and depth application, and that's a prerequisite of being -- filing the unit for final approval with that agency.

Q. And it will be filed when you have substantial commitment?

A. Commitment, yes, sir.

Q. You have anything else to add, Mr. Edmondson?

A. No, sir.

MR. KELLAHIN: That's all I have of this witness. At this time I'd like to offer in evidence Applicant's Exhibits One, Two, Three, Four, and Seven.

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3020 Plaza Blanca (505) 471-2462
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1 MR. NUTTER: Exhibits One through Four and
2 Seven will be admitted in evidence.

3
4 CROSS EXAMINATION

5 BY MR. NUTTER:

6 Q Now, you stated that you expected within
7 the near future to have 85 percent of the working interests.

8 A In excess of, yes, sir.

9 Q What percent have actually agreed to the
10 unit agreement as of now?

11 A Well, frankly I didn't run a check on it.
12 I have received a number of the joiners back already, and
13 frankly, I used the percentage of 85 percent. That is a
14 bare minimum that is required for final approval by the
15 Survey. Frankly, I anticipate commitment of well in excess
16 of 90 percent.

17 MR. NUTTER: Apparently not in any big
18 hurry for this, anyway, Jason. We're having trouble getting
19 this legal advertisement on this case right in the Roswell
20 paper.

21 MR. KELLAHIN: I understood that.

22 MR. NUTTER: You know, the first time
23 around they left out the name of the county, so we got a
24 free ad from them to replace that one, and then this time
25 they left out the fact we were going to have a hearing, so

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Santa Fe, New Mexico 87501

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I guess you get what you pay for. We're going to ask for one more free ad.

We'll actually have to continue this case to December the 12th. That's the earliest it can be advertised for a hearing again, but we can get this part of it done.

MR. KELLAHIN: That won't pose a problem, will it, Mr. Edmondson?

MR. NUTTER: Are there any questions of the witness? He may be excused.

MR. KELLAHIN: I'd like to call Mr. Seright, please.

LARRY SERIGHT

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Would you state your name, please?

A. Larry Seright.

Q. By whom are you employed and in what position, Mr. Seright?

A. I'm employed by Depco, Incorporated, in Midland, Texas, and I'm the District Exploration Manager

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there, for Depco.

Q. Have you ever testified before the Oil Conservation Division or one of its examiners?

A. Yes, sir, I have.

Q. Made your qualifications a matter of record?

A. Yes, I have.

MR. KELLAHIN: Are the witness' qualifications acceptable?

MR. NUTTER: Yes, they are.

Q. (Mr. Kellahin continuing.) Mr. Seright, have you had anything to do with the Depco unit agreement, the subject matter of this hearing?

A. Yes, to the extent of preparing the geological report and submitting as an exhibit a geological map.

Q. Now turning to what has been marked as Exhibit Number Five, would you identify that exhibit, please? The geological report?

A. Yes. The geological report on the -- that was initially presented to the USGS as a requirement, on the location, unit proposal, a general geologic discussion, previous drilling within the proposed unit area, a delineation of the --

Q. Is there any particular information there you want to call to the attention of the Examiner?

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1 In the report, I'm talking about?

2 A. You mentioned that we will have this case
3 again because of the problem with the ad in the newspaper?

4 MR. NUTTER: Yes, sir, it has to be re-
5 advertised.

6 A. Now, will this be a rerun of what we're
7 doing today?

8 MR. NUTTER: Except it won't be necessary
9 to have any appearances, even.

10 A. Oh, is that right?

11 MR. NUTTER: Just open the case up again
12 and see if there's objection to the unit, which I doubt
13 seriously, but we'll have to withhold any order until we
14 have had a chance to re-open it and ask for opposition.

15 A. Okay, good.

16 I could give a brief rundown here on the
17 reason we are attempting to put this unit together.

18 Q. Is this an exploratory unit?

19 A. It is an exploratory unit. It sure is,
20 yes.

21 Q. Would you discuss the reasons for it?

22 A. Yes. The proposed unit outline that is
23 shown on , I believe that's Exhibit, what, Six?

24 MR. NUTTER: Yes, the structure and the --

25 A. The map that's shown on Exhibit Six, yes,

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Exhibit Six, first of all, is an Isopach map of the gross sand thickness in the Atoka-Morrow.

The proposed unit outline encompasses a local area here of thick Atoka-Morrow Clastic deposition and is flanked by numerous shows of gas and thinner sand deposition.

Exhibit B, as I mentioned, or I should say Exhibit Six, is an Isopach of the gross sand thickness. The regional dip in this area is to the east. The depositional limits of the Atoka-Morrow Clastic is up-dip to the west.

Depositional strike is north/south. Regional Isopaching we've done in this area indicates -- regional Isopaching on the Atoka-Morrow -- indicates several depositional systems converging in this area, and on that basis we feel that the anomalous thick we have shown here encompassed by the unit area, is in all probability, an offshore bar, and this is what we want to explore and evaluate.

We should, or we feel we should, have some thicker, cleaner sand stratigraphically trapped here, hopefully with good potential gas reserve. The gas accumulation in the -- in these reservoir sands would be trapped by gradual thinning and loss of quality reservoir sand developed shoreward, which would be up-dip to the west, and

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
3020 Plaza Blanca (605) 471-2482
Santa Fe, New Mexico 87501

1 increased shale facies basinward, which is to the east.

2 The delineation of the unit, which is pro-
3 bably one of the more important parts of this, I think, the
4 western boundary is defined by all sections that are cut --
5 this terminology here is really more for the USGS, which
6 I'm sure you're familiar with, as defined by all sections
7 of which 50 percent or more are cut by the 100-foot Isopach
8 contour line; which defines the minimum gross sand thickness
9 up-dip that would relate to quality reservoir sand.

10 Up-dip, this is to the west, again, we
11 have one well outside the unit area that was tight. We
12 have one well that is a submarginal producer. We interpret
13 this as being on a flank, hopefully, of something bigger and
14 better, knowing also that we're losing sands additionally
15 and thinning to the west.

16 The southern boundary is defined by loss
17 of reservoir conditions in the sand development, and this
18 is evidenced by several tight wells that are indicated in
19 Section 21 outside the unit boundary.

20 The north boundary we feel on the basis
21 of the, again, 100-foot contour interval, which is pretty
22 much of a go-by here as far as good sand development is con-
23 cerned, we feel the north end is analogous to the south end
24 that respect, based on the 100-foot contour interval.

25 The eastern boundary, again, as I mentioned

1 before, is basinward. We feel that the 100-foot Isopach
2 contour here is defining the minimum gross sand thickness
3 down-dip, or basinward, that would relate to quality reser-
4 voir sand development, and this is evidenced by shows of
5 gas in the Atoka-Morrow in two wells within the unit area.
6 These two wells were not tested in the Atoka-Morrow, but
7 they did have mud logging units on them and shows of gas were
8 reported, but obviously the operator did not feel they were
9 commercial enough, or significant enough, to test, and this
10 again, is related to the down-dip position of these wells.

11 We propose to drill our well in the thicker
12 interpreted area there in Section 8.

13 And I believe that's all I have on that.

14 Q Did I understand your principal objective
15 is the Atoka-Morrow, is that correct?

16 A That is correct.

17 Q Is the unit confined to those formations?
18 Or are you unitizing all formations?

19 A All formations here.

20 Q Now, does the unit operating agreement
21 require you to drill this initial well?

22 A Yes, it does.

23 Q And it will be drilled, you say, in Section
24 8?

25 A Section 8, the southeast of the northwest

1 of Section 8.

2 Q And that will be the first well.

3 A Correct. We are only obligated to drill
4 one well here, and this is based, again, on the number of
5 acres within the unit area, as far as the USGS is concerned.

6 Q Now, what is your drilling obligation, to
7 what depth?

8 A To a depth of 9800 feet or 50 feet into
9 the top of the solid Mississippian lime, whichever is the
10 lesser.

11 Q Were Exhibits Five and Six prepared by you
12 or under your direction?

13 A Yes, they were prepared by me.

14 MR. KELLAHIN: At this time I'll offer
15 Exhibits Five and Six.

16 MR. NUTTER: Depco Exhibits Five and Six
17 will be admitted in evidence.

18 MR. KELLAHIN: That completes our presenta-
19 tion, Mr. Nutter.

20 MR. NUTTER: Are there any questions of
21 Mr. Seright? He may be excused.

22 You have nothing further, Mr. Kellahin?

23 MR. KELLAHIN: That's all, Mr. Nutter.

24 MR. NUTTER: Does anyone have anything
25 they wish to offer in Case Number 6713?

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If not, we'll continue the case to
December 12th at 9:00 o'clock and re-advertise.

(Hearing continued to 12 December,
1979.)

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
3020 Plaza Blanca (505) 471-2462
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REPORTER CERTIFICATE

I, SALLY W. BOYD, a Certified Shorthand Reporter,
DO HEREBY CERTIFY that the foregoing and attached 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 from my notes taken at the time of the hearing.

Sally W. Boyd C.S.R.
Sally W. Boyd, C.S.R.

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
3020 Plaza Blanca (606) 471-2462
Santa Fe, New Mexico 87501

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