

CASE 4939: Appli. of PENROC FOR
COMPULSORY POOLING, NON-STND.
UNIT, UNORTH. LOC. & DUAL.

Vol 6 unit 1

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CASE No.

4939

Application,

Transcripts,

Small Exhibits

ETC.

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
OIL CONSERVATION COMMISSION CONFERENCE ROOM
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO
Wednesday, April 11, 1973

EXAMINER HEARING

IN THE MATTER OF:

Application of Penroc Oil Corporation
for compulsory pooling, a non-standard
proration unit, an unorthodox gas well
location, and a dual completion, Lea
County, New Mexico.

Case #4939

BEFORE: Elvis A. Utz

TRANSCRIPT OF HEARING

1 MR. UTZ: The hearing will come to order, please.
2 Case 4939.

3 MR. CARR: Case 4939, application of Penroc Oil
4 Corporation for compulsory pooling, a non-standard
5 proration unit, an unorthodox gas well location, and a dual
6 completion, Lea County, New Mexico.

7 MR. KELLAHIN: If the Examiner please, Jason
8 Kellahin, Kellahin & Fox, Santa Fe, appearing for the
9 Applicant. We have one witness I'd like to have sworn.

10 (Whereupon, the witness was sworn.)

11 MR. UTZ: Any other appearances?

12 MR. EATON: Paul Eaton of the firm of Hinkle,
13 Bondurant, Cox & Eaton, P.O. Box 10, Roswell, appearing
14 on behalf of Getty Oil Company and Kewanee Oil Company.

15 MR. UTZ: Other appearances? You may proceed.

16 MR. KELLAHIN: Mr. Examiner, before the Applicant
17 proceeds, I would like to raise one point of procedure.
18 The application, among other things, seeks to force pool
19 the interest in the proposed non-standard proration unit.
20 I would suggest that the application in that connection
21 is premature under the statute providing for the compulsory
22 pooling of interest.

23 That statute as the Examiner is well aware provides
24 that where two or more separately owned tracts of land
25 are embraced within a surfacing or proration unit or

1 where there are owners of royalty interests or undivided
2 interests in oil and gas memos which were separately
3 owned, or any combination thereof embraced within such
4 spacing or proration unit, the owner or owners thereof
5 may validly pool their interests and develop their lands
6 as a unit.

7 Where, however, such owner or owners have not agreed
8 to pool their interests and where one such separate owner
9 who has the right to drill has drilled or proposes to drill
10 a well to said unit on said unit to a common source of
11 supply, necessary wells, etc., shall pool all or any part
12 of such lands or interests or both in the spacing or
13 proration unit as a unit.

14 Now, one of the protestants here, Kewanee Oil Company,
15 is in the proposed non-standard unit. They are not in
16 a position to say whether or not they would pool their
17 interests when they don't know what the spacing or
18 proration unit is; and I would suggest to the Examiner
19 and the Commission that insofar as the application seeks
20 to force pool interests, that it either should be denied
21 or continued until such time as the proration unit is
22 determined, at which time the parties owning interest
23 in that unit can determine whether or not they wish
24 to pool their interests in that unit.

25 MR. KELLAHIN: If the Examiner please, as I understand

1 the argument, the Commission has not yet created a non-
2 standard unit; and therefore, Kewanee is nowhere in a
3 position to know whether they can pool or not.

4 In the first place, of course, we will offer
5 testimony of efforts to reach some type of an agreement
6 with Kewanee and Getty. In addition to that, in every
7 compulsory pooling order ever entered by this Commission
8 subsequent to the entry of the order the parties pooled
9 have a period of time to join on a voluntary basis; and
10 I believe our witness today will again renew his offer
11 to make any kind of a reasonable agreement with either
12 Getty or Kewanee.

13 MR. UTZ: You mean for two non-standard units or
14 one non-standard unit?

15 MR. KELLAHIN: For a standard or non-standard unit
16 or anything they can agree to,

17 MR. UTZ: Well, now, are you saying, Mr. Kellahin,
18 that Penroc would agree to a standard unit consisting of
19 the East half or West half of Section 11 providing you
20 can get together after the Hearing and before the Order
21 is written?

22 MR. KELLAHIN: That is correct. Yes, sir.

23 MR. UTZ: Or in the alternative, you would try to
24 agree on the pooling arrangements for a non-standard?

25 MR. KELLAHIN: That's correct.

1 MR. UTZ: Either way?

2 MR. KELLAHIN: Yes, sir.

3 MR. UTZ: Do you have any rebuttal, Mr. Eaton?

4 MR. EATON: I don't fully understand Mr. Kellahin's
5 position. If he is suggesting that the Applicant proposes
6 a standard unit, then I would suggest that again perhaps
7 this Hearing is premature and it should be continued
8 to such a later and reasonable time by which the parties
9 have either agreed upon some unit or have not agreed,
10 at which time the Commission may proceed with the
11 Hearing of the application.

12 MR. KELLAHIN: Let me --. May I restate my position
13 then? There seems to be some degree of confusion. Our
14 testimony will show, and I don't mean to be testifying,
15 but in order to answer you I must say our testimony will
16 show that an effort was made to form a standard unit.

17 Without any success in that regard, we do now propose
18 a non-standard unit. Now, as I understand your argument,
19 you can't agree to pool the interests voluntarily in a
20 non-standard unit that has not yet been created.

21 Assuming we prevail in this Hearing, the Commission
22 will enter an Order granting the non-standard unit, at
23 which point we have a unit which can be voluntarily
24 pooled; and the Commission's Order always gives the parties
25 pooled an opportunity to join on a voluntary basis.

1 MR. EATON: Again, as I said at the outset, my point
2 is this: I believe that assuming that the Commission
3 were to approve this non-standard unit, then under the
4 statute, only at that time, if the parties in that declared
5 unit do not agree upon the pooling of this interest, can
6 one of the parties therein come before this Commission
7 with an application to force pool the interests in that
8 unit.

9 Here, one of the parties has sought and is seeking
10 to force pool interests in a unit which has not been
11 established.

12 MR. UTZ: A standard unit?

13 MR. EATON: Into a non-standard unit.

14 MR. UTZ: You are not contending that a non-standard
15 unit cannot be forced pooled; are you?

16 MR. EATON: No. I'm not.

17 MR. UTZ: Mr. Kellahin, in the event that we go
18 ahead and hear the case, would you continue to try to
19 reach an agreement before such time as the Order is
20 written?

21 MR. KELLAHIN: Yes. But as I understand Mr. Eaton's
22 argument, until the Order is written there is nothing we
23 can agree to. I think he is being unduly technical in
24 saying you can't do the two simultaneously. That's about
25 the size of it. We are asking to create the unit and force

1 pool it at the same time; and Mr. Eaton's position, I
2 take it, is that you cannot do this.

3 It's been done, of course, in the past. I don't
4 think the question has ever been squarely presented to
5 the Commission, however. To my knowledge it hasn't.

6 MR. UTZ: Is Mr. Kellahin correct in that your
7 contention is that as far as the non-standard unit is
8 concerned you have nothing to talk about until we create
9 that unit?

10 MR. EATON: Insofar as joining. Insofar as
11 permanent joining or pooling of interest.

12 MR. CARR: Mr. Kellahin, have you attempted to
13 negotiate with Kewanee on the basis of what your proposed
14 non-standard unit would be?

15 MR. KELLAHIN: Yes.

16 MR. CARR: You have?

17 MR. KELLAHIN: Yes, we have.

18 MR. UTZ: Mr. Eaton, I'll overrule your objection;
19 and we will hear the case. And we will arrive at a
20 period of time after I hear the case and before I write
21 a recommendation for you and Penroc to try to get
22 together, your clients and Penroc to try to get together
23 on a voluntary basis.

24 Before this case is closed, we will arrive at what
25 that period of time will be.

MR. EATON: Thank you.

JOHN CASTLE

was called as a witness and having been previously sworn according to law, testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

MR. KELLAHIN: Has the witness been sworn?

MR. CARR: Yes. He has.

Q With whom are you employed and in what position?

A President of Penroc Oil Corporation.

Q That is the applicant in this case?

A Right.

Q Have you ever testified before the Oil Conservation Commission and made your qualifications a matter of record?

A Yes, I have.

MR. KELLAHIN: Are the witness' qualifications acceptable?

MR. UTZ: Yes, sir. They are.

Q (By Mr. Kellahin) Mr. Castle, what is proposed by the Applicant, Penroc, in Case Number 4939?

A Penroc requests permission to form a non-standard unit consisting of the East half of the West half and the West half of the East half of Section 11, Township 24 South, Range 34 East, Lea County, New Mexico, being

1 320 acres and to force pool Kewanee Oil Company who
2 owns 3/16 or 60 acres of unleased minerals under the
3 proposed unit and to duly complete from the Atoka and
4 Morrow formations a well proposed to be drilled 1980
5 feet from the West line and 660 feet from the North line
6 of said Section 11.

7 Q Now, you say Kewanee owns 3/16 or 60 mineral acres.
8 Is that undivided acreage or undivided interest in the
9 area?

10 A Kewanee has undivided mineral interest.

11 Q It's undivided?

12 A Right.

13 Q Referring to what has been marked as the Applicant's
14 Exhibit Number 1, would you identify that Exhibit, please?

15 A Exhibit Number 1 is a lease ownership plat with the
16 proposed unit outlined in yellow, showing Penroc's
17 13/16 interest expiring 3-15-75 and Kewanee's 3/16 interest
18 unleased minerals with, of course, no expiration date.

19 It shows the offset operators to the proposed unit.

20 Q Now, referring to what has been marked as Exhibit Number 2,
21 would you identify that exhibit?

22 A Now, your question again, Mr. Kellahin?

23 Q Referring to Exhibit Number 2, now, would you identify
24 that exhibit and discuss the information shown on it?

25 A Exhibit Number 2 is a structural map contoured on top of

1 the Atoka limestone pay. It shows in color code the
2 completion interval of the wells within the location of
3 the plat. There is a partial copy of the electric log
4 on the bottom left-hand corner which shows the correlation
5 point.

6 Q Now, this is on the top of the Atoka, the well circled
7 in green immediately north of your proposed location?

8 A Yes. The wells in green are Atoka completions.

9 Q And there is the one well north and then the only other
10 wells in here are to the West; is that correct?

11 A Yes, West and Northwest. And there is two wells to the
12 East, one almost directly East completed from the Morrow,
13 one Northwest which was a dry hole.

14 Q Is there any other well currently drilling in the vicinity?

15 A No. There are proposed wells in the near vicinity.

16 Q Now, on the basis of the structure as shown here and
17 in your opinion, is only your proposed unit productive
18 from the Atoka?

19 A We believe it to be.

20 Q Referring to what has been marked as Exhibit Number 3,
21 would you identify that exhibit?

22 MR. UTZ: Excuse me just a moment. This partial
23 log on Exhibit 2, is that the well located in the Northeast
24 quarter of Section 4, the well marked Number 2?

25 THE WITNESS: It's the well marked Number 4 in

1 Section 4.

2 A Exhibit Number 3 is a structure map contoured on top of
3 the Morrow formation, has the same color code as Exhibit
4 Number 2. Also, it has a copy of a well, a copy of a
5 portion of a log from a well in the bottom left-hand
6 corner; and this log is from a well located 1650 from the
7 East line and 660 from the North line of Section 4. It
8 is the well nearby the well which we were just talking
9 about.

10 MR. UTZ: The well marked Number 2 on your exhibit?

11 THE WITNESS: That's correct.

12 Q (By Mr. Kellahin) Now, is that the closest Morrow
13 production to your proposed location?

14 A Yes, it is.

15 Q And that would be something over a mile, nearly two
16 miles away; is that correct?

17 A Approximately a mile and three-quarters.

18 Q All right.

19 MR. UTZ: What is the well designation of that well?
20 It's obliterated on your map --

21 THE WITNESS: The well--

22 MR. UTZ: -- or on your log.

23 THE WITNESS: You mean the Well Number 2 located in
24 Section 4?

25 MR. UTZ: Yes.

1 THE WITNESS: It is Atoka Antelope Ridge Number 2.

2 MR. UTZ: Number 2?

3 THE WITNESS: Yes, which is operated by Shell.

4 MR. UTZ: Is that the B.E. Number 2, now?

5 THE WITNESS: Yes. The name has been changed since
6 this log was made.

7 MR. UTZ: B.E. is not applicable now?

8 THE WITNESS: No.

9 Q (By Mr. Kellahin) Now, again on the basis of information
10 you have, in your opinion is the entire 320 acres you
11 propose to dedicate to the well productive from the
12 Morrow formation?

13 A Yes.

14 Q What is your reason then for your unorthodox well location,
15 Mr. Castle?

16 A Structure. We would like to stay as structurally high
17 as possible. We believe that it is. We don't know
18 where water is either in the Atoka or the Morrow; and we
19 believe we will be able to produce more gas from our unit
20 by staying as structurally high as we can.

21 Q There is none developed to the South of you?

22 A No. That's right.

23 Q None at all? Now, referring to what has been marked
24 as Exhibit Number 4, would you discuss that, please?

25 A Exhibit Number 4 is a proposed dual completion sketch.

1 Q How do you propose to complete that well for production
2 from the Morrow and the Atoka?

3 A We propose to set 350 feet of 13 and 3/8 inch casing,
4 350 feet of 3 inch casing approximately 5250 feet or
5 10 and 3/4 inch casing, 12,100 feet of 7 and 5/8 inch
6 casing and then use a 5/8 liner from the 7 and 5/8 inch
7 casing to proposed TD of approximately 13,500 feet and
8 dually complete through two strings of 2 and 3/8 inch
9 tubing.

10 Q And you will set a packer above the Morrow; is this
11 correct?

12 A Yes. They will be, both zones will be separated,
13 produced each zone separately.

14 Q What type of packer do you propose to use?

15 A It will be dual 75, Otis 7 and 5/8 dual and hydrolic
16 packer.

17 Q That would be the upper packer?

18 A That would be the upper packer.

19 Q Yes, sir. And the lower, Otis packer, also?

20 A Yes, sir.

21 Q In your opinion will the type of completion you are
22 proposing here give effective separation between the two
23 producing horizons?

24 A Yes.

25 Q Have you any indication of what pressures might be in the

1 two zones?

2 A It could possibly be as much as 9,000 pounds bottomhole
3 pressure in the Atoka zone and 4,000 to 6,000 pounds in
4 the Morrow.

5 Q And so you are talking about a pressure differential of
6 3,000 to 4,000 pounds?

7 A Yes.

8 Q And in your opinion this will effectively separate that
9 pressure?

10 A Yes.

11 Q Now, referring to what has been marked as Exhibit Number 5,
12 would you identify that exhibit?

13 A Exhibit Number 5 is Penroc's well cost estimate. It shows
14 the cost of a dry hole and the cost of a dually completed
15 well.

16 Q And the dry hole costs \$320,175?

17 A Yes.

18 Q And a completed producer for dual completion is how much?

19 A \$424,400.

20 Q Now, have you drilled wells or has Penroc drilled wells
21 in that area?

22 A Not in this immediate area.

23 Q Have you drilled Morrow and Atoka wells?

24 A Yes.

25 Q Are the costs you have here based on the information you

1 acquired in such drilling?

2 A Yes.

3 Q And you feel they are reasonable for this well?

4 A Yes.

5 Q Now, the case here is advertised for consideration, in
6 addition to other factors, of the cost of a provision for
7 recovering the cost of the well including a risk factor.
8 Are there any particular risks involved in drilling here?

9 A Yes. There is quite a few risks. There has been several
10 blow-outs in the area; and then, of course, there is also
11 a possibility of a dry hole.

12 Q Where were the blow-outs? What area are you talking about
13 there?

14 A Well, the Texas West Well immediately North blew out from
15 the Atoka. In Section 4 the well located 1650 from the
16 East and 660 from the North also blew out in the Atoka,
17 and I believe one or more of the Bell Lake units on the
18 West blew out from the Atoka and possibly other zones.
19 I'm not sure.

20 Q But you were talking here, of course, about the Atoka
21 primarily on the blow-out; is that correct?

22 A Yes.

23 Q Has this created additional hazards not normally
24 encountered in drilling wells?

25 A Yes, it does.

1 O And other than the risk of drilling a dry hole, are there
2 any other risks?

3 A There are a lot of circulation problems in the area.
4 That is one of the reasons for setting the casing as deep
5 as you do.

6 Q On what basis, what do you consider to be a reasonable
7 risk factor to be assigned to the well?

8 A 300 percent.

9 Q Now, in addition to the risk factor, this calls for a
10 provision for the allocation of operating costs and
11 charges for supervision of the well. What supervision
12 charges do you consider reasonable?

13 A We usually charge for administrative overhead cost for
14 single completed well \$125 per month, \$150 per month for
15 the dually completed well.

16 Q This is what you would propose for this well?

17 A Yes.

18 Q As for the force pooling, did you make an effort to
19 obtain a voluntary agreement from both of the offsetting
20 owners, Kewanee and Getty?

21 A Yes, I did. I had more than one conversation with both
22 of them. Exhibit Number 6 shows the dates and notes on
23 those conversations with both Kewanee and Getty.

24 Q And they show who you talked with and who talked with
25 whom or each of the companies; is this correct?

1 A Yes, it does.

2 Q Are these records that were kept in the course of your
3 business dealings with these companies?

4 A Yes, it was.

5 Q Did you propose at any time with Kewanee to form the
6 non-standard unit you are seeking here today?

7 A Yes. First, we tried to form a standard unit and were
8 unsuccessful and then the non-standard unit.

9 Q Now, you say you attempted to form a standard unit. Now,
10 referring to Kewanee, what unit did you propose to form as
11 a standard unit?

12 A We offered with both Kewanee and Getty to form either the
13 East half of Section 11 or the West half. Well, the East
14 half of Section 11 would be with Kewanee. The West half
15 of Section 11 would be with Kewanee and Getty and the
16 North half of Section 11 would be with both Kewanee and
17 Getty.

18 Q Did you propose all three of those alternatives?

19 A Yes, we did.

20 Q In addition, you did propose to form a non-standard unit
21 in the same area involved in this application?

22 A Yes. We also asked if they would join in the unit and
23 which they said no. We asked if they would farm-out.

24 The answer was no. We asked if they would sell and the
25 answer was no.

1 Q Did you offer to sell to them?

2 A Yes, we did. We didn't offer to sell to Kewanee, but
3 we did to Getty.

4 Q What were the results of all of these contacts with the
5 two companies?

6 A The answer was no on all proposals.

7 Q Were Exhibits 1 through 6 prepared by you or under your
8 supervision?

9 A Yes.

10 MR. KELLAHIN: At this time I will offer into evidence
11 Exhibits 1 through 6 inclusive.

12 MR. UTZ: Without objection, Exhibits 1 through 6
13 will be entered into the record of this case.

14 Q (By Mr. Kellahin) Do you have anything else to add, Mr.
15 Castle?

16 A I might mention a little more about the proposed wells in
17 the area. I believe Texas West has a proposed well in the
18 South half of Section 2 which would be immediately North
19 of our proposed location, which shows on our location plat,
20 on our lease ownership plat to be Aztec.

21 I think Texas West has a farm-out from Aztec which
22 they can earn by drilling. Also, Belco has proposed a
23 well somewhere to the East, possibly in Section 1. Should
24 it be in Section 1 and their unit be the South half
25 of the North half, then it would take in portions of both

1 Kewanee's and Getty's acreage and could possibly then
2 hold their leases in Section 11 by production. Belco's
3 lease in Section 1, also in Section 12, expires 2-1-74.
4 So they have told me they will do something before that
5 lease expires.

6 Q What's the expiration date on your lease?

7 A 3-15-75.

8 Q Mr. Castle, you heard the discussion, the objection at
9 the outset of this Hearing. Is Penroc still willing to
10 attempt to negotiate either a standard or non-standard
11 unit with Kewanee or Getty or both?

12 A Up until the time we get the ruling on this Hearing we
13 will be willing to make any reasonable deal. We would
14 rather have a unit consisting of the North half of
15 Section 11; and if that would be the unit, then our
16 location would be a legal location; but we would be
17 willing to make any standard unit, either the North half
18 or the West half of Section 11.

19 Q How much time did you feel would be reasonable to work
20 out something?

21 A I have been working at it quite a while already, and I
22 feel that within, say, 2 or 3 weeks after this Hearing
23 they should be able to let me know something.

24 MR. KELLAHIN: That's all I have, Mr. Utz.

25 MR. UTZ: Are there questions of the witness?

1 MR. EATON: Yes, sir.

2 MR. UTZ: Mr. Eaton?

3 CROSS-EXAMINATION

4 BY MR. EATON:

5 Q Mr. Castle, it is your understanding and my understanding
6 that in Section 11 Getty Oil Company owns the lease
7 covering the West half, West half?

8 A That's correct.

9 Q Kewanee owns the lease covering the East half, Northeast
10 quarter and the Northeast quarter, Southeast quarter?

11 A That's right.

12 Q Which is due to expire March 1, 1975?

13 A Yes.

14 Q That Kewanee owns 60 mineral acres in the middle section
15 of Section 11 for which you propose the non-standard unit?

16 A Yes.

17 Q And that Penroc owns the lease and the remaining 100 or 260
18 acres which is due to expire March 15, 1975?

19 A That's right.

20 Q Okay. Now, you have made reference to a proposed well
21 of Texas West Oil and Gas Corporation in the South half
22 of Section 2. Do you know when that well is to be
23 commenced?

24 A Now, I talked to Aztec, who presently owns the lease.
25 They told me it had to be started by May 5th.

1 O Of this year?

2 A Of this year.

3 Q And do you understand that it is to be a Devonian test?

4 A No. I didn't know. I didn't ask how deep they were
5 going.

6 Q Did you have any information or knowledge as to how deep
7 the well was to be drilled?

8 A No.

9 Q If that well is to be a Devonian test, would that
10 information along with the knowledge that it would be
11 commenced in less than four weeks have any bearing upon
12 Penroc's decision to ask for the non-standard well location
13 for the non-standard unit or Penroc's opinion that there
14 should be a 300 percent risk factor?

15 A The well being drilled in the Devonian wouldn't make
16 any difference to Penroc. The only intervals that
17 Penroc is interested in at the present time would be the
18 Atoka and the Morrow.

19 Q Now, if that well were tested in the Atoka and the
20 Morrow, would it furnish valuable information to Penroc
21 with respect to its proposed drilling in Section 11?

22 A Well, it would be information which we would be glad to
23 have. The original well was drilled tight. I don't know
24 whether they plan to drill the second well tight or not,
25 so we may not have the information, but it is fairly close

1 to their discovery well, and it wouldn't give us as much
2 information if it were located farther South.

3 Q If the proposed well is in the Northeast quarter of the
4 Southwest quarter of Section 2, it would be less than
5 half a mile from your proposed well; is that correct?

6 A No. That would put it exactly a half mile from our
7 proposed location.

8 Q All right. Now, you have stated that you have talked
9 to Getty and to Kewanee trying to make deals with them.
10 Is that correct?

11 A That's right.

12 Q Wasn't it a fact that in your conversations with them
13 they advised you of the proposed well in the South half
14 of Section 2?

15 A No. Neither of them knew where the well would be
16 located or they told me they did not know. They thought
17 there was a proposed well, but they didn't know what the
18 location would be.

19 Q They made no mention that it was to be drilled in the
20 South half of Section 2?

21 A No. On the Texas West Oil and Gas farm-out, I believe
22 Aztec also includes a section North of 2; and as we were
23 discussing with Getty and Kewanee, neither of us knew
24 whether it would be drilled in Section 2 or 34, I guess
25 it is.

1 Q Did Kewanee or Getty advise you that until Texas West
2 drilled the well that they were not in a position to
3 evaluate their acreage in Section 11?

4 A They mentioned they would like to watch other development
5 in the area, yes; but as far as Penroc is concerned,
6 we -- say Texas West does drill their well in the South
7 half of Section 2 and gets a dry hole. Then, of course,
8 Kewanee and Getty would be very easy for Penroc to deal
9 with. Should they get a producing well, we would be
10 in the same position we are now. We would be unable
11 to make a deal.

12 Q Assuming that Texas West got a well in the Atoka or
13 the Morrow which is of interest to you, do I understand
14 you to say that Kewanee and Getty would not trade with
15 you if necessary?

16 A I don't believe they would, or they would trade now.

17 Q If they did not, then there would be nothing to preclude
18 you from force pooling them; would there?

19 A That's what we are doing now.

20 Q But at least at that point of time both you and they
21 would have a much better understanding of the situation
22 in the North half of Section 11 or in all of Section 11?

23 A Well, we would have a little more information.

24 Q Now, has Aztec, owning the South half of Section 2,
25 consented to this proposed location of yours?

1 A No. They told me that they didn't think that they would
2 object at a Hearing; but they weren't sure at that time.

3 Q Under the non-standard unit as proposed by you, Penroc's
4 interest would be exactly 81.25 percent; would it not?

5 A Our proposed unit and proposed location, Penroc would
6 have 13/16, Kewanee, 3/16 of the unit.

7 Q On any other standard unit Penroc would have a much
8 smaller interest; would it not?

9 A No. Yes. On the North half of Section 11 which Penroc
10 would rather have, Penroc would have 13/32; Kewanee,
11 11/32; Getty, 8/32. And I have it for the other units
12 if you would like those.

13 MR. UTZ: Would you give me that again, please?

14 THE WITNESS: By making the unit in the North half
15 of Section 11, Penroc would have 130 acres or 13/32 of
16 the working interest. Kewanee would have 110 acres or
17 11/32. Getty would have 80 acres or 8/32. And if you
18 did not get our proposed non-standard unit, Penroc
19 would have 260 acres or 13/16; Kewanee, 60 acres or 3/16.

20 MR. UTZ: Thank you. Does that include Kewanee's
21 undivided interest in their North half?

22 THE WITNESS: Their 60 acres of minerals.

23 MR. UTZ: Okay. Proceed.

24 Q (By Mr. Eaton) Now, if the non-standard unit were
25 approved, with respect to Getty's acreage in the West

1 half, West half of Section 11 and Kewanee's acreage in
2 the East half or at least in the North three-quarters
3 of the East half, East half, in order to develop that
4 acreage with respect to the acreage of each company
5 it would be necessary to drill what, two additional
6 wells; would it not?

7 A I don't know what Kewanee or Getty would be with their
8 undrilled acreage.

9 Q But the question is, Mr. Castle: If they wished to
10 develop it, each would have to drill a well; would they
11 not?

12 A Yes. So it would be better if they would join in our
13 unit.

14 Q But even if they joined in your proposed unit, my question
15 is: They would still have to drill two additional wells,
16 one to cover the acreage on the West side and one to
17 cover the acreage on the East side?

18 A No. Not if they joined in a standard unit, either being
19 the North half of Section 11 or the West half or East
20 half of Section 11. Then we could drill two standard
21 locations.

22 Q Why didn't you propose to force pool on the basis of a
23 standard unit?

24 A Because of Penroc's interest. With the penalty that
25 we could get, say we do get 300 percent penalty on the

1 North half being a standard North half making a unit,
2 then Penroc would have 13/32 of that unit after having
3 spent more than \$400,000 to drill the well and taking
4 all the risk.

5 Q As I understand it then, the decision of the non-standard
6 unit is based essentially upon Penroc's acreage interest?

7 A On economics. If we are going to take the risk and
8 spend the money, we would like to have a larger interest
9 in the well.

10 Q But as I understand it, you are still willing to take an
11 even greater risk by going ahead and drilling this well
12 with the knowledge that an offset well is being drilled
13 to the Devonian formation half a mile to the North of
14 your proposed well?

15 A No. We don't think it's that much added risk or we would
16 gain that much by waiting for that well. We are
17 satisfied with our geology.

18 Q In connection with geology, has any suggestion been made
19 to you that there may be a fault that runs through
20 Section 11?

21 A We believe there is a fault. However, we don't believe
22 that it cuts the Pennsylvanian formation. We think it's
23 below the Pennsylvanian and we believe it to be
24 immediately South of Section 11. We believe the Devonian
25 is faulted immediately South of Section 11.

1 Q To the section to the South; is that right?

2 A Yes, immediately South of Section 11. We don't believe
3 there is a fault cutting the Pennsylvanian formation.

4 If you will notice our Exhibits 2 and 3, you will note
5 a steep dip at the South edge of Section 11 which we
6 believe is the result of that Pre-Pennsylvanian fault.

7 Q Your testimony interests me with respect to the
8 propositioned Belco well. Did I understand you to say
9 that it is your understanding that Belco proposes to drill
10 a well in Section 1?

11 A No, I didn't say that. I don't know where their well
12 will be. They told me it would be East of Texas West
13 which could be in Section 1 or 12.

14 Q What was your reference to holding Kewanee's lease?

15 A Should Belco drill in Section 1 and run their 320 acres
16 waste West or either make the North half of Section 1
17 or the South half of Section 1 their proration unit,
18 then that would take in part of Getty's lease and part
19 of Kewanee's lease which offsets us in Section 11. And
20 then that would hold by production, then, the acreage
21 offsetting us. In other words, if Belco was successful
22 and made a producing well in Section 1 with that proration
23 unit, then Kewanee and Getty would have non-expiring
24 leases offsetting us.

25 Q Are you talking about Section 1 or Section 12?

1 A I'm talking about Section 1, should they drill there.

2 Q What if they were to drill in Section 12?

3 A Should they drill in Section 12 and make their unit the
4 South half of Section 12, then that would take in part
5 of Getty's lease which is the West half of the Southwest
6 quarter.

7 Q If they were to do that, wouldn't we have a problem in
8 that we would have the East half of Section 11 just
9 basically the Kewanee lease boxed in, spacing or proration-
10 unit-wise, so that it becomes essentially a 160-acre
11 unit?

12 A It would be boxed in, but I don't believe Kewanee would
13 care if it was held by production. They could outlast
14 us; and when our lease expired, they could probably
15 outbid us on picking it up again.

16 Q Well, I assume you are talking, you say your lease expires.
17 Don't you propose to drill your lease?

18 A That's what we are trying to do.

19 Q And if you get production then, would you not be draining
20 the East half, Northeast quarter and the Northeast,
21 Southeast belonging to Kewanee?

22 A I don't believe so; and if they believe that, we would be
23 glad for them to join us and make it the North half of
24 the unit.

25 Q Would you say that the proposed well in the South half of

1 Section 2, when drilled, would give a better idea of the
2 productivity of Section 11?

3 A It would add to our information if the information were
4 available.

5 Q Would you say that ordinarily it is prudent when you don't
6 have a lease expiring to wait for the completion of an
7 offset well before you drill your own acreage?

8 A We have less than two years on our lease now. Should we
9 wait another 4 or 5 months for Texas West to drill a well
10 in the South half of Section 2, then we would have close
11 to a year left. And from my dealings so far with Getty
12 and Kewanee, I doubt if we could make a deal in that
13 period of time.

14 Q You are aware that Kewanee has even less time than you
15 on its lease?

16 A I'm also aware that it would probably be held by
17 production at the time our lease expires or theirs expires.

18 MR. UTZ: By production where?

19 THE WITNESS: From Section 1.

20 Q (By Mr. Eaton) That is pure speculation on your part;
21 is it not?

22 A That's partly speculation and partly information from
23 Belco.

24 Q That they will get a productive well over there?

25 A Well, I don't think they would spend \$400,000 unless they

1 thought so.

2 MR. FATON: That's all.

3 MR. UTZ: Are there any further questions of the
4 witness?

5 CROSS-EXAMINATION

6 BY MR. UTZ:

7 Q Mr. Castle, what's your understanding of the maximum
8 number risk factor that the Commission can grant as of
9 today?

10 A 300 percent.

11 Q I don't know whether this is a fair question or not, but
12 I'm going to ask it anyway. What kind of a risk factor
13 were you talking about when you were trying to negotiate
14 with Kewanee and Getty?

15 A I can tell you some of the offers I made Kewanee and
16 Getty. First I offered them to join, asked them to join
17 and they said no. Then I offered, I believe the best offer
18 I made them on the farm-out basis would be a farm-out
19 with 3/16 royalty or maybe it was 1/16 overriding royalty
20 and then 4/5 percent working interests after payout for
21 up to \$200 an acre for their leases if they would sell
22 them to me.

23 And, of course, I'm sure they are familiar with the
24 risks in drilling in the area. They have information on
25 all the nearby wells. Then about the blow-outs, the low

1 circulation and the dry holes in the area, and as Mr.
2 Faton pointed out a few minutes ago, faults below the
3 Pennsylvanian in that area.

4 I don't know whether he thinks there is a fault
5 above the Pennsylvanian or not, but there are faults
6 below the Pennsylvanian; and of course, that's a risk
7 when drilling to the Devonian or below the Pennsylvanian.

8 However, we don't intend to drill that deep.

9 Q Did you offer to carry them for a risk factor?

10 A No.

11 Q But you are proposing that now?

12 A Yes.

13 Q Do you have any idea at all about when Aztec or the well
14 might be drilled on the Aztec lease in the South half?

15 A Yes. Aztec told me under their farm-out agreement with
16 Texas West the well had to be started by May 5th of this
17 year. That's approximately a month from now.

18 Q How long does it take to complete this type of well?

19 A Approximately ninety days.

20 Q It depends on how many blow-outs you have?

21 A Yes.

22 Q What is the real reason, Mr. Castle, that you want to
23 proceed as rapidly as possible with your development?

24 A Well, mostly because of the short term of my lease. I
25 don't believe that I could afford to wait till Texas West

1 drilled their next well and then an attempt to make
2 a deal with Getty and Kewanee. I think, as I mentioned
3 in earlier testimony, that if they get a dry hole, if
4 Texas West should get a dry hole, then I wouldn't have
5 any problem dealing with Getty and Kewanee. Should they
6 make a well, I'd be in the same position I'm in now.
7 I would still sometime in the future have to come in and
8 force pool them before the Commission.

9 Q I see. In your opinion I believe you stated that thirty
10 days should be time enough to approach Getty and Kewanee
11 in regard to working out a voluntary agreement?

12 A I don't think it should be any more time than that because
13 we have already had several conversations. They have all
14 the information in the area that we have, and I think
15 they should make up their mind in thirty more days.

16 MR. UTZ: Other questions of the witness?

17 MR. KELLAHIN: I'd like to ask him a couple more.

18 REDIRECT EXAMINATION

19 BY MR. KELLAHIN:

20 Q Mr. Castle, you testified in a response to a question by
21 Mr. Utz that it would take about ninety days to complete
22 a well on the Aztec range. Are you talking about Atoka
23 or Morrow well?

24 A I'm talking about an Atoka well. If they plan to go to
25 the Devonian, I don't know how deep. I hadn't heard until

1 Mr. Eaton mentioned a few minutes ago that they plan to
2 go to the Devonian. How long that would take, I don't
3 have any idea. It will take approximately ninety days
4 to drill and complete an Atoka well.

5 Q Do you have any estimate how long it might take for
6 Devonian test?

7 A Possibly another sixty days.

8 Q It was your testimony that the other well in the North
9 half of that well was Atoka?

10 A Yes.

11 Q Assuming they are going to drill a Devonian test, do you
12 have any idea when you would get any information on the
13 Atoka and Morrow?

14 A I don't believe logs have been released on that yet.

15 MR. KELLAHIN: That's all I have.

16 MR. UTZ: Other questions? The witness may be
17 excused. Do you have any witnesses or testimony, Mr.
18 Eaton?

19 MR. EATON: Yes, sir. I may, and I wonder if I
20 could take about a ten-minute recess.

21 MR. UTZ: All right, sir. We will give you ten
22 minutes.

23 (Whereupon, a ten-minute recess was held.)

24 MR. UTZ: The Hearing will come to order, please.

25 MR. EATON: I'd like to call two witnesses to be

1 sworn in.

2 (Whereupon, the two witnesses were sworn.)

3 DONALD G. HADEN

4 was called as a witness and having been previously sworn
5 according to law, testified as follows:

6 DIRECT EXAMINATION

7 BY MR. EATON:

8 Q Would you please state your name and occupation?

9 A I'm Donald G. Haden. I'm District Land Man for Kewanee
10 Oil Company in Midland, Texas.

11 Q Are you familiar with the application of Penroc in this
12 case?

13 A Yes, I am.

14 Q Did you hear the testimony of Mr. Castle with respect to
15 his attempts to make a trade or work out a deal with
16 Kewanee in Connection with the Section 11 acreage?

17 A Yes, I did.

18 Q Did you participate in any conversations with Mr. Castle?

19 A Mr. Castle and I had a number of conversations regarding
20 our interest here in Section 11, and I advised him then,
21 as now, that it would be prudent for Kewanee to wait until
22 such time as the well in the South half of 2 was drilled
23 prior to committing our interest in Section 11.

24 Q Excuse me --

25 A It just didn't seem reasonable to us to go forward with the

1 well in 11 knowing that you are going to have this
2 additional information from the well in 2.

3 Q Kewanee has been aware and is aware now that a well will
4 be drilled in the South half of Section 2 to test the
5 Devonian formation?

6 A Right.

7 Q After that well is completed, will Kewanee be in a
8 position to either farm-out to Penroc or join Penroc in
9 the drilling of a well in Section 11 based upon the
10 information obtained from that well in the South half
11 of Section 2?

12 A The well in Section 2 would certainly give us enough
13 information, I think, that Kewanee could decide whether
14 or not they wanted to farm-out or join in a well in
15 Section 11.

16 Q Does Kewanee object to the proposed non-standard unit?

17 A Yes. We do for the simple reason that it would leave our
18 acreage over there in the East half of 11 out of pocket
19 so to speak.

20 Q Is it the position of Kewanee that a standard unit should
21 be dedicated to any well drilled in Section 11?

22 A That is correct. We would prefer a standard unit.

23 MR. EATON: That's all.

24 MR. UTZ: Questions of the witness?

25 * * * * *

CROSS-EXAMINATION

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2

BY MR. KELLAHIN:

3

Q Mr. Haden, when did you learn the well was to be drilled
in the South half of Section 2?

4

5

A Well, we had, the notes in my file indicate that we had
this knowledge and discussed it with Mr. Castle.

6

7

Q Was there a possibility that that well would be drilled
in Section 34?

8

9

A I didn't even know they had any acreage in Section 34.

10

Q Who told you they were going to drill in Section 2?

11

A Well, this was just, I believe this information came from
Getty.

12

13

Q From Getty, but they are not going to drill the well;
are they?

14

15

A In 2?

16

Q Yes.

17

A No, sir.

18

Q They don't own Section 2? Getty doesn't own Section 2?

19

A Not to my knowledge, no.

20

Q There is a well in the North half of Section 2. Have you
obtained any information on that well yet?

21

22

A Nothing but released and published information.

23

Q What does that amount to?

24

A Well, it amounts to the perforations, the initial potential
and tops of various formations.

25

1 Q That's just the matter that is routinely filed in the
2 Oil Conservation Commission or the USGS?

3 A I assume this is correct. I'm not in --

4 Q You don't know where the information came from?

5 A I don't know where they file that.

6 Q Does that give you enough information to evaluate the
7 North half of Section 2. I realize you are a land man,
8 but you have testified about the necessity for drilling
9 the South half to evaluate Section 11.

10 A Our position is simply that if you can benefit from a
11 well to be drilled closer to your acreage, then you are
12 going to be much better off to wait until that well is
13 drilled before you --

14 Q Mr. Haden, I understand your position. What I'm trying
15 to find out is when you are going to get that information.
16 Do you have enough information today to evaluate the
17 South half of Section 2 based on what you know about the
18 well in the North half?

19 A Well, I personally cannot evaluate the South half of
20 Section 2.

21 Q You don't know? Is that what you are testifying to?

22 A Right.

23 Q When was that well completed in the North half of 2?

24 A In about a month ago or two months ago.

25 Q It was drilled as a tight hole, was it not, or do you know

1 that?

2 A To my understanding, it was.

3 Q And the operator still hasn't released anything of the
4 consequences of that well, has he?

5 A Just the figures I mentioned. The tops, the five-point
6 tests. It's a gas completion test.

7 Q Now, you testified that Kewanee objects to a non-standard
8 unit, but you are not willing at this time to join in
9 any standard unit either in the North half or the East
10 half; is that correct?

11 A We would prefer to await this additional well information
12 if we get it.

13 Q Are you in a position to say --. You say you would prefer.
14 Are you in a position to say today whether Kewanee would
15 or would not join in the formation of a standard unit?

16 A Immediately today in the formation of a standard unit?

17 Q Yes, sir.

18 A My position of that is that we cannot until this well
19 was drilled in 2 that apparently is going to be drilled.

20 Q And then you would not join until it's drilled; is this
21 your testimony?

22 A Well, based on the information we have now, I'd say no.
23 We would not.

24 Q Thank you.

25 MR. KELLAHIN: That's all I have, Mr. Utz.

CROSS-EXAMINATION

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BY MR. UTE:

Q Mr. Haden, what is your estimate? I don't believe I understood you if you said what your estimate of when any information would be available on the well in the South half of Section 2.

A The well that is to be drilled?

Q Yes.

A Well, this, of course, is up to the operator of the well; but I would assume that since they have drilled the well in the North half and they drilled the well in the South half of Section 2 that within a reasonable length of time they would release this information.

Q When did they start drilling the well in the North half of Section 2?

A I don't have those figures in front of me I don't believe. I believe it was -- wait a minute. They spudded on December the 1st, as I recall.

Q 12-1-72?

A Right.

Q And it's now 4-11-72 and this information is still tight; am I correct?

A This is correct.

Q So we are talking about five months, and you still don't have any information available on the well in the North

1 half of Section 2. Is it reasonable to assume it would be
2 five months before any information after they started
3 drilling the well in the South half before anything would
4 be available on it if they chose to keep it tight?

5 A Well, certainly, if they chose to keep it tight.

6 Q Who is going to drill in the well in the South half?

7 A Texas West, I assume.

8 Q They are the ones that kept the North half well tight;
9 aren't they?

10 A Yes, they are.

11 Q And it still is; isn't that correct?

12 A Except for the, they have released certainly, released
13 the initial potential and the perforations and their
14 pipe point and these tops that they have released. And
15 it would seem to be indicative I think of their --

16 Q Is that enough information to assist you in making up
17 your mind as to what you would do with your acreage?

18 A Well, it would certainly aid us.

19 MR. UTZ: Other questions?

20 REDIRECT EXAMINATION

21 BY MR. EATON:

22 Q That information would be more than you have now with
23 respect to the South half of Section 2; is that correct?

24 A This is true.

25 Q Do you know of any reason why Texas West would continue

1 to keep the information tight after it has started or
2 completed the well in the South half of Section 2?

3 A I would have no reason why they would.

4 MR. UTZ: Other questions of the witness?

5 RECROSS-EXAMINATION

6 BY MR. KELLAHIN:

7 Q Do you know of any reason why they wouldn't?

8 A I wouldn't know what they would have to benefit by
9 keeping it tight.

10 Q You really don't know what their situation is, do you?
11 You don't work for them?

12 A I don't work for them, no. I can't speak for them.

13 MR. UTZ: It seems to me we are doing a lot of
14 prognosticating here. Other questions of the witness?
15 He may be excused. Do you have another witness?

16 MR. EATON: Yes, sir.

17 MILES McDONOUGH

18 was called as a witness and having been previously sworn
19 according to law, testified as follows:

20 DIRECT EXAMINATION

21 BY MR. EATON:

22 Q State your name and occupation, please.

23 A Miles McDonough. I'm a land man in Getty Oil Company
24 in Midland, Texas.

25 Q Do you work under James Davis?

- 1 A Yes, I do.
- 2 Q And who is James Davis?
- 3 A He's the District Land Man for Getty Oil.
- 4 Q Are you here representing the Land Department of Getty
5 Oil?
- 6 A Yes, I am.
- 7 Q Did you hear the testimony of Mr. Castle in this matter?
- 8 A Yes, I did.
- 9 Q What is the position of Getty Oil Company with respect
10 to the proposed well location and a proposed unit of
11 Penroc Oil Company?
- 12 A Getty is opposed to the non-standard proration unit at
13 this time, and they are not favorable in joining a
14 standard or a non-standard unit until such time as the
15 other well is done that would give us information that
16 would be indicative of either joining in a standard unit
17 or farming out.
- 18 Q And by the other well, do you mean the well that has been
19 discussed?
- 20 A The proposed well in the South half of 2.
- 21 Q Does Getty Oil Company have any geological or geophysical
22 data and information in this particular area that we are
23 talking about?
- 24 A We have both geophysical data and geological data.
- 25 Q After the well in Section 2 is drilled, would you be able

1 to furnish Penroc and Kewanee the information that you
2 have if there appears to be some basis to drill a well
3 somewhere in the North half of Section 11?

4 A Yes, we would. Another problem there, if that well was
5 completed from the Devonian, there would be a strong
6 possibility that Getty Oil Company would want to drill
7 a well in Section 11 to the Devonian.

8 And at this time here, if this well was drilled to
9 the Atoka and Morrow, we would be precluded from producing
10 from the Devonian without drilling another well.

11 Q Do you have anything else, Mr. McDonough?

12 A Well, I'd like to clear up the image that has been made
13 as to Getty's wants. They don't care to do anything in
14 the area at any time either before the well is drilled
15 or after the well is drilled in 2.

16 The name of the game is to produce oil and gas
17 regardless of who your partners are. To my knowledge
18 Getty doesn't have any pool representation as being
19 obnoxious as to any one of them.

20 It makes no difference who we were as long as we
21 could work out a satisfactory operating agreement which is
22 just part of operation and negotiations of any trade.

23 Q Do you know of any reason which would require or justify
24 the commencement of a well somewhere in the North half of
25 Section 11 prior to the completion of the Devonian test in

1 the South half of Section 2?

2 A Would you rephrase that, please?

3 Q Do you know of any reason for commencing the Atoka-
4 Morrow test in the North half of Section 11?

5 A I know of no reason.

6 Q Prior to the drilling and completion of the proposed well
7 in the South half of Section 2?

8 A I know of no reason. It wouldn't be a prudent operator
9 to go ahead unless the lease was in jeopardy. Then you
10 would have to take a higher risk factor; but when someone
11 has close to two years on a lease and a well is going to
12 be drilled within a month, it's adequate time to wait for
13 the normal development pattern.

14 MR. EATON: I have no further questions.

15 CROSS-EXAMINATION

16 BY MR. KELLAHIN:

17 Q Mr. McDonough?

18 A Yes.

19 Q Mr. McDonough, I believe Mr. Haden testified that he
20 learned of the proposed well in the South half of 2
21 from Getty. Did he learn it from you?

22 A No, he did not.

23 Q Do you know who he learned it from?

24 A I do not.

25 Q Where did you learn that a well would be drilled in the

1 South half of 2?

2 A From Mr. Davis.

3 Q Who is Mr. Davis?

4 A He is the District Land Man for Getty Oil.

5 Q He is not going to drill the well, though?

6 A Not very well.

7 Q Then, no location has been established for that well;
8 has it?

9 A Not to my knowledge.

10 Q Now, in the North half of 2, do you have any information
11 on that well other than that mentioned by Mr. Haden?

12 A Yes.

13 Q You have the log on it?

14 A I do not have the log. We have the information that
15 was released by Structure Map, Incorporated in their
16 geological newsletter dated April of '73, which gives
17 the location, the tops of the formations, and where it
18 was completed from, the drill stem test information.

19 Q That's the same information Mr. Haden mentioned, I believe;
20 is it not?

21 A No. I believe this is more information than would be
22 necessary to file with the Conservation Commission.

23 Q Yes, sir. Now, on the basis of that information, would
24 you be able to evaluate this South half of that Section?

25 A Yes. As to drilling a well?

1 Q Yes, sir.

2 A Yes.

3 Q You wouldn't need any more than what you have got right
4 there?

5 A No.

6 Q Is that correct?

7 A Yes.

8 Q When would you anticipate that much information would be
9 available on the well in the South half of the Section?

10 A Well, it could be sooner than the interval from the
11 completion till the time this letter was published
12 which was three months or it could be released immediately.
13 The operator may not have any reason to withhold the
14 information.

15 Q And he may have, too, may he not? You are speculating
16 there; are you not?

17 A Well, I think it's a good risk, good guess that he would.

18 Q Well, you don't know whether he will drill that as a
19 tight hole or not, though; do you?

20 A No, I don't. He may and he may not. That's something
21 no one knows.

22 Q Now, you mentioned drilling to the Devonian. Does Getty
23 have enough acreage to drill to the Devonian for the unit?

24 A Yes.

25 Q How many acres do you think they would dedicate to the

1 Devonian well? I'm talking about Section 11, now.

2 A But we could, in Section 11 we have the West half of
3 11. We have 320 acres.

4 Q You have the entire West half of 11?

5 A Oh, I'm sorry, the West half of the West half.

6 Q Yes, sir. You have the West half of the West half?

7 A I'm sorry, yes.

8 Q So you do not have enough acres to drill the Devonian
9 test, do you, without some other operator cooperating
10 with you?

11 A No. We are in the same position as Penroc is in right
12 now for the --

13 Q Yes, sir. Which they are now trying to cure. If you join
14 Penroc in a well in any part of Section 11, there is no
15 reason that we will continue to be projected to the
16 Devonian, is there admittedly? Penroc does not own the
17 Devonian; right?

18 A If a well was started now, the casing program wouldn't
19 allow to drill at additional depth.

20 Q I'm talking about if you join them now in the drilling
21 of a well.

22 A If we join Penroc now in a well in 11?

23 Q And wanted to project a well in the Devonian. It could
24 be done, could it not?

25 A Now?

1 Q Yes, sir.

2 A Yes. It wouldn't be a proved objective. That would be
3 an extremely high risk factor whereas that well in 2,
4 if it was created from the Devonian, would give very
5 valuable information.

6 Q At some future date, indefinitely?

7 A I wouldn't say it's indefinite. It's within six months.

8 MR. KELLAHIN: That's all I have. Thank you.

9 CROSS-EXAMINATION

10 BY MR. UTZ:

11 Q Mr. McDonough, do you have any idea where they might
12 drill that well in Section 2, the South half?

13 A Well, I haven't seen the stake or an actual permit, but
14 I understand it's supposed to be in the Southeast or
15 Northeast of the Southwest.

16 Q Which would be what, approximately a quarter of a mile
17 closer to Section 11?

18 A Yes, or it would be a half mile from a proposed well in
19 11.

20 Q Do you think information another quarter of a mile closer
21 to Section 11 will give you enough information to make up
22 your mind what you want to do?

23 A Yes, especially as to the Devonian.

24 Q Did the well in the North half of Section 2 test the
25 Devonian?

1 A No.

2 Q Are there any other Devonian tests?

3 A Yes. There are other wells in the area.

4 Q That's in Section 34. Is that the closest one? According
5 to Penroc's map, it is. I just thought you might know.
6 That is the closest Devonian well that you know of?

7 A Yes.

8 MR. UTZ: Other questions of the witness? He may
9 be excused. Does that complete your case?

10 MR. EATON: Yes.

11 MR. UTZ: Are there statements in the case.

12 MR. VALLA: Sir, my name is Roy Valla, and I have
13 been authorized by Aztec Oil and Gas Corporation who
14 right now has a lease on the South half of Section 2.
15 They are the North offset operators in the subject case.

16 They do object to the spacing abnormally close to
17 the North Section line of Section 11.

18 MR. UTZ: You are objecting only to the non-standard
19 location?

20 MR. VALLA: That is correct.

21 MR. UTZ: How do you spell your last name?

22 MR. VALLA: V-A-L-L-A.

23 MR. UTZ: Other statements in the case? The case will
24 be taken under advisement. I'll give you till April the
25 14th which is a Monday morning. I mean, May the 14th,

1 which is a Monday morning to notify me, and I guess I
2 should ask Mr. Kellahin to notify me in writing as to
3 whether you have made an agreement or not.

4 MR. McDONOUGH: You mean an agreement as to joining
5 in the well or complete negotiations as of an Operating
6 Agreement?

7 MR. UTZ: Complete negotiations in an Operating
8 Agreement.

9 * * * * *

10 STATE OF NEW MEXICO)
11) ss.
12 COUNTY OF BERNALILLO)

13 I, JANET RUSSELL, a Notary Public, in and for the
14 County of Bernalillo, State of New Mexico do hereby certify
15 that the foregoing and attached Transcript of Hearing before
16 the New Mexico Oil Conservation Commission was reported by
17 me; and that the same is a true and correct record of the
18 said proceedings to the best of my knowledge, skill and
19 ability.

20 Janet Russell
21 NOTARY PUBLIC

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner hearing of Case No. 4939.
25 heard by me on 4-11-73 19
Examiner
New Mexico Oil Conservation Commission

1

I N D E X

2

WITNESS

PAGE

3

JOHN CASTLE

4

Direct Examination by Mr. Kellahin

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Cross-Examination by Mr. Eaton

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6

Cross-Examination by Mr. Utz

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Redirect Examination by Mr. Kellahin

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9

DON HADEN

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Direct Examination by Mr. Eaton

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Cross-Examination by Mr. Kellahin

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Cross-Examination by Mr. Utz

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Redirect Examination by Mr. Eaton

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Recross-Examination by Mr. Kellahin

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MILES McDONOUGH

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Direct Examination by Mr. Eaton

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Cross-Examination by Mr. Kellahin

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Cross-Examination by Mr. Utz

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E X H I B I T S

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OfferedAdmitted

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Applicant's Exhibit #1

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Applicant's Exhibit #2

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Applicant's Exhibit #3

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Applicant's Exhibit #4

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Applicant's Exhibit #5

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Applicant's Exhibit #6

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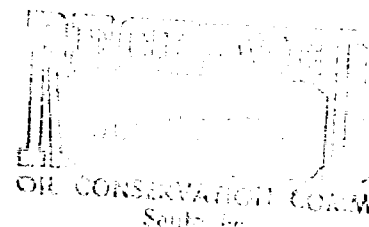
JASON W. KELLAHIN
ROBERT E. FOX
W. THOMAS KELLAHIN

KELLAHIN AND FOX
ATTORNEYS AT LAW
500 DON GASPAR AVENUE
POST OFFICE BOX 1789
SANTA FE, NEW MEXICO 87501

TELEPHONE 982-4315
AREA CODE 505

July 18, 1973

Mr. A. L. Porter, Jr., Director
Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501



Re: Case No. 4939
Application of Penroc Oil
Corporation for Compulsory
pooling, Lea County, New Mexico

Dear Mr. Porter:

This is to request that the above case be dis-
missed. This is the application of Penroc Oil Cor-
poration for compulsory pooling in the Antelope
Ridge Gas Field extension. The case was heard on
April 11, 1973, and at the request of Penroc, entry
of an order has been delayed pending negotiations
for voluntary agreement for the formation of two
standard units.

Your consideration in handling this case is
appreciated.

Yours very truly,

Jason W. Kellahin

Jason W. Kellahin

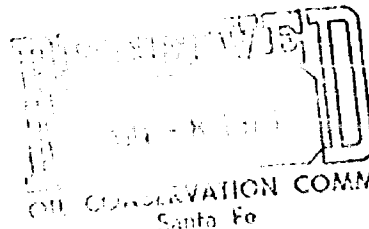
JWK:ks

PENROC Oil Corporation

P. O. DRAWER 831 • MIDLAND, TEXAS • 79701

Telephone (915) 683-1861

June 7, 1973



Re: NM-130

Lea County, New Mexico

Mr. Don Haden
Kewanee Oil Company
Midland, Texas 79701

Mr. R. J. Starrak
Getty Oil Company
Midland, Texas 79701

Reminded
40

Gentlemen:

Penroc submits for your consideration the options listed below for the forming of a standard unit in the N/2 Section 11, T-24-S, R-34-E, Antelope Ridge Atoka-Morrow Field, Lea County, New Mexico:

1. Penroc, Getty and Kewanee join in the drilling of a 13,500' Morrow test located 1980' FWL and 660' FNL, Section 11, with each company paying its proportionate cost; or
2. Getty and/or Kewanee farmout its or their rights in Section 11 down to the top of the Mississippian formation, retaining a 1/16 of 8/8 ORR (deliver 81.25%) with an option to convert said override to 1/2 working interest at payout of all cost.

Since Penroc initiated this prospect and owns the largest interest in Section 11, it should be named operator.

Each company should make its election as to option No. 1 or 2 in writing within 24 hours after the Texas West Well No. 2 now drilling in the SW/4 of Section 2, T-24-S, R-34-E, reaches the top of the Mississippian or conducts a DST in the Morrow formation or drills to 13,500' or total depth at some point above 13,500'.

If Penroc elects not to drill, then we will accept the terms of Option No. 2.

COPY

Kewanee Oil Company
Getty Oil Company
June 7, 1973

Page 2.

As you know, the Texas West Well is now at approximately 12,000',
so your early consideration would be appreciated.

Very truly yours,

PENROC OIL CORPORATION


John B. Castle

JBC:mlm

JASON W. KELLAHIN
ROBERT E. FOX
W. THOMAS KELLAHIN

KELLAHIN AND FOX
ATTORNEYS AT LAW
500 DON GASPAR AVENUE
POST OFFICE BOX 1769
SANTA FE, NEW MEXICO 87501

TELEPHONE 982-4315
AREA CODE 505

May 14, 1973

Mr. Elvis A. Utz
New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: N.M. Oil Conservation Commission
Case No. 4939, Penroc Applicant

Dear Mr. Utz:

In behalf of Penroc Oil Corporation, Mr. John Castle has requested that I write to you concerning the above referenced case.

At the conclusion of the hearing in this case on April 11, 1973, you instructed that Penroc Oil Corporation, Getty Oil Company and Kewanee Oil Company attempt to arrive at an amicable settlement concerning the matters raised in this application.

I regret to inform you that, despite the best efforts of Penroc Oil Corporation, the parties involved were not able to resolve their differences. Mr. Castle stated that neither Getty Oil nor Kewanee Oil would make a definite commitment now but wanted to reserve all options making them contingent upon the outcome of a certain Texas West Oil & Gas Company #2 State Well now being drilled. The reluctance of both Getty Oil and Kewanee Oil to commit themselves to seriously resolving any differences would make further negotiations futile.

Therefore, Penroc Oil Corporation respectfully requests that the Oil Conservation Commission act upon the evidence received at the hearing on April 11, 1973 and that their application in this case be approved in its entirety.

Very truly yours,



W. Thomas Kellahin

WTK:ks

cc: Mr. John Castle

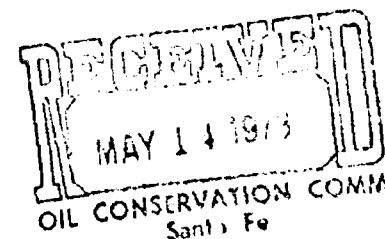
KEWANEE OIL COMPANY

209 First Savings Bldg.

Post Office Box 1859

Midland, Texas 79701

May 11, 1973



Re: Penroc Oil Corporation Application
NM OCC Case 4939
April 11, 1973

Mr. Elvis A. Utz
New Mexico Oil Conservation Commission
State Land Office Building
Santa Fe, New Mexico - 87501

Dear Mr. Utz:

Pursuant to your instructions to resolve the differences between Penroc, Getty and ourselves, a joint meeting between all parties was held in our Midland office on May 1, 1973. At such meeting, Penroc stated that their's was a 1/4 interest, proportionately reduced, with such interest being carried to the tanks by Hanover Planning Company. Upon learning of this arrangement, Kewanee immediately requested to be named operator for any well drilled on the property as it preferred not to have a party operating the property that was not contributing financially, or assuming any of the risk of the well. Getty concurred, and preferred that Kewanee be named operator rather than Penroc. Mr. John Castle, with Penroc, stated flatly that they would be the operator and that no other operator would be acceptable to him.

All parties were agreeable to designating a standard 320 acre unit comprising the N/2 of Section 11, T-24-S, R-34-E, so that a standard location of 1980' FWL and 660' FNL of said Section 11 could be used for drilling a 13,500 foot Morrow test well. Such location and unit would protect the correlative rights of all parties and forego the need of drilling any unnecessary wells as would be the case in the event the center-cut unit as originally proposed by Penroc was granted.

Realizing the importance of the Texas West Oil & Gas Corporation #2-2 State well now drilling in the NE SW of Section 2, T-24-S, R-34-E, all parties were agreeable to postponing commencement of the well in the N/2 of said Section 11, pending evaluation of the Atoka-Morrow formations by said Texas West No. 2-2 State well. The Texas West #2-2 State spudded on April 27, 1973 and was drilling at a depth of 5,095 feet as of this date.

Penroc demanded however, that a definite set of circumstances be established prior to the Texas West well testing the Atoka-Morrow formations, so that it would know exactly where it stood in relationship to Getty and Kewanee's interest in the N/2 of Section 11, T-24-S, R-34-E. Penroc then set out what these circumstances would be and they are enumerated in the attached letter agreement dated May 8, 1973. Although Kewanee and Getty were reluctant to accept the terms and conditions dictated by Penroc, they were, nevertheless, willing to accept them in their entirety, naming Penroc as operator. Such acceptance is evidenced by the signatures of Getty and Kewanee to the attached copy of said letter agreement.


The signed copies of the letter agreement were then hand-delivered to Penroc's office for their signature on May 10, 1973, in sufficient time to notify you that a settlement between the parties had been reached and agreed upon. However, as soon as Penroc saw the signed letter agreement, they made a new request that they, as operator, would have a call on all gas and would have the right to market it. Seeing the futility of such request, they dropped it. They then demanded that the words "capacity to maintain a minimum" be eliminated from Option Number One of the attached letter agreement and further, that Option Number Two be re-written so as to make provision that Penroc alone would have the right to drill, with Getty and Kewanee either farming out or selling to them as outlined, in the event the Texas West #2-2 State tested less than 5 MM CFGPD, with Getty and Kewanee having the drilling right in this set of circumstances only if Penroc declined to drill. This was not the terms as originally outlined by Penroc in the joint meeting with them. In that meeting it was understood that all parties would be on equal footing relative to the three alternatives should the Texas West well test less than 5 MM CFGPD. Obviously, this was fair and reasonable.

Once again, however, Kewanee would have been willing to yield somewhat as to Penroc's request as to Option Number One, but is steadfastly opposed to Penroc's unreasonable demand as to Option Number Two.

From the above it is apparent to Kewanee that Penroc, for reasons known only to themselves, is really opposed to working out any agreement at all with Getty and Kewanee. It is therefore respectfully requested that Penroc's application as set out in Case 4939 be denied in its entirety so as to protect the correlative rights of all parties, or at least stayed pending completion of the Texas West Oil & Gas No. 2-2 State well located in Section 2, T-24-S, R-34-E.

Yours very truly,

KEWANEE OIL COMPANY


Don Hader,
District Landman

DH/tj



Getty Oil Company

Post Office Box 1404, Houston, Texas 77001 • Telephone: (713) 228-9361

North American Exploration and Production Division

May 8, 1973

Penroc Oil Corporation
P. O. Drawer 831
Midland, Texas 79701

Re: Proposed 320-Acre Unit
N/2 Sec. 11, T24S, R34E,
Lea County, New Mexico

Gentlemen:

This letter shall evidence our agreement with you as to certain options and elections available to Getty Oil Company and Kewanee Oil Company pursuant to the formation of a 320-acre Working Interest Unit covering the N/2 of Section 11, Township 24 South, Range 34 East, Lea County, New Mexico, for the drilling of a 13,500 foot Morrow development test well to be located 1980' FWL and 660' FNL of Section 11, Township 24 South, Range 34 East.

I. CONTINGENT WELL: The options hereinafter set out are contingent upon the outcome of a certain Texas West Oil & Gas Co. #2 State Well now drilling in the NE/4 of the SW/4 of Section 2, Township 24 South, Range 34 East, Lea County, New Mexico.

II. OPTION NUMBER ONE: Should the Texas West Oil & Gas Co. #2 State Well show by virtue of a drillstem test or a four point potential test a capacity to maintain a minimum of 5 MMCFGPD from either the Atoka or the Morrow formation, a working interest unit for the drilling of the above mentioned well would be formed between Hanover Planning Company, Kewanee Oil Company, and Getty Oil Company, with their respective working interest participation being as follows:

Hanover Planning Company---40.62500%
Kewanee Oil Company-----34.37500%
Getty Oil Company-----25.00000%

Penroc Oil Corporation would serve as operator of the unit pursuant to the terms of the attached operating agreement which is marked Exhibit "A", and would be carried for 10.15625% interest by Hanover Planning Company.

May 8, 1973

III. OPTION NUMBER TWO: Should the Texas West Oil & Gas Co. #2 State Well fail to show a capacity to maintain 5 MMCFGPD by a drillstem test or four point potential test, either from the Morrow or the Atoka formation, the parties will have an option of participating in the well as set out in "OPTION NUMBER ONE" above, or of declining to participate. Any party hereto declining to participate, may either (1) farm out its interest to any other party or parties reserving a 1/16 of 8/8 overriding royalty with an option to convert to a proportionately reduced fifty percent (50%) working interest, or (2) sell its working interest to any other party or parties for \$75.00 per acre reserving an overriding royalty of the difference between 3/16 and existing royalty burdens.

IV. TERMINATION: This agreement shall terminate at the end of thirty (30) days following completion of the above referenced Texas West Oil & Gas Co. #2 State Well either as a dry hole or as a producer if there is no test of the Atoka or Morrow formations.

V. ACCEPTANCE: If this is in accordance with your understanding of our trade, please indicate your acceptance in the space provided below and return two executed copies for our files. This instrument may be executed in counterparts, each of which shall for all purposes be deemed an original.

Very truly yours,

GETTY OIL COMPANY

By 

Vice-President

KEWANEE OIL COMPANY

By 

District Landman

(JCP:mwm)
Attachment

APPROVED AND ACCEPTED THIS THE
____ DAY OF _____, 1973.

PENROC EXPLORATION COMPANY

By _____



Getty Oil Company

P.O. Box 1231, Midland, Texas 79701 • Telephone (915) 683-6301

Mid-Continent Exploration and Production Division

May 14, 1973

Mr. Elvis A. Utz, Examiner
New Mexico Oil Conservation Commission
State Land Office Building
Santa Fe, New Mexico 87501

Re: Penroc Oil Corporation Application
NM OCC Case 4939
April 11, 1973

Dear Mr. Utz:

The captioned application was heard before you as Examiner on April 11, 1973. Said application was opposed by Getty Oil Company and Kewanee Oil Company. At the conclusion of this hearing, you instructed the three companies involved, Getty Oil, Kewanee Oil and Penroc Oil Corporation to attempt to arrive at a mutually satisfactory agreement in the formation of a standard 320 acre proration unit for the drilling of a 13,500' Atoka-Morrow development test which was considered by the applicant to be an extension to the Antelope Ridge Field, covering the North Half of Section 11, T24S, R34E, Lea County, New Mexico.

A joint meeting between Penroc, Kewanee and Getty Oil Company was held on May 1, 1973. All parties were agreeable to designating a standard 320 acre unit comprising the N/2 of Section 11, T24S, R34E, so that a standard location of 1,980' FWL and 660' FNL of said Section 11 could be used for drilling a 13,500' Morrow test well. Agreement was also reached on postponing commencement of the well in the N/2 of Section 11, pending evaluation of the Atoka-Morrow formations by the Texas West Oil and Gas Corporation #2-2 State well now drilling in the NE/4 SW/4 of Section 2, T24S, R34E. Agreement on the participation in the Section 11 well was reached as set out in the attached letter agreement. This agreement was prepared by Getty Oil Company at the request of Penroc Oil Corporation.

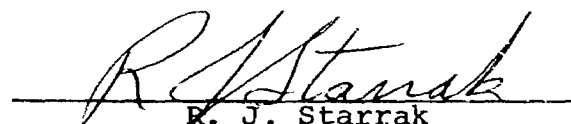
Mr. Elvis A. Utz
May 14, 1973
Page 3

In view of the foregoing, it is obvious that Getty Oil and Kewanee Oil have made a concerted effort to reach an agreement in the drilling of this well under the terms and conditions arrived at in our May 1, 1973 meeting with Penroc Oil Corporation.

Getty Oil Company's position remains that a standard proration unit should be designated for this well, and we will obligate ourselves to either join in the drilling of the well, farmout or sell our leasehold interest to the remaining parties in the proration unit within 30-days of the completion or adequate testing of the Atoka and Morrow formations in the Texas West Oil and Gas No. 2-2 State well which is currently drilling below 5,180'.

Very truly yours,

GETTY OIL COMPANY


R. J. Starrak
District Production Manager

RJS/ss

Attachment

Mr. Elvis A. Utz
May 14, 1973
Page 2

The agreement was executed by Getty Oil and Kewanee and hand carried to Penroc's office for acceptance. The contents of the agreement were examined by Penroc's representative and related to Mr. John Castle by telephone.

On reviewing the letter agreement, Penroc refused to accept same indicating that option II on the attached agreement did not meet their understanding of the conditions set out in the May 1, 1973 meeting.

Penroc's objections to the letter agreement were:

- 1) The Texas West No. 2-2 State well would show on a test "a capacity to maintain a minimum of 5 MMCFGPD" and insisted that a test flowing a rate of 5 MMCFGPD be utilized.
- 2) Under Option II in the agreement which covers the case, if the well failed to flow less than 5 MMCFGPD, Penroc objected to Getty Oil and Kewanee Oil having the option to participate in the drilling of the well, requesting that the only alternatives to Getty Oil and Kewanee be to farmout or sell their interests.

Getty Oil and Kewanee agreed to yield to Penroc's objection as to the "capacity to yield a minimum of 5 MMCFGPD", however, in no event could we yield to Penroc's second objection whereby Getty Oil and Kewanee Oil would be deprived of their right to participate, if the well tested less than 5 MMCFGPD.

In addition to the foregoing Getty Oil's Production Manager discussed our position with Penroc's Midland office and assured them that once the test results from the State No. 2-2 well were evaluated, regardless of rate, we would either join in the drilling of a well, farmout our working interest or sell our lease as set out in option No. II of the attached letter agreement. We further stated that a time limit could be put on the evaluation period if Penroc so desired.

We were informed by the Penroc Midland office that we would have to talk to Mr. Castle, who was presently in San Juan, Porto Rico. Two calls were made to Mr. Castle's hotel room in San Juan, however, we were unable to locate him and our calls were not returned by Mr. Castle.



Getty Oil Company

Post Office Box 1404, Houston, Texas 77001 • Telephone: (713) 228-9361

North American Exploration and Production Division

May 8, 1973

Penroc Oil Corporation
P. O. Drawer 831
Midland, Texas 79701

Re: Proposed 320-Acre Unit
N/2 Sec. 11, T24S, R34E,
Lea County, New Mexico

Gentlemen:

This letter shall evidence our agreement with you as to certain options and elections available to Getty Oil Company and Kewanee Oil Company pursuant to the formation of a 320-acre Working Interest Unit covering the N/2 of Section 11, Township 24 South, Range 34 East, Lea County, New Mexico, for the drilling of a 13,500 foot Morrow development test well to be located 1980' FWL and 660' FNL of Section 11, Township 24 South, Range 34 East.

I. CONTINGENT WELL: The options hereinafter set out are contingent upon the outcome of a certain Texas West Oil & Gas Co. #2 State Well now drilling in the NE/4 of the SW/4 of Section 2, Township 24 South, Range 34 East, Lea County, New Mexico.

II. OPTION NUMBER ONE: Should the Texas West Oil & Gas Co. #2 State Well show by virtue of a drillstem test or a four point potential test a capacity to maintain a minimum of 5 MMCFGPD from either the Atoka or the Morrow formation, a working interest unit for the drilling of the above mentioned well would be formed between Hanover Planning Company, Kewanee Oil Company, and Getty Oil Company, with their respective working interest participation being as follows:

Hanover Planning Company	---40.62500%
Kewanee Oil Company	-----34.37500%
Getty Oil Company	-----25.00000%

Penroc Oil Corporation would serve as operator of the unit pursuant to the terms of the attached operating agreement which is marked Exhibit "A", and would be carried for 10.15625% interest by Hanover Planning Company.

May 8, 1973

III. OPTION NUMBER TWO: Should the Texas West Oil & Gas Co. #2 State Well fail to show a capacity to maintain 5 MMCFGPD by a drillstem test or four point potential test, either from the Morrow or the Atoka formation, the parties will have an option of participating in the well as set out in "OPTION NUMBER ONE" above, or of declining to participate. Any party hereto declining to participate, may either (1) farm out its interest to any other party or parties reserving a 1/16 of 8/8 overriding royalty with an option to convert to a proportionately reduced fifty percent (50%) working interest, or (2) sell its working interest to any other party or parties for \$75.00 per acre reserving an overriding royalty of the difference between 3/16 and existing royalty burdens.

IV. TERMINATION: This agreement shall terminate at the end of thirty (30) days following completion of the above referenced Texas West Oil & Gas Co. #2 State Well either as a dry hole or as a producer if there is no test of the Atoka or Morrow formations.

V. ACCEPTANCE: If this is in accordance with your understanding of our trade, please indicate your acceptance in the space provided below and return two executed copies for our files. This instrument may be executed in counterparts, each of which shall for all purposes be deemed an original.

Very truly yours,

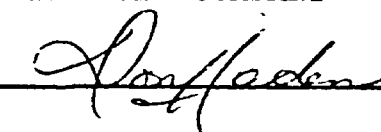
GETTY OIL COMPANY

By


Vice-President

KEWANEE OIL COMPANY

By



(JCP:mwm)
Attachment

APPROVED AND ACCEPTED THIS THE
____ DAY OF _____, 1973.
PENROC EXPLORATION COMPANY

By _____

KEWANEE OIL COMPANY

209 First Savings Bldg.

Post Office Box 1859

Midland, Texas 79701

May 11, 1973

Re: Penroc Oil Corporation Application
NM OCC Case 4939
April 11, 1973

Mr. Elvis A. Utz
New Mexico Oil Conservation Commission
State Land Office Building
Santa Fe, New Mexico - 87501

Dear Mr. Utz:

Pursuant to your instructions to resolve the differences between Penroc, Getty and ourselves, a joint meeting between all parties was held in our Midland office on May 1, 1973. At such meeting, Penroc stated that their's was a 1/4 interest, proportionately reduced, with such interest being carried to the tanks by Hanover Planning Company. Upon learning of this arrangement, Kewanee immediately requested to be named operator for any well drilled on the property as it preferred not to have a party operating the property that was not contributing financially, or assuming any of the risk of the well. Getty concurred, and preferred that Kewanee be named operator rather than Penroc. Mr. John Castle, with Penroc, stated flatly that they would be the operator and that no other operator would be acceptable to him.

All parties were agreeable to designating a standard 320 acre unit comprising the N/2 of Section 11, T-24-S, R-34-E, so that a standard location of 1980' FWL and 660' FNL of said Section 11 could be used for drilling a 13,500 foot Morrow test well. Such location and unit would protect the correlative rights of all parties and forego the need of drilling any unnecessary wells as would be the case in the event the center-cut unit as originally proposed by Penroc was granted.

Realizing the importance of the Texas West Oil & Gas Corporation #2-2 State well now drilling in the NE SW of Section 2, T-24-S, R-34-E, all parties were agreeable to postponing commencement of the well in the N/2 of said Section 11, pending evaluation of the Atoka-Morrow formations by said Texas West No. 2-2 State well. The Texas West #2-2 State spudded on April 27, 1973 and was drilling at a depth of 5,095 feet as of this date.

Penroc demanded however, that a definite set of circumstances be established prior to the Texas West well testing the Atoka-Morrow formations, so that it would know exactly where it stood in relationship to Getty and Kewanee's interest in the N/2 of Section 11, T-24-S, R-34-E. Penroc then set out what these circumstances would be and they are enumerated in the attached letter agreement dated May 8, 1973. Although Kewanee and Getty were reluctant to accept the terms and conditions dictated by Penroc, they were, nevertheless, willing to accept them in their entirety, naming Penroc as operator. Such acceptance is evidenced by the signatures of Getty and Kewanee to the attached copy of said letter agreement.


The signed copies of the letter agreement were then hand-delivered to Penroc's office for their signature on May 10, 1973, in sufficient time to notify you that a settlement between the parties had been reached and agreed upon. However, as soon as Penroc saw the signed letter agreement, they made a new request that they, as operator, would have a call on all gas and would have the right to market it. Seeing the futility of such request, they dropped it. They then demanded that the words "capacity to maintain a minimum" be eliminated from Option Number One of the attached letter agreement and further, that Option Number Two be re-written so as to make provision that Penroc alone would have the right to drill, with Getty and Kewanee either farming out or selling to them as outlined, in the event the Texas West #2-2 State tested less than 5 MM CFGPD, with Getty and Kewanee having the drilling right in this set of circumstances only if Penroc declined to drill. This was not the terms as originally outlined by Penroc in the joint meeting with them. In that meeting it was understood that all parties would be on equal footing relative to the three alternatives should the Texas West well test less than 5 MM CFGPD. Obviously, this was fair and reasonable.

Once again, however, Kewanee would have been willing to yield somewhat as to Penroc's request as to Option Number One, but is steadfastly opposed to Penroc's unreasonable demand as to Option Number Two.

From the above it is apparent to Kewanee that Penroc, for reasons known only to themselves, is really opposed to working out any agreement at all with Getty and Kewanee. It is therefore respectfully requested that Penroc's application as set out in Case 4939 be denied in its entirety so as to protect the correlative rights of all parties, or at least stayed pending completion of the Texas West Oil & Gas No. 2-2 State well located in Section 2, T-24-S, R-34-E.

Yours very truly,

KEWANEE OIL COMPANY


Don Haden,
District Landman

DH/tj

CASE 4937: Application of Continental Oil Company for special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the Bell Lake-Bone Spring Pool, Lea County, New Mexico, including a provision for 160-acre proration units.

CASE 4683: (Reopened)

In the matter of Case 4683 being reopened pursuant to the provisions of Order No. R-4286, which order established special rules and regulations for the West Tres Papalotes-Pennsylvanian Pool, Lea County, New Mexico, including a provision for 160-acre proration units. All interested parties may appear and show cause why said pool should not be developed on less than 160-acre units.

CASE 4938: Application of Hanson Oil Corporation for an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill a producing oil well at an unorthodox location 990 feet from the South line and 1650 feet from the West line of Section 2, Township 9 South, Range 33 East, Vada-Pennsylvanian Pool, Lea County, New Mexico.

CASE 4939: Application of Penroc Oil Corporation for compulsory pooling, a non-standard proration unit, an unorthodox gas well location, and a dual completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Atoka and Morrow formations underlying the E/2 W/2 and the W/2 E/2 of Section 11, Township 24 South, Range 34 East, Antelope Ridge Gas Field extension, Lea County, New Mexico, to form a 320-acre non-standard gas proration unit in said pools to be dedicated to a well to be drilled at an unorthodox location 660 feet from the North line and 1980 feet from the West line of said Section 11. Also to be considered will be the cost of drilling said well, a charge for the risk involved, a provision for the allocation of actual operating costs, and the establishment of charges for supervision of said well. Applicant further seeks authority to dually complete said well in the above-named formations.

CASE 4940: Application of Pennzoil Company for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks to dually complete its Mobil 12-Federal Well No. 1 located in Unit B of Section 12, Township 23 South, Range 26 East, Eddy County, New Mexico, in such a manner as to produce gas from the South Carlsbad-Canyon Pool extension and from the South Carlsbad-Morrow Gas Pool through parallel strings of tubing.

CASE 4941: Application of Pennzoil Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill a producing gas well at an unorthodox location 1980 feet from the North line and 660 feet from the East line of Section 13, Township 18 South, Range 25 East, West Atoka-Morrow Gas Pool, Eddy County, New Mexico, the N/2 of said Section 13 to be dedicated to said well.

4/939

London

feels that good feeling
should not take
effect until proportion
is established.

(1/11)

*period of time to reach a voluntary
agreement

will have to go along with
structural changes for the
moment

power - 9000 in 1/11
1000 in 1/11

300% risk factor
and policy effect of the

Mr. Tolson -

(Lark)

N $\frac{1}{2}$ - 1/11

P - 13/32 working interests

Lavaca 1/12

Gaby 8/32

3/10 V 13/10
| L

Power

Lavaca

much regard to
to meet by putting down
in the
standard units used

to keep a sample of the same
unit

going to make a good one
of the present

Key Value (Agree)
to objects unorthodox location



OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87301

GOVERNOR
BRUCE KING
CHAIRMAN

LAND COMMISSIONER
ALEX J. ARMijo
MEMBER

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

July 24, 1973

Mr. Jason Kellahin
Kellahin & Fox
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Re: Case No. 4939
Order No. R-4603
Applicant:
Penroc Oil Corporation

Dear Sir:

Enclosed herewith are two copies of the above-referenced Commission order recently entered in the subject case.

Very truly yours,

A. L. PORTER, Jr.
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC X
Artesia OCC
Aztec OCC

Other Mr. Paul Eaton

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 4939
Order No. R-4603

APPLICATION OF PENROC OIL CORPORATION
FOR COMPULSORY POOLING, A NON-STANDARD
PRORATION UNIT, AN UNORTHODOX GAS WELL
LOCATION, AND A DUAL COMPLETION, LEA
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on April 11, 1973,
at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 23rd day of July, 1973, the Commission, a
quorum being present, having considered the record and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:


That the applicant's request for dismissal should be granted.

IT IS THEREFORE ORDERED:

That Case No. 4939 is hereby dismissed.

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


I. R. TRUJILLO, Chairman


ALEX J. ARMIJO, Member


A. L. PORTER, Jr., Member & Secretary


S E A L

dr/

34

11-73
12-1-72
4-11-72

SHELL HBU		3		Com. app. 3-11-74 still 11-11-74 still 11-11-74 still 11-11-74	
3		2 AZTEC location 12-16-75 Bill?		1 still 11-11-74	
		State		BELCO 3-21-78	
OPEN	GETTY 3-1-78	GETTY 7-1-82 80 8/32	PENROC - 13/16 KEWANE - 3/16 3-15-75 Penn 180 60 Ke Mi 13 under 110 432	KEWA- NEE 3-1-75 110 432	BENNETT 4-1-78 GETTY 7-1-82 U.S. BENNETT 5-1-74 U.S.
10		U.S.	Madero, et al		BELCO 7-1-74, 13 1970/32 32
		12			
		OPEN Barron	OPEN	OPEN Smyrl	BELCO 7-1-74
		Carter et al		13	
15		14		BEFORE EXAMINER UTZ OIL CONSERVATION COMMISSION Pennoc EXHIBIT NO. 1 CASE NO. 4939 Submitted by John Castle Hearing Date April 11, 1973	

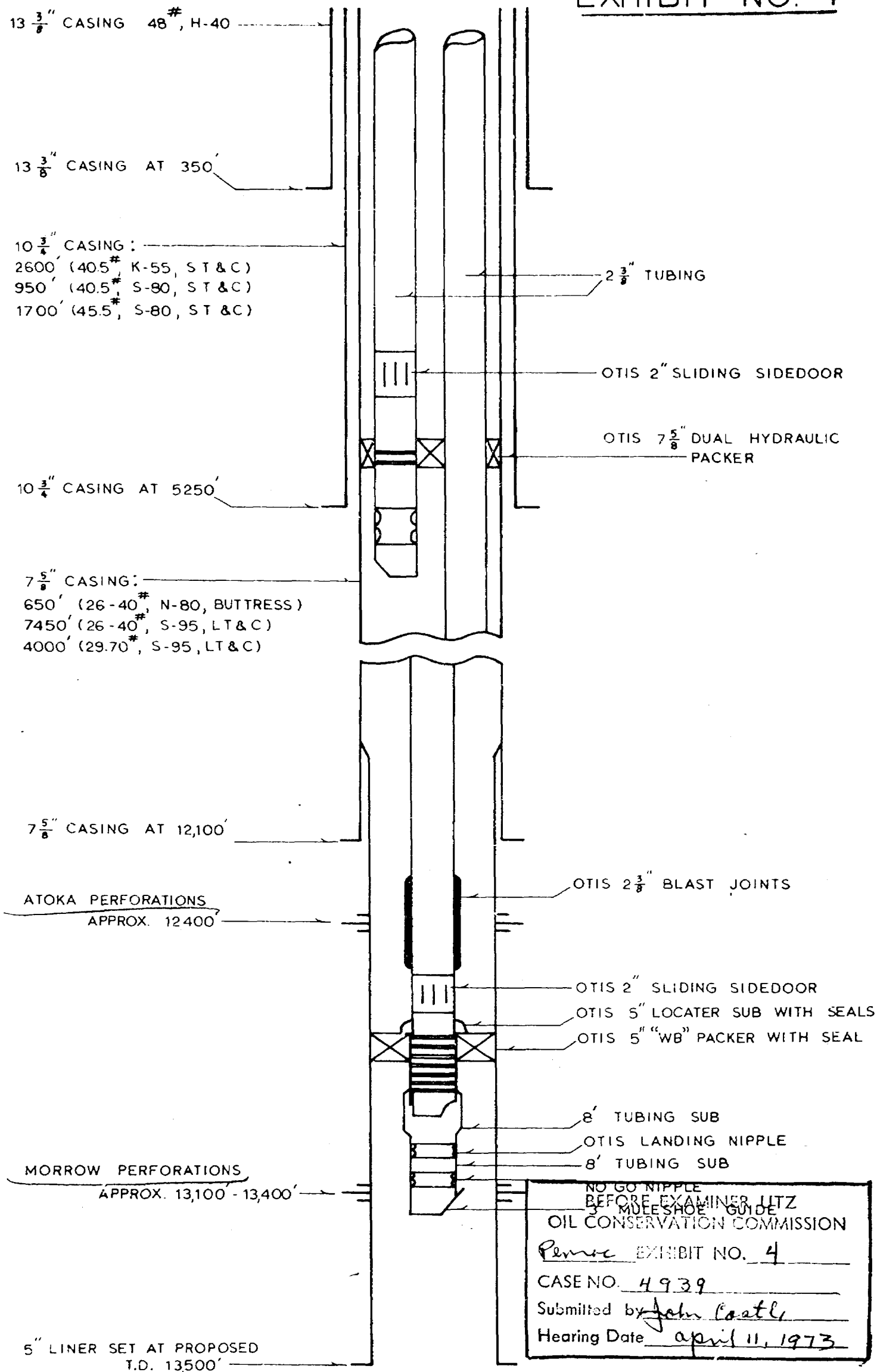
R-34-E

T
24
S

PENROC OIL CORP. No. 1 Madera

PROPOSED DUAL COMPLETION

EXHIBIT NO. 4



PENROC Oil CorporationAtoka 12,400
Morrow 13,500

P. O. BOX 1004 • MIDLAND, TEXAS

Phone MU 3-1861

WELL COST ESTIMATESTATE New Mexico COUNTY Lea FIELD Antelope Ridge, Atoka-Morrow
LEASE Madera WELL NO. 1 PROPOSED DEPTH 13,500' HORIZON MorrowESTIMATED LEASEHOLD COSTLease Bonus and/or Brokerage
Legal Fees (Title Opinion, Abstracts, Recording Fees, etc.) \$ 750.
Other (Travel Expense, Telephone, etc.)

TOTAL Estimated Lease Acquisition Cost \$ 750.

ESTIMATED DRY HOLE COSTIntangible Well CostsSurveying Location \$ 175.
Surface Damages 1,000.
Location and Road 5,000.
Drilling 13,500' ft. at \$ 9.50 /ft. 128,250.
Day Work 4 days at \$ 1500.00 /day 6,000.
Mud and Admixtures 40,000.
Fuel, Power and Water 5,000.
Cement and Cementing Services 6,000.
Drill Stem Tests 4,500.
Coring and Core Analysis
Logging 8,000.
Trucking 2,000.
Misc. Consumable Equipment (shoes, centralizers, bits, etc.) 2,000.
Overhead and Supervision 5,000.
Plugging 2,500.Well Equipment CostsCasing:
Surface 400 ft. of 13-3/8 at \$ 7.00 /ft. \$ 2,800.
Intermediate 5200 ft. of 10-3/4 at \$ 5.50 /ft. 28,600.
12,100 7-5/8 6.00 72,600.

TOTAL Estimated Dry Hole Costs \$320,175.

Less Contributions

NET Estimated Dry Hole Cost

Estimated Interest of Dry Hole

ESTIMATED COMPLETION COSTSIntangible Well CostsUnit Time 10 days at \$ 1,000 /day \$ 10,000.
Perforating 7,500.
Treating (acidizing and fracturing, etc.) 6,000.
Cement and Cementing Services 4,000.
Trucking 1,500.
Equipment Rental 1,500.
Installation Cost of Lease Equipment 2,000.
Overhead and Supervision 3,000.Well Equipment CostsCasing 1200 ft. of 5" liner at \$ 4.00 /ft. \$ 4,800.
Tubing 25,500 ft. of 2-3/8 at \$ 1.15 /ft. 29,825.
Well Head Equipment 15,000.
Tanks 6,000.
Separator and/or Treater 10,000.
Metering Equipment
Flow Lines 600.
Pumping Unit and Engine or Motor
Rods, Pump, Polish Rod, etc. 5,000.
OtherBEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION
Penroc EXHIBIT NO. 5
CASE NO. 41939
Submitted by John Castle
Hearing Date April 11, 1973

TOTAL Estimated Additional Cost for Producer \$106,725.

TOTAL COST OF COMPLETED WELL \$424,000.

Estimated Interest of Producing Well

PENROC OIL CORPORATION

EXHIBIT NO. 6

DATES AND NOTES ON CONVERSATIONS WITH KEWANEE AND GETTY

1. 3/13/73, 9:00 a.m.
Castle talked by phone to Mr. Don Haden with Kewanee about Kewanee's minerals and lease in Section 11, T-24-S, R-34-E, Lea County. Asked if they would farmout, join or sell. Mr. Haden said "no".
2. 3/13/73, 10:30 a.m.
Castle visited Don Haden in his office and talked about same as in telephone conversation earlier. Answer still "no".
3. 3/13/73, 10:00 a.m.
Mr. R. C. Bennett, for Penroc, talked with Mr. James Davis with Getty about their lease in Section 11, T-24-S, R-34-E, Lea County. Asked if Getty would farmout, join or sell. Answer "no".
4. 3/13/73, 3:00 p.m.
Mr. Bennett talked with Davis about same as that morning. Getty answer was still "no". Bennett then asked Davis if Getty would buy Penroc's lease. Davis said "no".
5. 3/19/73, 9:00 a.m.
Castle talked to James Davis with Getty and asked that they join or farmout with a provision to come back in for 1/2. Answer was "no". Then Castle asked Davis if Getty would sell their lease in Section 11 for \$200 per acre plus 3/16 ORR. Davis said "no".
6. 3/19/73, 2:00 p.m.
Castle talked to Don Haden with Kewanee and again asked that they join, sell for \$150 per acre plus 3/16 royalty, or farmout with a provision to come back in for 1/2 interest. Answer was "no".
7. 3/23/73, 2:00 p.m.
Bennett talked to Davis with Getty and asked if they would make any kind of deal at all. Davis said "no". Bennett then notified Getty that Penroc would ask for a nonstandard unit and unorthodox location at a hearing before the Commission on April 11.

OIL CONSERVATION COMMISSION	
Penroc	EXHIBIT NO. 6
CASE NO.	4939
Submitted by	John Castle
Hearing Date	April 11, 1973

8. 3/29/73, 3:00 p.m.

Castle talked to Haden with Kewanee and asked if they would make any kind of deal in Section 11. Answer still "no". Castle and Haden then talked about the hearing set for April 11. Haden did not know if Kewanee would object at the hearing.

Case 4939

BEFORE THE
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF PENROC OIL CORPORATION FOR AN
ORDER GRANTING COMPULSORY POOLING,
FOR A NON-STANDARD PRORATION UNIT,
FOR AN UNORTHODOX WELL LOCATION,
AND FOR DUAL COMPLETION, LEA COUNTY,
NEW MEXICO

A P P L I C A T I O N

COMES NOW Penroc Oil Corporation and applies to the Oil Conservation Commission of the State of New Mexico for approval of a non-standard proration unit, compulsory pooling, dual completion and for an unorthodox well location, for production from the Antelope Ridge-Atoka Gas Pool, and the Antelope Ridge-Morrow Gas Pool, Lea County, New Mexico, and in support thereof would show the Commission.

1. Applicant is the owner of the right to drill and develop and proposes to drill a well in the E/2 W/2 and the W/2 E/2 of Section 11, Township 24 South, Range 34 East, N.M.P.M.. Kewanee Oil Company owns an undivided 3/16ths of the minerals underlying said acreage.

2. Kewanee Oil Company is also the owner of the right to drill and develop the E/2 E/2 of Section 11, and Getty Oil Company is the owner of the right to drill and develop the W/2 W/2 of said Section 11.

3. Despite diligent effort on the part of the applicant, applicant has been unable to obtain any agreement with either Getty Oil Company or Kewanee Oil Company for the formation of a standard proration unit consisting of the East half, or the West half of said section. Applicant has been unable to obtain any agreement from Kewanee for the formation of a non-standard proration unit consisting of Kewanee's 3/16ths undivided interest, and applicant's 3/16ths undivided interest underlying the E/2 W/2

DOCKET MAILED

Date 3/28/73

and the W/2 E/2 of said Section 11.

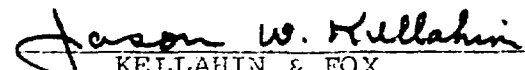
4. Unless the interests of Kewanee in said non-standard unit is pooled by order of this Commission, applicant will be denied the right to recover its just and equitable share of the oil and gas underlying its acreage in both the East half, and the West half of said section.

5. Applicant further seeks approval of a well to be located on said non-standard unit, 1980 feet from the West line, and 660 feet from the North line of said section, and for authority to dually complete said well in the Antelope Ridge-Atoka Gas Pool, and the Antelope Ridge-Morrow Gas Pool, as defined by the Commission.

WHEREFORE applicant prays that the Commission set this matter for hearing before the Commission or the Commission's duly appointed examiner, and that after notice and hearing as required by law, the Commission enter its order pooling the E/2 W/2 and the W/2 E/2 of Section 11, Township 24 South, Range 34 East as a non-standard proration unit for the production of gas from the Antelope Ridge-Atoka Gas Pool, and the Antelope Ridge-Morrow Gas Pool, Lea County, New Mexico, together with provision for recovering the costs of drilling said well, a charge for the risks involved in the drilling of said well, together with provision for allocation of actual operating costs and the establishment of charges for supervision of said well.

APPLICANT further prays for order of this Commission approving the dual completion of said well for production from the Antelope Ridge-Atoka Gas Pool, and the Antelope Ridge-Morrow Gas Pool, together with approval of an unorthodox well location, 1980 feet from the West line, and 660 feet from the North line of said Section 11, and for such other and further relief as may be proper in the premises.

Respectfully submitted,
PENROCK OIL CORPORATION


KELLAHIN & FOX
P. O. Box 1769
Santa Fe, New Mexico
ATTORNEYS FOR APPLICANT

DRAFT

dr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE No. 4939

Order No. R- 4603

APPLICATION OF PENROC OIL
CORPORATION FOR COMPULSORY
POOLING, A NON-STANDARD PRORATION
UNIT, AN UNORTHODOX GAS WELL LOCATION,
AND A DUAL COMPLETION, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on April 11, 1973,
at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this day of July, 1973, the Commission,
a quorum being present, having considered the record and the recom-
mendations of the Examiner, and being fully advised in the premises,

FINDS:

That the applicant's request for dismissal should be
granted.

IT IS THEREFORE ORDERED:

That Case No. 4939 is hereby dismissed.

DONE at Santa Fe, New Mexico, on the day and year hereinabove
designated.