

CASE 4088: Application of PAUL
M. MERSHON, JR. FOR COMPULSORY
POOLING, EDDY COUNTY, N. MEX.

Case Number.

4088

Application

Transcripts.

Small Exhibits

ETC.

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BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
March 26, 1969

EXAMINER HEARING

IN THE MATTER OF:)

Application of Paul M. Mershon,)
Jr., for compulsory pooling,)
Eddy County, New Mexico.)

Case No. 4088

BEFORE: Elvis A. Utz, Examiner

TRANSCRIPT OF HEARING

MR. UTZ: Case 4088, application of Paul M. Mershon, Junior, for compulsory pooling, Eddy County, New Mexico.

MR. LOSEE: A. J. Losee, appearing on behalf of the applicant. I have one witness, the applicant, Mr. Mershon.

MR. UTZ: Any other appearances?

MR. MORRIS: I am Richard Morris of Montgomery, Federici, Andrews, and Morris, Santa Fe, appearing for Marathon Oil Company.

May I ask at this time if this case is going to be consolidated? Is there going to be a request for that?

MR. LOSEE: No, sir.

MR. UTZ: Any other appearances?

MR. KELLAHIN: Jason Kellahin of Kellahin and Fox, Santa Fe, appearing for Standard Oil Company of Texas.

MR. UTZ: Any other appearances?
Mr. Kellahin and Mr. Morris, will you have any witnesses?

MR. MORRIS: We will have to hear the direct testimony before we make up our mind on that subject.

MR. KELLAHIN: We will not have any in this case.

(Whereupon, Applicant's Exhibits 1, 2, and 3 were marked for identification.)

PAUL M. MERSHON, JR.

called as a witness, having been first duly sworn, on behalf of the Applicant, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. LOSEE:

Q State your name and residence, please.

A Paul M. Mershon, Junior, Denver, Colorado.

Q What is your occupation?

A I am a petroleum geologist.

Q You have not previously testified before this Commission, have you?

A I have not.

Q Where did you obtain your undergraduate work?

A I graduated from the University of Oklahoma with a Bachelor of Science degree in 1957.

Q You said a Bachelor of Science?

A Correct, in geology.

Q Since that time, in what occupation have you been engaged?

A I worked for one year with Gulf Oil Corporation in Oklahoma and Arkansas as a petroleum geologist, with varying

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duties. In 1958, I moved to New Mexico, and worked in Artesia approximately five years for Western Development Company in the capacity of a geologist. I was responsible for 90 percent of their geological work. In 1963, I moved with this company, Western Development Company, to Denver, Colorado, as their exploration and geological manager, and served in that capacity until 1967.

For the past two and a half years, I have worked for Depco, Incorporated, as a regional geologist. I work southeastern New Mexico and the Rocky Mountains. I have been self-employed for a little over six months.

MR. LOSEE: Are Mr. Mershon's qualifications acceptable?

MR. UTZ: Yes, they are.

Q Are you familiar with the application in Case Number 4088?

A Yes, I am.

Q Would you explain briefly the purpose of this application?

A The purpose of this application is to pool all interests in Section 21 of Township 22 South, 23 East, and to establish a risk factor, and a reasonable operating cost for those nonconsenting parties.

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Q Mr. Marshon, when you say pool all interests, are you talking only about the Upper Pennsylvanian Formation?

A That's correct. I propose to drill a well to the Cisco Pennsylvanian gas pay of the Upper Indian Basin Pool.

Q In this application, you propose the location of the well under this application at 990 from the north and east lines of the section, is that right?

A That's correct.

Q And you also ask to be designated as operator of the unit?

A Correct.

Q Are you familiar with order R-2440 and R-2440-A of the Commission?

A Yes, I am. This order states that in part that a well shall be drilled no closer than 1650 from any outside boundary line of a section, and no nearer than 330 feet to any quarter quarter section boundary. This order also establishes spacing as 640 acres for field wells. Section 21 is abutting the current limits of the Indian Basin gas field.

Q These two order numbers actually is where the special pool rules are for the Indian Basin Upper Pennsylvanian gas pools, are they not?

A That's correct.

Q Do you actually own either by purchase or by farm-out substantially all of the acreage in this section?

A I have either purchased or have obtained farm-outs on 520 acres within this section. I have not been able to make a farm-out or other agreements with Marathon, who own 120 acres within this section.

Q Have you contacted Marathon with respect to the drilling of this well?

A Yes, I have. In November of 1967, on or about the 21st, I called and subsequently wrote --

Q Excuse me, you said November. You actually mean October, do you not?

A That's correct.

Q Go ahead.

A On or about the 21st of October, I called, and shortly thereafter sent a letter to Mr. Truitt Butler, a land man with Marathon, requesting a farm-out of the Marathon acreage. The terms of this farm-out were essentially that they give me rights to drill the Cisco well. They would retain a seven and a half percent less any existing override royalties until payout. After payout, they would convert this overriding royalty to 25 percent working interest.

In November, on the 23rd, I

received a letter rejecting this request. I might point out, I think I said 1967, and that was 1968.

Q You wrote the letter in October, and received the answer in November of 1968?

A Correct.

Q Have you since then contacted Marathon?

A Yes. On or about March 8, 1969, I addressed a letter to the Chief Land Man of Marathon, restating my original offer, and asked if they reject this offer to farm out to me, that they then join me in a well, and I have had no response to this letter.

Q Please refer to what has been marked as Exhibit 1, and explain what is reflected by this exhibit.

A This plat shows the ownership in Section 21, 22 South, 23 East. The takeoff was made by Federal Abstract Company here in Santa Fe. Since the takeoff was made, I have contacted each of the various individuals shown on this plat, and they have attested that this ownership is correct.

Q Now, the takeoff actually doesn't show the east half, east half of Section 21 as being owned by you, does it?

A No, the original takeoff had the name of another individual. I have made arrangements with this individual to purchase this lease. Therefore, I inserted my name in the east

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half of the east half of the section.

Q Now, the three other owners, other than yourself, shown on this map, and other than Marathon or Union Oil of California, J. F. Younger, and B. Anderson, what arrangements have been made with those people?

A I have made a farm-out with these people on the terms that I offered Marathon. That plat also shows my proposed location.

Q Refer to what has been marked as Exhibit 2, and explain what is shown by this exhibit.

A This exhibit is an estimated dry hole -- pardon me, an estimated well cost of a well at the location that I am proposing. I had at my disposal for preparation of this exhibit, four AFE's prepared for wells to be drilled in the Upper Penn in this field. They were somewhat out of date, and in order to further justify the numbers I put here --

Q Excuse me, before you go on. From what companies were these other AFE's?

A Three of them were from Ralph Lowe, who drilled many wells in this field. At that time that these AFE's were originally reviewed by me, I had to evaluate these AFE's for our company.

Q All right. You also mentioned a fourth company.

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Who was that?

A I had an AFE prepared by Penrock that was brought to the exhibit here before the Commission.

Q Since referring to those AFE's, which were actually somewhat out of date, what have you done to further verify this AFE?

A I talked to Conrad Affeldorn, who is a professional engineer in Roswell, New Mexico. He is an experienced engineer and does considerable work on deep drilling. I have asked him to aid me in various cost estimates for this particular estimate.

I also talked with Mr. Ken Reynolds, who is an owner of WEK drilling company. Mr. Reynolds has drilled in the Indian Basin area, and has recently been on a well in this area.

These individuals, of course, were invaluable in bringing the AFE up to date.

Q And the total figure for the dry hole is what?

A \$119,420.

Q How much for the completed well?

A \$165,995.

Q Are you familiar with any of the charges made for supervision of wells, completed in the Upper Pennsylvanian

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service, inc.

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Formation in southeastern New Mexico?

A I talked with a part owner of one of the watering systems in the Indian Basin area, and he felt like, because of the remoteness, and being only a one well operation, \$150 per month would be a reasonable amount to estimate that it would cost to operate and supervise a well in this area.

Q Now, Mr. Mershon, what experience have you had in drilling and operating wells?

A I have in the years that I was in Artesia, I had direct geological supervision of over 75 wells. These were my sole responsibility. I worked in committee on over 40 Abo wells, and have drilled two deep tests, and supervised geologically these tests in Lea County, New Mexico.

Q You live in Denver, Colorado?

A That's correct.

Q And the drilling of this well, how would you propose to take care of the supervision?

A I would propose that I could operate this well from my office through a switcher or pumper.

Q I am really talking about in the drilling of the well, not in the operation of it, if it is completed.

A For the drilling of this well, I certainly would -- I would have to go to the well site and stay in the vicinity of

the well, so that I could directly be available for decisions. I would use a petroleum engineer, and I discussed this aspect of having competent geological engineering supervision with Mr. Affeldorn. I would do most of the geological work, myself.

Q Refer to what has been marked as Exhibit Number 3, and explain what is shown on the right hand side of this exhibit.

A This exhibit is a general field map of the entire Indian Basin Pool. The data is essentially from a symposium prepared by the Roswell Geological Society, and published in 1967. I have some minor variations included on this map.

Q Approximately what year was the first well in the Indian Basin Upper Pennsylvanian Gas Pool discovered and drilled?

A I believe in 1963.

Q Is the development of that field substantially completed at this time?

A Yes, there were two wells drilled for field pay last year, both unsuccessful. I would say in general that by the end of 1966, the field was developed. There have been some extensions.

Q How many producing wells are there in the Indian Basin?

A There are now 54 producing wells in the Indian

Basin Field, located on the proration schedule. Of these 54, seven are marginal.

Q How many dry holes have been drilled to the Upper Pennsylvanian pay section in the vicinity of this Indian Basin Pool since it was discovered?

A Of course, this is a matter of definition, but almost abutting the field there are 20, so I will say there are approximately 20 wells.

Q Please now refer to the map which is shown on the left hand side.

A The right hand side of this map --

Q No, the left hand side.

A I beg your pardon. The left hand side of the map shown more specifically the area around the drill site. It shows the relation of my proposed location to the produceable water in the field.

If you will notice on the extreme right of the plat, there is a small area of shading, and this is the oil gas contact, the primary oil gas contact in the field.

There is a section of water producing in 22, which is anomalous, and which I will explain later. However, this water is produced and was produced in

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Gulf No. 2 Helbing State.

Q Does this field have, in your opinion, a faulting situation along the west side?

A On the west side of the map, you will notice a heavy line that runs essentially north-south, marked by a small "f" at the top of the map. I interpret the trapping mechanism for this field as a fault.

To the left of this area, I have a "d", to the left of this heavy line I have a "d" which I interpret to be a downfall of the fault. So, in my opinion, faulting is the true trapping mechanism within the field.

Q Does this map also show the location of your proposed well?

A Yes, it does.

Q Does it show the location of the Gulf Oil Helbing Federal Well in Section 22 to the east?

A Yes, this well was a dry hole. Pipe was run, and it produced water. I felt like, in interpreting the field, that this condition was anomalous and was created because Gulf drilled in a small syncline.

If you will notice to the immediate right of this shaded area, I have a dashed line that travels down a nose in Section 23. I consider this nose to be high

enough to hold bottom water, and Gulf had the misfortune of not being high enough in this particular area to get above that small perched water table.

In Section 21, you will notice I also have a syncline. It is conceivable that the nose which runs down the extreme east side of Sections 21 and 28 may also trap some bottom water. This particular water is 300 feet above the estimated gas-oil contact of the field.

Q Gas-water contact?

A Gas-water contact of the field, I am sorry.

Q Does it also show the location of the Hanagan Federal Well in Section 21?

A Yes. And the location of that well is 1650 from the north line, and 1980 from the west line.

Q Do you have the footage locations on the Gulf well, also?

A Yes, the Gulf well is drilled 1650 from the north line, and 1650 from the east line.

Q And the Hanagan Federal Well is also plugged and abandoned?

A That's correct.

Q Does your map show anything with respect to the Reef Zone in the Indian Basin Field? This map on the left hand

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side?

A You will notice I have a series of dashed concentric lines marked zero through 350. These are isopach lines of the thickness from the base of the reef to the top of the reef, and would represent the thickness of the target objective in this area.

Q Also in that isopach zone, do you have limestone and dolomite?

A Both limestone and dolomite is contained within this isopach interval.

Q Are your solid lines, what do they denote?

A The solid lines are the structural interpretation.

Q As to the top of the reef?

A The top of the reef.

Q Mr. Mershon, are you familiar with the joint operating agreements and use by the petroleum industry in southeastern New Mexico?

A Yes, I am.

Q And particularly with the nonconsent provisions in those joint operating agreements?

A Yes.

Q Generally what penalty is assessed against a non-consenting owner in those operating agreements?

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A I am familiar with nonconsenting penalties of 200 to 300 percent. I do know that there are penalties that are higher. I have never worked with one higher than 300 percent.

Q Do you know if there is a printed form of operating agreement which is in general use in southeastern New Mexico?

A Yes, it is the Ross Martin 610.

Q What printed penalty provision is in that form?

A 200 percent.

Q Assuming a 640 acre full allowable for gas wells in this section, based on the present state of depletion, do you have an opinion as to how long it would take to pay back the initial investment in this well?

A Approximately two years.

Q Are you also familiar with the prime rate of interest which is charged for money in the United States?

A It is currently seven and a half percent.

Q So that actually an average operator could look forward to borrowing money at eight percent?

A Yes.

Q And if that interest figure were calculated into returning the cost of the well, that additional cost would be necessary. What percent of your initial investment, approxi-

mately?

A Ten percent, as an estimate.

Q Now, Mr. Marshon, assuming you were advised that the New Mexico statute on compulsory pooling authorized a maximum risk factor of 50 percent, do you have an opinion in this case as to what would be a fair risk factor to be levied against a nonparticipating interest owner?

A Well, my opinion is that I should ask for 50 percent, which is the maximum. I base that on the following reasons: I am drilling or proposing to drill very nearly between two dry holes. Gulf drilled a dry hole which has an adequate reef section, but had water. This water was trapped in a syncline, I believe. In Sections 21 and 28, there may be a syncline, and water to be present here. This also creates a problem ---

Q Let me stop you at that point. Let me ask you, you said between two dry holes. Actually, the Gulf well had the reef and had water in it, is that correct?

A That's correct.

Q And the Hanagan well was plugged and abandoned?

A The Hanagan well was plugged and abandoned. Completion attempts were made, but they were not successful.

Q Go ahead with respect to your water.

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A Since the Hanagan and the Gulf wells have been drilled, there has been no further action in Section 21. Exhibit 1 shows the expiration dates on these leases. Apparently most of the operators felt like that Section 21 is a high risk prospect. There has been, to my knowledge, no other attempt to drill a well in this section, because the industry normally uses a high or higher risk penalty factor, 200 to 300 percent. I feel I am justified in asking for a 50 percent penalty.

Q Mr. Mershon, were Exhibits 1 through 3 prepared by you or under your supervision?

A They were.

MR. LOSEE: through 3.

I move to introduce Exhibits 1

MR. UTZ:

Without objection, Exhibits 1

through 3 will be entered into the record of this case.

MR. LOSEE:

That is all the direct examination.

MR. UTZ:

Are there any questions of Mr.

Mershon?

CROSS EXAMINATION

BY MR. MORRIS:

Q Mr. Mershon, you referred to your efforts to obtain a farm-out from Marathon with respect to its 120 acres in this

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section. Was your proposition based upon forming a 640 acre unit to dedicate to your proposed well?

A It was.

Q And is it your position here with the Commission that it should establish a 640 acre unit by compulsory pooling to be dedicated to the well at your proposed location?

A Insofar as the section is concerned, because of the special rule, I would dedicate the 640 acres. But in this hearing, we are not here on this particular hearing to establish the amount of the acres to be dedicated to the well, as far as proration is concerned.

MR. MORRIS: Well, if the Examiner please, my questions on cross examination are being asked with the thought in mind that no more than the productive acreage as established in this hearing should be pooled by the Commission. I understand that in this particular application we are not talking about the unorthodox location as such; we are talking about the pooling case.

But we would take the position here that the Commission should not consider forming a unit by compulsory pooling to comprise more acreage than is shown to be productive; and it is in this regard that I would intend to pursue my questioning of Mr. Mershon to show the productive

acreage for the purposes of pooling.

MR. UTZ:

Your questions then are not pointed primarily toward the nonstandard location, but pointed more toward the forced pooling as related to the geology that the witness has testified to?

MR. MORRIS:

Yes, sir, that is correct. I think it is a little difficult to separate the hearing on the unorthodox location from the hearing on how much acreage should be established as a unit here. But since this is the way the applicant is proceeding, well, I will try to do it that way.

MR. UTZ:

You may proceed.

MR. LOSEE:

I have no objection, legitimate or otherwise, to Mr. Morris' questions, and as he has correctly pointed out, we are proceeding this way simply because the rules require it. I am not sure that the compulsory pooling statute authorizes less than the 640 acre unit.

I do think with respect to the reduction in allowable, the language couched in the Commission's rules, not in connection with this application, but in connection with the unorthodox application, are couched to the extent that they say not that the unit will be shrunk in size, but the Commission will take such action as may be necessary to offset the advantage gained by the unorthodox location.

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MR. MORRIS: In further comment, I think we are talking about two things. We are talking about the size of the unit to be pooled, and in the next hearing we will be talking about the amount of allowable to be assigned to the well due to gain of structural advantage. I think we have two aspects to this case, as far as the pooling and the unorthodox location are concerned.

With the Examiner's permission, I will proceed with my questions on this basis.

MR. UTZ: I think your questions will be proper.

BY MR. MORRIS:

Q Mr. Mershon, I am referring to the land portion now of your Exhibit 3. I understand from your dashed lines that they indicate -- this is an isopach map showing the gross producing zone in the Upper Pennsylvanian portion of this field?

A Yes, it is.

Q Now, you are not representing here that the gross producing interval is the measure of the productive acreage in this unit, are you?

A I would say yes.

Q Have you examined the net pay that would be -- the

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acreage that would constitute net pay within Section 21?

A I have.

Q In going from gross pay to net pay, you have had to examine logs and assume some porosity cutoff, have you not?

A Yes, I have.

Q What figure did you use in going from gross pay to net pay, as far as porosity cutoff?

A When I figured my -- when I worked in this area, I did not do an engineering map, which would require me to prepare a percentage cutoff.

Q You actually haven't figured net pay in Section 21, then, have you?

A I have not.

Q Isn't it customary in the industry, Mr. Mershon, to figure net pay or even net effective pay in determining the limits of productivity for the purpose of dedication of acreage before this Commission?

A I am not sure that is a correct statement. I have examined a number of exhibits that were presented that showed isopach of the sand, in which no mention was made of net.

Q All you have done to determine gross pay interval here was just to pick the top and bottom of the Upper Pennsylvanian Formation through these sections shown on this

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exhibit, isn't that correct?

A In so far as it contained clean dolomite or limestone.

Q Can it be assumed, Mr. Mershon, that all parts of the formation within the gross producing interval are contributing gas to a well that would be drilled in Section 21?

A This is, of course, a difficult question to answer in total, but I would say that in large part, that is correct, that formation would contribute gas to the reservoir.

Q Let me make sure I understand you. You are saying that gross pay interval is the criteria rather than the net pay for determining productive acreage for the purposes of assigning productive acreage to your proposed well, is that correct?

A No, I won't say that is correct.

Q What is your position? I must have misunderstood you.

A I feel like that the zero line, for instance, one which is difficult to draw in any case, represents the limits in which it is fair to assume the reservoir may occur.

MR. MORRIS: That is all the questions I have.

MR. UTZ: Any other questions?

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CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Mershon, your application in Case 4088 reads that you seek to get a compulsory pooling order for a well to be located 990 feet from the north and east lines of the section. Would you still want a forced pooling order or compulsory pooling order for a well located in an orthodox location?

A I am not completely prepared to answer that. I would have to think about it.

Q In other words, you don't know whether you want one or not?

A In the orthodox location?

Q Yes.

A I consider the orthodox location a higher risk location.

Q Can you say at this time in the event your next case, 4089, is not approved, do you still want a compulsory pooling order, this is my question?

A I would say no. But I do not know how to properly answer your question without further evaluation.

MR. KELLAHIN: I am through.

REDIRECT EXAMINATION

BY MR. LOSEE:

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Q Mr. Mershon, I think maybe you and Mr. Morris are conceivably talking about something different than net gross pay. Referring to your dashed lines which are the isopach of the reef pay, included in calculating the difference, have you included anything other than what, in your opinion, contributes to production in the Indian Basin Upper Pennsylvanian Gas Pool?

A In most of the wells where the area was thick, there were minor shale breaks. These are included within this interval.

In the Hanagan well, there was a major shale break, fifteen or twenty feet. I discarded this material, and used only the clean carbonate, and I would say the general rule is that this is the top of the reef to the base of the reef, and it is essentially dolomite and limestone.

Q And so actually what you tell me, having disregarded the shale in the Hanagan well and used only the dolomite and limestone in drawing your isopach in Section 21, that those lines in Section 21 actually, in your opinion, will all contribute or the lands within them, to the production from the Upper Pennsylvanian Formation?

A Yes.

Q Now, in answer -- or not in answer, but in regard to Mr. Kellahin's question, you would have no objection to the

Commission entering a forced pooling order in this case for a standard location 1650 out of the north and east lines, would you?

A Would that mean that that was my sole drillable location?

Q Well, no. Any standard location, I am sorry, I better change my question. Any standard location under the Indian Basin Upper Pennsylvanian Gas Pool?

A I don't quite --

Q You realize that if the compulsory pooling order were used, you would not necessarily have to utilize it, and with that understanding, you don't have any objection to the order if the Commission would not see fit to give you the unorthodox location in the immediately following case?

A I would not object to that.

Q To the forced pooling under a standard location?

A That's correct.

MR. LOSEE: That is all.

RECROSS EXAMINATION

BY MR. UTZ:

Q Mr. Mershon, as I understand, the isopach gross producing zone, which is your dashed line ranging from zero up to something above 150, 250 feet, which passes through

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Section 21, was that depicted by you as dolomite and limestone within the gross section of the Upper Pennsylvanian zone?

A That's correct.

Q Which might possibly be productive, have enough porosity, in other words, to be productive?

A That's correct.

Q Now, did the Hanagan well, and I assume it did, the Hanagan Indian Federal No. 1, contain some of this same material?

A Yes, sir, it contained 72 feet as I interpret the data.

Q Did they test that 72 feet?

A Yes, they did. They ran two DST's over the specific zones that we are talking about, and later attempted to complete over those zones based on the data they had. This well was perforated and acidized, and produced some gas. These are reported in the Commission's records. At one time they reported to their other operating partners that there was as high as two million cubic feet of gas after one of their acid jobs. This rate decreased to 150,000 to 200,000 cubic feet of gas a day, they reported as stabilized flow.

Q Did you get any fluids along with this production, or what was reported in the way of fluids?

A They reported that no formation water was produced

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on any DST test or production test.

Q Now, a standard 1650 location, which you have on a 100 foot mark, is that about right?

A Yes, sir, that is extremely close.

Q In other words, it is your contention here that everything above the zero dashed line or gross isopach, could possibly have some gas in it?

A Yes, sir.

Q In other words, you think your well will produce?

A I think it will contribute in time to the total reservoir.

MR. UTZ: Any other questions?

MR. KELLAHIN: If the Examiner please, we don't want to be foreclosed from pursuing the question of productive acreage further in the next case, in the event they don't go into it with these same exhibits or similar exhibits, because the manner in which they proceeded with it makes it a little difficult on the one hand to object to the location, and on the other not to object to the forced pooling. We have no objection to the forced pooling.

MR. LOSEE: In answer to Mr. Kellahin's question, we will have the same exhibits in the next case.

MR. UTZ: Any other questions? The witness

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may be excused. Are there any statements?

MR. MORRIS: I think, Mr. Examiner, we would like to present some brief testimony in this case.

MR. UTZ: All right.

ROY M. YOUNG

called as a witness on behalf of Marathon Oil Company, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. MORRIS:

(Whereupon, Marathon's Exhibit 1 was marked for identification.)

Q Mr. Young, please state your name and where you reside.

A Roy M. Young, and I reside in Midland, Texas.

Q By whom are you employed, and in what capacity?

A I am District Engineer for the Midland District, Marathon Oil Company.

Q Mr. Young, have you previously testified before the Commission or one of its examiners, and had your qualifications made a matter of record?

A Yes.

MR. MORRIS: Are the witness's qualifications acceptable?

MR. UTZ: Yes, they are.

Q Mr. Young, in connection with this case, have you prepared or have you had prepared under your supervision a plat showing an isopach of net gas pay in the interval under consideration?

A Yes, I have.

Q And is that marked as Marathon's Exhibit Number 1 in this case?

A Yes, it is.

Q Please refer to that exhibit, and point out how it is contoured and how it reflects your opinions concerning the productive acreage in Section 21.

A Marathon's Exhibit 1 is an isopach of the net gas pay in the vicinity of Section 21, Township 22 South, Range 23 East, which is the subject of this hearing. I have from log analysis picked what in my opinion is the net gas pay in each well in the area, and have plotted that on this map, and have contoured it to represent the isopach of the net gas pay. The contour interval on this map is twenty feet.

Q Now, in determining net pay, what porosity cutoff have you used?

A Two percent.

Q Now, I note, Mr. Young, that your zero contour line

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runs somewhat south of the Hanagan well in Section 21, as shown on this map as a dry hole. In determining the limits of net pay here, have you given any consideration to whether there is or is not permeability present in the acreage within the zero contour line in Section 21?

A No, I have not. The 14 feet is the net pay which I have calculated from the log of being greater than two percent porosity, and does not take into consideration anything on permeability.

Q Would some permeability have to be present before this net pay could be considered as effective net pay for any well drilled in Section 21?

A I think to be considered truly effective net pay, it would have to have permeability.

Q So, as far as productive acreage within Section 21 is concerned, to be dedicated to the proposed well, there would have to be some indication of the presence of permeability in this area before this could be considered productive acreage, is that correct?

A That's correct.

Q How many acres are within your zero contour line in Section 21?

A Approximately 325 acres.

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Q In your opinion, Mr. Young, would it be necessary for the Commission to establish a proration unit by pooling here of not more than 325 acres, in order to protect the correlative rights of Marathon Oil Company?

A That's correct.

Q And as far as effective net pay is concerned, it would be something less than 325 acres, is that correct?

A That's correct.

MR. MORRIS: Mr. Examiner, we offer into evidence Marathon Oil Company's Exhibit Number 1.

MR. UTZ: Without objection, Exhibit Number 1 of Marathon will be entered into the record of this case.

Q Mr. Young, concerning the opinion you've stated concerning the necessity for some permeability to be present in order to have effective net pay, do you have any opinion as to the effective net pay in this area, based upon your knowledge of the completion methods that were used on the Hanagan well?

A Yes, sir, the Hanagan well, as I have shown on this map, has 14 feet of what, in my opinion, is net pay, that is porosity above two percent. This, however, does not say anything of what the permeability is in that well.

Now, in attempting a completion in

the Hanagan well, they perforated this 14 feet of net pay and treated it on two different occasions with the total of 25,000 gallons of acid, and still could not obtain commercial production. So, therefore, in my opinion, the inability of Hanagan to establish production from this well would lead me to believe that the permeability in the Hanagan well is practically zero.

Therefore, even though I give it 14 feet of net pay on this map, this would indicate that the 325 acres which I show to be productive, would be the maximum. Actually, the effective productive acres would be even less than the 325 which I show on the map.

MR. MORRIS: That is all.

CROSS EXAMINATION

BY MR. LOSEE:

Q Mr. Young, you said you used your cutoff on porosity at two percent. Will you explain that?

A Well, this is the accepted practice in the industry.

Q Isn't the Indian Hills Upper Pennsylvanian Gas Pool a low porosity average pool?

A In my opinion, it would be considered low.

Q Isn't it possible that some of the wells in the Indian Basin Pool are producing with less than two percent

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porosity?

A It is possible.

Q So that to the extent they were, your cutoff at two percent would move the zero line on your isopach further to the north, isn't that correct?

A Yes, sir, I have to admit that.

Q Well, you will admit that to the extent that may be in error in your two percent porosity, that some of the wells in the field may produce with less porosity, that would move your zero line further to the south?

A This is true, but Hanagan was unable to establish production from this well.

Q Turning to the east of Section 21, you spotted the Gulf No. 2 Well on your zero line. Was that because there was no porosity in the well?

A No, sir, that was because it tested wet. Actually, I put the zero line through the No. 2 Well, but in all likelihood, the zero line in that area should be further to the north, which would have a tendency to pull all the contour lines further in toward the north.

Q If this were some trapped water in Section 22 in the formation, it would not necessarily move the lines to the north, would it? It wouldn't even be the zero line, would it?

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If this were trapped water in Section 22 that caused Gulf to complete their well wet, that would not be the zero line?

A I am not sure I know what you mean by trapped water.

Q Well, what do you understand trapped water to be?

A Well, I don't know.

Q Well, your zero point, as far as this Gulf well, was established solely because it was water wet in the well, and not porosity?

A That's correct.

Q And so that actually the porosity could have been considerably higher than two percent, and there might have been as much as 100 feet of pay, wet pay, but with larger porosity?

A I wouldn't call anything that produced water as pay.

Q Well, your zero cutoff is coupled, in addition to two percent, it is also cut off at water, is it not?

A That's correct.

MR. LOSEE: I think that is all.

MR. UTZ: How much water, 100 percent?

THE WITNESS: It produced water, Mr. Utz. As far as I know, it produced 100 percent water.

MR. MORRIS: I have no further questions of Mr. Young.

CROSS EXAMINATION

BY MR. UTZ:

Q It is my understanding that the No. 2 Well of Gulf in Section 22 did have porosity, or do you know whether it had porosity?

A Yes, sir, it had porosity.

Q Do you know how much?

A No, sir, I don't. But they did set pipe, and perforated it, and produced water. So, therefore, I give it zero net pay, as far as gas is concerned.

Q Because of it being wet?

A Because of it being wet.

MR. UTZ: Any other questions of Mr. Young?

MR. MORRIS: Nothing further.

MR. UTZ: You may be excused.

Any further testimony? Both witnesses may be excused.

Any statements in this case?

MR. KELLAHIN: If the Examiner please, on behalf of Standard Oil Company of Texas, we have no objection to the forced pooling application, as such. What we do object to is

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the fact that it is coupled with a well location of 990 feet out of the north and east corners. To this we do object, and properly this will be presented, I assume, in the next case.

MR. MORRIS: Mr. Examiner, as I stated previously, Marathon feels that the pooling order should not establish any proration unit larger than the amount of productive acreage as determined by the Commission upon the evidence produced in this case. I strongly recommend to the Commission that the applicant here has presented nothing but gross pay, which would be insufficient evidence upon which the Commission could establish a productive acreage. It is the applicant's burden to come forward in any case where an unorthodox location is involved, and prove the amount of productive acreage that is involved in the proposed unit.

The only evidence before the Commission is that it is something less than the 325 acres that we have shown by Marathon's Exhibit Number 1 in this case. Now, that would be as far as the pooling case is concerned, that no more than a 325 acre unit should be established.

In the next case, we will take the position and show further that the actual allowable to be assigned to the well should be penalized from a 325 acre allowable, due to the advantage that the applicant is seeking by

going up structure.

MR. UTZ: Mr. Morris, as I understand it, Marathon's position is that you are not necessarily objecting to forced pooling, you are objecting to the size of the unit?

MR. MORRIS: That's correct, Mr. Examiner.

MR. UTZ: And by reducing the size of the unit to the north half, then Marathon's interest would change?

MR. MORRIS: That's correct.

MR. UTZ: You have a greater interest in 320 than you would have in 640?

MR. MORRIS: That's correct.

MR. UTZ: Any other statements?

MR. LOSEE: Mr. Examiner, I will direct my sole question in view of the fact that Marathon doesn't object to the forced pooling portion, except that portion which may designate less than 640 acres. I am extremely doubtful that the powers in the Commission in the forced pooling would designate less than 640 acres. I think to that effect, the burden as far as the applicant is concerned, is carried by the Commission's order 2440, which establishes 640 acres for Indian Hills Upper Pennsylvanian Gas Pool wells.

MR. PORTER: Mr. Losee, at this point, you feel that the Commission does not have authority to form by forced

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pooling anything less than a standard unit?

MR. LOSEE: Well, I have extreme doubt of it. I will be honest, I have not researched the question, and I don't want to take the position that I am satisfied in my own mind that you don't. I am doubtful that you do have. I am simply answering Mr. Morris' argument by saying that, insofar as he may assume there is a burden on the applicant, I would think he would be wrong, because the forced pooling provision comes in by virtue of the fact that we are located in the section offsetting the Indian Hills Pool, and the special pool rules established 640 acre spacing for that pool. I think that pool rule, itself, carries the burden for the applicant, as far as this forced pooling case is concerned.

I would like to direct two other remarks to the evidence that was entered, both the applicant's and Marathon's, to the effect that there is less than 640 acres productive within this section, which is the applicant's position, too. Let me check that, how many acres are we --

MR. MERSHON: Within that interval, there are 561.

MR. LOSEE: Although not in evidence, and we will put it in in the next case, there are 561 acres in the isopach which, if I recall Mr. Mershon's testimony, that was

limestone and dolomite. He had kicked out the shale in the Hanagan well in arriving at the isopach, and in his opinion, that contributed to the production in the Indian Basin.

In answer to Marathon, I think they have used a cutoff point of two percent porosity, and by their own statement, this is a low porosity pool, and some of the wells in the field probably have dolomite or limestone contributing to production with less than two percent porosity. So I think to that extent, his exhibit using two percent as a cutoff, is not valid as drawing the zero line.

I also think that the use of the wetness of the Gulf well as the cutoff at the zero line without an examination of its porosity, may also be an error, particularly if the applicant shows by his exhibit there is trapped water in that area. If you do include the porosity that is in the Gulf well, it is obvious that that zero line to the east of Section 21 moves down considerably, and there is a considerable larger portion of the east half of Section 21 which would be above even his two percent.

MR. UTZ: Any other statements?

MR. MORRIS: Mr. Examiner, before you take this case under advisement, it has been brought to my attention that the compulsory pooling law, being Section 65-3-14 (C) of

the New Mexico Statutes specifically contains the provision on compulsory pooling that the Commission shall pool all or any part of such lands or interests or both in the spacing or proration unit as a unit, which seems specifically to confer upon the Commission the authority to pool something less than a standard unit, and that would be particularly applicable to this case.

MR. LOSEE: The United States is the lessor under all of these leases. If their acreage is forced pooled to the north, and somebody is going to go diagonally on a line across them on the south, I don't believe they are going to sit still. I just offer that as a -- it cuts them out of their royalty.

MR. MORRIS: Mr. Examiner, I don't want to continue this debate any further, but what I think Mr. Losee is saying in effect is that if the Commission doesn't see fit to give him a whole unit here, he is willing to concede that he can't have forced pooling, and I am willing to meet him somewhere in between. But if he insists on taking that position, and in view of the evidence here, I think under the position he has taken the Commission would have no authority but to deny the pooling application.

MR. LOSEE: That is not my position.

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MR. UTZ: Is all of Section 21 federal land,
Mr. Losee?
MR. LOSEE: Yes, sir.
MR. UTZ: The case will be taken under
advisement.

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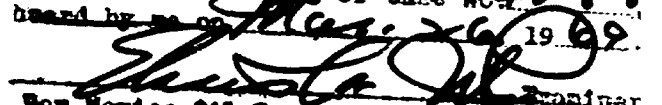
STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

I, SAMUEL P. MORTELETTE, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me; and that the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

Witness my Hand and Seal this 26th day of April, 1969.


NOTARY PUBLIC

My Commission Expires:

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 40-88 heard by me on May 26, 1969.

Examiner
New Mexico Oil Conservation Commission

PAUL M. MERSHON, JR.
DENVER, COLORADO 80210

May 20, 1969

Oil Conservation Commission
P. O. Box 2083
Santa Fe, New Mexico 87501

Marathon Oil Company
P. O. Box 552
Midland, Texas 79701

Re: Proposed well with costs in the Indian Basin - Upper
Pennsylvanian Pool
Sec. 21, T. 22 S., R. 23 E.
990' FNL & 990' FEL
T. D. 7600'

Gentlemen:

File
Chad
Ch
I intend to drill or cause to have drilled a well at the above captioned location, and in compliance with Order No. R-3736, Case No. 4088 I herewith enclose an itemized schedule of estimated well costs on the subject well. This order also states "That within 30 days from the date the schedule of estimated well costs is furnished to him, any con-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges".

Marathon Oil Company being a lease owner in this section is hereby invited to join in the drilling of this well. The Marathon working interest is interpreted to be twenty-five percent (25%).

Very truly yours,

Paul M. Mershon, Jr.

Paul M. Mershon, Jr.

PMM:hj

encl.

PETROLEUM GEOLOGIST

PAUL M. MERSON, JR.

789 CLARKSON STREET
DENVER, COLORADO 80218

TELEPHONE: 303 255-0716

Indian Basin Upper Pennsylvanian Gas Field
Sec. 21, T. 22 S., R. 23 E.
990 FNL & FEL
Eddy County, New Mexico

ESTIMATED WELL COST

	<u>COMPLETED</u>	<u>DRY HOLE</u>
Survey Location and Damages	\$ 500.00	\$ 500.00
Prepare Roads and Location	2,500.00	2,500.00
Drilling 7600' @ \$9.00 per foot	68,400.00	68,400.00
Day Work 5 days @ \$1,200.00 per day	6,000.00	6,000.00
Trucking	1,500.00	1,000.00
Mud and Chemicals	8,500.00	8,500.00
Cement and Services	8,000.00	6,200.00
Fuel and Water	7,500.00	7,500.00
Logging	4,000.00	4,000.00
Drill Stem Tests	1,700.00	1,700.00
Misc. Equip. (Stabilizers, shoes, etc.)	850.00	500.00
Float Equipment	750.00	400.00
Legal Fees	500.00	500.00
Supervision and Overhead	3,000.00	2,500.00
Plugging Costs		1,000.00
Casing and Tubing		
200 feet of 13 3/8 @ 7.50	1,500.00	1,500.00
2100 feet of 8 5/8 @ 3.20	6,720.00	6,720.00
7600 feet of 5 1/2 @ 2.50	19,000.00	
7500 feet of 2 3/8 @ .75	5,625.00	
Unit Time 4 days @ \$700.00 per day	2,800.00	
Perforations	800.00	
Rental Equipment	350.00	
High Pressure Separator	5,800.00	
Well Stimulation	5,000.00	
Well Head and Flow Lines	4,000.00	
Installation Costs	700.00	
	<u>\$165,995.00</u>	<u>\$119,420.00</u>

Docket No. 9-69

DOCKET: EXAMINER HEARING - WEDNESDAY - MARCH 26, 1969

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING - SANTA FE NEW MEXICO

The following cases will be heard before Elvis A. Utz, Examiner, or Daniel S. Nutter, Alternate Examiner:

CASE 4078: Application of J. Gregory Merrion for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle production from the Devils Fork-Gallup Pool and an undesignated Mesaverde oil pool in the well-bore of his NCRA State Well No. 3 located in Unit L of Section 16, Township 24 North, Range 6 West, Rio Arriba County, New Mexico.

CASE 4079: Application of Robert B. Holt for the creation of a new pool, assignment of a discovery allowable, and the promulgation of special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Middle Pennsylvanian oil pool for his Aztec State Well No. 2 located in Unit A of Section 26, Township 13 South, Range 32 East, Lea County, New Mexico, and for the assignment of an oil discovery allowable in the amount of approximately 48,715 barrels to said well. Applicant further seeks the promulgation of special pool rules for said pool, including a provision for 160-acre proration units and the assignment of 80-acre allowables.

CASE 3975: (Reopened)
In the matter of Case No. 3975 being reopened pursuant to the provisions of Order No. R-3618, which order established 80-acre spacing units for the East Bluitt-San Andres Pool, Roosevelt County, New Mexico, for a period of approximately two months. All interested parties may appear and present evidence as to whether the subject area is indeed a separate common source of supply or an extension of the Bluitt-San Andres Gas Pool. Further, in the event said East Bluitt-San Andres Pool is found to be an extension of said Bluitt-San Andres Gas Pool, the Commission will consider the amendment of the Special Rules and Regulations governing the Bluitt-San Andres Gas Pool to provide for the classification of oil and gas wells, spacing and well location requirements for oil and gas wells, and an allocation formula for withdrawals from the gas cap and oil rim.

CASE 4080: Application of Monsanto Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Black River Unit Area comprising 14,961.23 acres, more or less, of State, Federal and Fee lands

CASE 4080 - Continued

in Townships 25 and 26 South, Ranges 23 and 24 East,
Eddy County, New Mexico.

CASE 4081: Application of Curtis Hankamer for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Brushy Draw Deep Unit Area comprising 9,672.53 acres, more or less, of State and Federal lands in Township 26 South, Ranges 29 and 30 East, Eddy County, New Mexico.

CASE 4082: Application of Sam D. Ares for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to inject produced salt water into the Yates-Seven Rivers formation in the open-hole interval from approximately 3358 to 3495 feet in his Arnott Ramsey "A" Well No. 3, located 660 feet from the North and West lines of Section 2, Township 25 South, Range 36 East, Jalmat Yates Seven Rivers Pool, Lea County, New Mexico.

CASE 4083: Application of Gulf Oil Corporation for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle production from the Penrose Skelly Pool and the Paddock Pool in the well-bore of its Eunice King Well No. 7 located in Unit G of Section 28, Township 21 South, Range 37 East, Lea County, New Mexico, with the provision that no more than one allowable will be produced from said well.

CASE 4084: Application of Olen R. Featherstone for the creation of a new pool and for special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Wolfcamp oil pool for his Cabot State Well No. 1 located in the NE/4 NW/4 of Section 29, Township 15 South, Range 32 East, Lea County, New Mexico, and for the promulgation of special rules therefor including a provision for 160-acre spacing and proration units and the assignment of 80-acre allowables.

CASE 4085: Application of Tamarack Petroleum Corporation, Inc. for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Queen formation in the perforated interval from approximately 4948 feet to 5043 feet in its Cabot 23 State Well No. 2 located in Unit C of Section 23, Township 19 South, Range 35 East, Pearl-Queen Pool, Lea County, New Mexico.

- CASE 4086: Application of Hansen Oil Company for a dual completion and salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dually complete its CSA Federal Well No. 1 located in Unit 2 of Section 29, Township 26 South, Range 37 East, Starbrough Yates-Seven Rivers Pool, Lea County, New Mexico, in such a manner as to permit production of oil from the Yates formation and the disposal of produced salt water into the Seven Rivers formation through parallel strings of tubing.
- CASE 4087: Application of Solar Oil Company for a dual completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion (conventional) of its McCallister Well No. 1 located in Unit 3 of Section 7, Township 22 South, Range 38 East, Lea County, New Mexico, to produce oil from undesignated Drinkard and Abo oil pools through parallel strings of tubing.
- CASE 4071: (Continued from the March 19, 1969, Regular Hearing)
Application of T. G. Sivley for a dual completion and salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dually complete his Federal Silver Well No. 4 located in the SW/4 SE/4 of Section 28, Township 20 South, Range 34 East, Lynch Yates-Seven Rivers Pool, in such a manner as to permit production of oil from the Yates-Seven Rivers formations and the disposal of produced salt water into the lower Seven Rivers formation.
- CASE 4088: Application of Paul M. Mershon, Jr., for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Upper Pennsylvanian formation underlying Section 21, Township 22 South, Range 23 East, Eddy County, New Mexico. Said acreage to be dedicated to a well to be drilled at an unorthodox gas well location 990 feet from the North and East lines of said Section 21, and within one mile of the Indian Basin-Upper Pennsylvanian Gas Pool. Also to be considered will be the costs 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.
- CASE 4089: Application of Paul M. Mershon, Jr., for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an exception to the special rules and regulations governing the Indian Basin-Upper Pennsylvanian Gas Pool to permit the drilling of a well at an unorthodox gas well location 990 feet from the North and East lines of Section

-4-

Docket No. 9-69

Examiner Hearing - March 26, 1969

21, Township 22 South, Range 23 East, Indian Basin-
Upper Pennsylvanian Gas Pool, Eddy County, New Mexico.

CASE 4090: Application of Getty Oil Company for an exception to Commission Order No. R-111-A, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to the potash-oil area casing and cementing rules as set forth in Commission Order No. R-111-A. Applicant proposes to re-enter and deepen approximately 3500 feet in the Yates formation four wells located in Sections 19 and 30 of Township 20 South, Range 34 East, Lea County, New Mexico, in such a manner as to eliminate the necessity of running the salt protection string provided the production string would be cemented to the surface.

CASE 4091: Application of Union Oil Company of California for a dual completion and salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dually complete its Elliott Federal Well No. 1 located in Unit O of Section 27, Township 11 South, Range 38 East, Lea County, New Mexico, in such a manner as to permit the production of oil from the Field Ranch-Wolfcamp Pool and the disposal of produced salt water into the San Andres, Glorieta, Blinberry, Tubb and Abo formations in the open-hole interval from approximately 4458 feet to 8050 feet.

ROBERT N. ENFIELD
OIL PROPERTIES
P. O. BOX 807
ROSWELL, NEW MEXICO 88201

March 24, 1969

622-5552

49 MAR 25 1969

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

Dear Sir:

Please be advised that as an operator in the Indian Basin
Upper Penn Field I completely concur with the objections
Hanagan Petroleum Corporation raised in their letter of March
18, 1969 to Case No. 4088 and 4089 concerning Paul M. Mershon,
Jr. application for an unorthodox location.

Yours very truly,

Robert N. Enfield
ROBERT N. ENFIELD

RNE/eh

Case 408
Heard. 3-26-69
Rec. 4-1-69.

Grant Paul Merchan a
Compulsory pooling order for a
unit in the Indian Basin
- Upper Permian consisting of
225-230, Sec. 21, N1/2 & N1/2
11/2 11/2 S1/2 . 360 Ac.

This of course will cut a 40 Ac
owner out an 80 Ac owner out of
the unit. It is my opinion that
their acreage is dry. At least we
have no evidence that it is
productive.

I would consider this
a development well and would
therefore use our 125% policy
for risk.

~~Leave a blank in the~~
~~unit order for~~
allow. 100% for operating
costs.

Thos. H. [Signature]

OWNERSHIP PLAT

Sec. 21, T. 22 S., R. 23 E.

Eddy Co., New Mexico

Union Oil Co. of Calif NM 032647-A Exp. 6-30-69	Marathon Oil Co. NM 0556589 Exp 6-30-69	Paul M. Mersham Jr NM 3802 Iss 12-1-67 Location
J.F. Younger NM032647-0 Exp 6-30-69	B. Anderson NM0556589-A Exp 6-30-69	

BEFORE EXAMINER UTZ
 OIL CONSERVATION COMMISSION
 EXHIBIT NO. 1
 CASE NO. 4088

EXHIBIT

JOEL M. CARSON

LAW OFFICES
A. J. LOSEE
CARPER BUILDING - P. O. DRAWER 239
ARTESIA, NEW MEXICO 88210

AREA CODE 505
746-3508

March 4, 1969

5
MAR 5 1969

Case 4088

Mr. A. L. Porter, Jr.
Secretary-Director
New Mexico Oil Conservation Commission
P. O. Box 2008
Santa Fe, New Mexico 87501

Re: Paul M. Mershon, Jr. - Bogle
Flat Prospect Indian Basin-
Pennsylvanian Gas Pool
Our File No. 2373-69

Dear Mr. Porter:

On behalf of Mr. Paul M. Mershon, Jr. we herewith hand you two applications, each in triplicate, for approval of an unorthodox gas well location and for compulsory pooling, Eddy County, New Mexico. We ask that you set these for hearing before the examiner on March 26, 1969 and confirm this setting to us.

We ask that the unorthodox location application be set before the compulsory pooling application.

Very truly yours,



A. J. Losee

AJL:hb
Enclosures

cc: Mr. Paul M. Mershon, Jr.

DOCKET ATTACHED

Date 3-14-69

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF)
PAUL M. MERSHON, JR. FOR COMPULSORY)
POOLING, EDDY COUNTY, NEW MEXICO)

Case No. 4088

APPLICATION

COMES PAUL M. MERSHON, JR. by his attorney and in support hereof, respectfully states:

1. That Applicant is now or at time of hearing hereon, will be the operator of the Upper Pennsylvanian Formation underlying the E/2 E/2, SW/4 SE/4 and W/2 of Section 21, Township 22 South, Range 23 East, N.M.P.M.

2. The Oil Conservation Commission of New Mexico (the "Commission") promulgated special rules and regulations for the Indian Basin-Upper Pennsylvanian Gas Pool by its Order Nos. R-2440 and R-2440-A establishing 640 acre spacing units.

3. That said Section 21 is located within one mile of the Indian Basin-Upper Pennsylvanian Gas Pool and concurrently herewith Applicant has filed an application with the Commission seeking an exception to the Indian Basin-Upper Pennsylvanian Gas Pool special rules to permit the drilling of a well at an unorthodox location 990 feet from the North line and 990 feet from the East line of said Section 21.

4. That Applicant requests an Order pooling all mineral interests in the Upper Pennsylvanian Formation underlying all of said Section 21 to form a standard 640 acre spacing unit in said pool to be dedicated to his proposed well.

5. That Applicant seeks an Order authorizing him to withhold the proceeds from production attributable to each non-consenting working interest until such time as each interest share of the cost of said well have been recovered, plus fifty percent (50%) thereof for the risk involved in the drilling of the well; and requests the Commission to establish a reasonable monthly sum for the cost of operating said well and to assess the interests in production for each non-consenting working interest owner with such operating costs.

6. The approval of this application will avoid the drilling of unnecessary wells, protect correlative rights and afford to the owner of each interest in said Section 21 the opportunity to recover, without unnecessary expense, its just and fair share of the gas in the Indian Basin-Upper Pennsylvanian Gas Pool.

7. That Paul M. Mershon, Jr. should be designated as Operator of the proposed well.

WHEREFORE, Applicant prays the Orders of the Commission:

(A) That the matter be set for hearing before an examiner duly appointed by the Commission and that notice of said hearing be given as required by law.

(B) That upon hearing an Order be entered pooling all of the mineral interests in the Upper Pennsylvanian Formation underlying all of said Section 21 to form a standard 640 acre spacing unit to be dedicated to Applicant's proposed well; establishing a risk factor and reasonable operating charges

to be recovered out of production attributable to any non-consenting working interest owners; and designating applicant as operator of the pooled unit.

(C) And for such other relief as may be just in the premises.

PAUL M. MERSHON, JR.

By: 

A. J. Losee
P. O. Drawer 239
Artesia, New Mexico 88210

Attorney for Applicant

2. Compulsory parking — of the upper
Penn formation underly all 7 said
See 21 — same I

50% Risk —



Paul M. Merston, Jr.

DRAFT

GMH/esr

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. 4088

Order No. R-3736

APPLICATION OF PAUL M. MERSHON, Jr.,
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on
March 26, 1969, at Santa Fe, New Mexico, before Examiner
Elvis A. Utz.

NOW, on this day of Apr, 1969, the Commission,
a quorum being present, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

(1) That due public notice having been given as required by
law, the Commission has jurisdiction of this cause and the subject
matter thereof.

(2) That the applicant, Paul M. Mershon, Jr.,
seeks an order pooling all mineral interests in the Upper
Pennsylvanian formation ~~XXXX~~ underlying the ~~XXXXXXXXXXXXXXXXXXXX~~

Section 21, Township 22 ~~NORTH~~ South, Range 23 ~~WEST~~ East, NMPM,
Eddy County, New Mexico.

(3) That the applicant has the right to drill and proposes
to drill a well in the ~~at an underlying location 990 feet from the north line and 990 feet from the east line~~ of said Section 21 to the

Indian Basin - upper Pennsylvanian Pool.

(4) That there are interest owners in the proposed proration
unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to
protect correlative rights, and to afford to the owner of each

(5) ~~that the evidence indicates that the 5 1/2 5 1/2 and the 3 1/2 5 1/2 are not producing gas from the upper Pennsylvanian formation~~
~~that the evidence indicates that the 5 1/2 5 1/2 and the 3 1/2 5 1/2 are not producing gas from the upper Pennsylvanian formation~~
approximately 360 acres - approximately 280 acres in
the 5 1/2 5 1/2 and the 3 1/2 5 1/2 are not producing gas from the upper Pennsylvanian formation
approximately 360 acres - approximately 280 acres in
the 5 1/2 5 1/2 and the 3 1/2 5 1/2 are not producing gas from the upper Pennsylvanian formation

the N/2 and the ^{N/4}N/2 5/2 of said Section 21

interest in ~~said unit~~ the opportunity to recover or receive with-
out unnecessary expense his just and fair share of the gas in said
pool, ~~the subject application should be approved by pooling all~~

in the Indian Basin Upper Pennsylvania Pool,
mineral interests, whatever they may be, ~~within said unit~~
underlying the N/2 and the ^{N/4}N/2 5/2 of said Section 21 should be provided.

~~(8)(6)~~ That the applicant should be designated the operator
of the subject well and unit.

~~(9)(7)~~ That any non-consenting working interest owner should
be afforded the opportunity to pay his share of estimated well
costs to the operator in lieu of paying his share of reasonable
well costs out of production.

~~(10)(8)~~ That any non-consenting working interest owner that
does not pay his share of estimated well costs should have with-
held from production his share of the reasonable well costs plus
an additional 25 % thereof as a reasonable charge for the risk
involved in the drilling of the well.

~~(11)(9)~~ That any non-consenting interest owner should be
afforded the opportunity to object to the actual well costs
but that said actual well costs should be adopted as the
reasonable well costs in the absence of such objection.

~~(12)(10)~~ That following determination of reasonable well costs,
any non-consenting working interest owner that has paid his share
of estimated costs should pay to the operator any amount that
reasonable well costs exceed estimated well costs and should
receive from the operator any amount that ~~said~~ ^{the} estimated well
costs exceed reasonable well costs.

~~(13)(11)~~ That \$ 100 per month should be fixed as a reasonable
charge for supervision for the subject well; that the operator
should be authorized to withhold from production the proportionate
share of such supervision charge attributable to each non-consenting
working interest, and in addition thereto, the operator should be
authorized to withhold from production the proportionate share
of actual expenditures required for operating the subject well,
not in excess of what are reasonable, attributable to each non-
consenting working interest.

escrow to be paid to the true owner thereof upon demand and proof of ownership.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Indian Basin - Upper Permian Pool underlying the N/2 and the N/2 N/2 S/2

of Section 21, Township 22 North, Range 23 West, NMPM, South East

Eddy County, New Mexico, are hereby pooled to form a 360 -

~~oil spacing~~
acre gas proration unit to be dedicated to a well to be drilled at an unorthodox gas well location 990 feet from the North line and 990 feet from the East line of said Section 21.

(2) That Paul M. Merston, Jr. is hereby designated the operator of the subject well and unit.

(3) That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs within 30 days following the date of this order.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of actual well costs within 30 days following completion of the well; that if no objection to the actual well costs is received by the Commission, and the Commission has not objected within 60 days following completion of the well, the actual well

costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 60-day period, the Commission will determine reasonable well costs after public notice and hearing.

(6) That within 30 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(9) That \$_____ per month is hereby fixed as the reasonable charge for supervision and operational overhead for ~~able/cost-of-operating~~ the subject well, and the operator is

costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 60-day period, the Commission will determine reasonable well costs after public notice and hearing.

(6) That within 30 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 25 % of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

a

(9) That \$ 100 per month is hereby fixed as a reasonable charge for supervision for the subject well; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable attributable to each non-

hereby authorized to withhold from production the proportionate share of such cost attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered as a seven-eighths ($7/8$) working interest and a one-eighth ($1/8$) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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