

CASE 6184: MESA PETROLEUM COMPANY FOR
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO

7

Case NO.

6184

Application

Transcripts

Small Exhibits

ETC.

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Mesa Petroleum Company) CASE
for compulsory pooling, Eddy County,) 6184
New Mexico.)

BEFORE: Richard L. Stamets, Examiner.

TRANSCRIPT OF HEARINGA P P E A R A N C E S

For the New Mexico Oil Conservation Commission:	Lynn Teschendorf, Esq. Legal Counsel for the Commission State Land Office Building Santa Fe, New Mexico
For Mesa Petroleum Company:	Paul W. Eaton, Jr., Esq. HINKLE, COX, EATON, COFFIELD & HENSLEY Attorneys at Law P. O. Box 10 Roswell, New Mexico
For Marathon Oil Company:	William F. Carr, Esq. CATRON, CATRON & SAWTELL Attorneys at Law 53 Old Santa Fe Trail Santa Fe, New Mexico

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

I N D E X

	<u>Page</u>
1. Appearances	1
2. The Witness, Mr. Robert R. Donnelly	
Direct Examination by Mr. Eaton	4
Cross Examination by Mr. Carr	11
Cross Examination by Mr. Stamets	14
Witness Excused	16
3. The Witness, Mr. Joseph W. Jeffers	
Direct Examination by Mr. Eaton	16
Cross Examination by Mr. Carr	20
Cross Examination by Ms. Teschendorf	25
Witness Excused	26
4. The Witness, Mr. A. W. Hanley	
Direct Examination by Mr. Carr	26
Cross Examination by Mr. Eaton	30
Redirect Examination by Mr. Carr	32
Witness Excused	33
5. Closing Statement by Mr. Carr	33
6. Closing Statement by Mr. Eaton	35
7. Reporter's Certificate	37

sid morrish reporting service
 General Court Reporting Service
 825 Calle 146ja, No. 177, Santa Fe, New Mexico 87501
 Phone (505) 982-9212

EXHIBIT INDEX

1		
2		<u>Page</u>
3	Exhibit No. 1, Map	5
4	Exhibit No. 2, Letter	7
5	Exhibit No. 3, Letter	10
6	Exhibit No. 4, Letter	10
7	Exhibits No. 1 thru No. 4 Admitted	10
8	Exhibit No. 5, Map	16
9	Exhibit No. 5 Admitted	20
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

sid morris reporting service
General Court Reporting Service
 825 Calle Mejia, No. 172, Santa Fe, New Mexico 87501
 Phone (505) 962-9212

1 MR. STAMETS: The hearing will come to order, please.

2 Call at this time Case 6184.

3 MS. TESCHENDORF: Case 6184, application of Mesa
4 Petroleum Company for compulsory pooling, Eddy County, New
5 Mexico.

6 MR. STAMETS: Call for appearances.

7 MR. EATON: Paul Eaton of the firm of Hinkle, Cox,
8 Eaton, Coffield & Hensley, representing the applicant and
9 we have two witnesses.

10 MR. STAMETS: Any other appearances?

11 MR. CARR: William F. Carr; Catron, Catron & Sawtell,
12 Santa Fe, appearing on behalf of Marathon Oil Company and
13 I have one witness.

14 MR. STAMETS: Any other appearances? Will the
15 witnesses stand and be sworn, please?

16 (THEREUPON, the witnesses were sworn.)

17

18 ROBERT R. DONNELLY

19 was called as a witness by the applicant, and having been
20 first duly sworn, testified upon his oath as follows, to-wit:

21

22 DIRECT EXAMINATION

23 BY MR. EATON:

24 Q Would you please state your name, by whom you are
25 employed and in what capacity?

sid morrish reporting service
General Court Reporting Service
825 Calle Meja, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 A. My name is Robert Donnelly and I am employed by
2 Mesa Petroleum Company in Midland, Texas, as a Landman.

3 Q. Mr. Donnelly, your qualifications as such have been
4 accepted by this Commission have they not?

5 A. Yes, they have.

6 Q. What does Mesa seek by its application in this case?

7 A. Mesa Petroleum Company seeks to force pool all
8 interests in the east half of Section 24, Township 18 South,
9 Range 24 East.

10 MR. EATON: Mr. Examiner, I would like to point out
11 a minor typographical error in our application. In paragraphs
12 two and three, we said the west half of Section 24 and it
13 should be the east half of 24. It was published as the east
14 half of 24.

15 I would ask that those two errors be corrected.

16 MR. STAMETS: Okay, that's in paragraphs two and
17 three and it was correctly advertised and we will make that
18 correction to the application.

19 Q. (Mr. Eaton continuing.) Mr. Donnelly, please refer
20 to what has been marked for identification as Exhibit Number
21 One and state what that exhibit shows?

22 A. This is a map showing the location of the well in
23 the area that we are seeking to force pool along with all of
24 the surrounding acreage showing ownership of the minerals and
25 the lessees on that acreage.

1 Q Who are the working interest owners in the east half
2 of Section 24?

3 A The working interest owners would be Mesa Petroleum
4 Company, Northern Natural Gas Company, Marathon Oil Company,
5 and Yates Petroleum Company.

6 Q Now, with respect to the location of the proposed
7 well, in the application Mesa indicated that it proposed to
8 drill a well nineteen hundred and eighty feet from the north
9 line and six hundred sixty feet from the east line, is that
10 correct?

11 A The location has been changed because of topographical
12 features. There is a deep ravine just to the north of where
13 we put the location.

14 The location will actually be two thousand thirty
15 feet from the north line and six-sixty from the east line.

16 MR. STAMETS: Is this a legal location?

17 A Yes, it is.

18 MR. STAMETS: A standard location I should have
19 said.

20 Q (Mr. Eaton continuing.) Now, Mr. Donnelly, what
21 has Mesa done to get all of the working interest owners
22 committed to the proposed well?

23 A We started working on this well last year and -- on
24 January 6th -- and we sent a letter to all parties proposing
25 to drill a well.

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 Q Is that letter what has been marked as Applicant's
2 Exhibit Number Two?

3 A Yes, is it.

4 Q Generally, what did you advise the other working
5 interest owners?

6 A Basically, we proposed to drill a well at a standard
7 location in the east half of Section 4. At this time we gave
8 them what their working interest would be along with a copy
9 of a preliminary A.F.E. which is identical to the one that
10 we would send to them for final approval.

11 Q What happened next?

12 A After several discussions on the phone we sent them
13 a letter on February 24.

14 Q Is that what has been marked as Exhibit Three?

15 A Yes, it is. This letter gave notice that we would
16 be attempting to purchase the west half of the section as it
17 was open at the time we proposed the well.

18 At this time we sent them a copy of the operating
19 agreement and another copy of the A.F.E.

20 Q Actually, at this time you had already purchased the
21 lease in question?

22 A That's correct.

23 Q What was the result of the February 24th, letter?

24 A We received response from Northern Natural and Yates
25 Petroleum in which they sent to us executed copies of the

sid morrison reporting service
General Court Reporting Service
825 Calle Mijla, No. 172, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 agreement and executed copies of the A.F.E.

2 Q So, Northern Natural and Yates have agreed to join
3 you in the drilling of the well?

4 A. That is correct.

5 Q Pursuant to the proposed A.F.E. that you sent them?

6 A. Yes.

7 Q What about Marathon?

8 A. Marathon gave no response at that time. Subsequent
9 to that in March, the 2d, we received a letter from Marathon
10 Oil noting the proposal of our well and declining any
11 participation in this well.

12 Q At least at that time?

13 A. Yes, that's true.

14 Q What was the estimated cost of the well as a dry hole
15 and as a producer as set forth in the A.F.E.?

16 A. The estimated dry hole cost would be one hundred
17 sixteen thousand four hundred and twenty-three dollars and
18 the estimated completed cost would be one hundred sixty-nine
19 thousand five hundred and thirty-eight dollars --

20 I am sorry -- total cost would be three hundred and
21 two thousand seven hundred dollars as a dry hole cost and
22 a completed cost would be four hundred forty thousand eight
23 hundred dollars.

24 MR. STAMETS: Those figures are slightly different
25 from what you show in your letter of January 6th, is that

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 right?

2 A. Yes, they are.

3 MR. STAMETS: Again, those are three hundred two
4 thousand seven hundred and then what was the completed well
5 cost?

6 A. Four hundred forty thousand eight hundred.

7 MR. STAMETS: Slightly less than your letter indicated?

8 A. That's correct.

9 Q (Mr. Eaton continuing.) Now, that A.F.E. is, I believe
10 was, you stated, was attached to the letter of February 24,
11 Exhibit Three, which went to all of the working interest owners
12 is that correct?

13 A. That's correct.

14 Q. When does Mesa propose to commence this well?

15 A. Because of the scheduling of rigs and the tightness
16 at this point, we have already moved in a rig to drill this
17 location.

18 Q. Do you know when that was done?

19 A. Estimated time was March 18th.

20 Q. Well, was the rig moved in on March 18th, then?

21 A. Yes, it was.

22 Q. Okay. When do you expect to reach the objective
23 depth?

24 A. We estimate April 18th.

25 Q. Approximately thirty days to drill the well?

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 A. That's correct.

2 Q. In connection with the application in this matter
3 Mesa does request does it not that it be designated as the
4 operator?

5 A. Yes, it does.

6 Q. What charges for supervision does Mesa ask for?

7 A. We request two thousand dollars for a drilling well
8 and two hundred and twenty-five dollars for a producing well.

9 Q. What is the basis for those charges?

10 A. This is based on our experience with the drilling of
11 more wells and also the industry average of operating costs
12 in this area.

13 Q. Have Yates and Northern Natural agreed to those
14 charges?

15 A. Yes, they have.

16 Q. Was Exhibit One prepared by you?

17 A. Yes, it was.

18 Q. And I assume that Exhibits Two, Three and Four are
19 copies of the letters sent or received by Mesa Petroleum
20 Company?

21 A. That's correct.

22 MR. EATON: Mr. Examiner, we offer in evidence
23 Applicant's Exhibits One through Four into evidence.

24 MR. STAMETS: These exhibits will be admitted.

25 MR. EATON: We have no further questions of this

sid morrish reporting service
General Court Reporting Service
825 Calle Mijia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 witness.

2 MR. STAMETS: Are there any questions of the
3 witness? Mr. Carr?

4

5 CROSS EXAMINATION

6 BY MR. CARR:

7 Q Mr. Donnelly, when did Mesa actually decide to drill
8 this well?

9 A It was our intention by the letter of January 6th
10 to propose this well. However, when we received the copies
11 of the agreements back from Northern Natural and Yates we
12 decided to proceed with the drilling of the well.

13 Q So, your decision to drill had been reached sometime
14 after January 6th?

15 A That's correct.

16 Q And you have been able to schedule a rig in that
17 short time period?

18 A Yes.

19 Q And you indicated that you first approached the
20 other operators, I believe, with your January 6th letter?

21 A Yes.

22 Q Now, does that letter advise them that you were
23 planning, actually, to drill a well in the immediate future
24 or was that just to inquire as to their interest?

25 A We, in this letter, we said that we would like to

sid morrish reporting service
General Court Reporting Service
825 Calle Mijia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 drill the well during the first quarter of the year. This
2 was our intent.

3 Q Would you read to me where it says that?

4 A It says, "The test well, located on the communitized
5 east half of said Section 24, will be commenced immediately
6 following completion of necessary paperwork and during the
7 first quarter of 1978."

8 Q Is it normal for Mesa to drill wells on such a
9 short time frame?

10 A Well, given the joinder of the other two parties
11 and the time span in which we would have to get this rig, we
12 proceeded with it.

13 Q Now, are there any other reasons for the short time
14 frame, leases expiring in the area?

15 A I don't believe that's true. However, we looked
16 at an adjacent well which was drilled not too long ago which
17 we understand is a good well and we believe that timely
18 commencement of a well would prove out the extension of the
19 reserves into our acreage.

20 Q What well are you talking about?

21 A I think that he can answer that --

22 Q Do you want to wait and take that up with him?

23 A Yes.

24 Q I haven't seen your plat but based on the ownership of
25 the leases in Section 24, would it have been profitable for

sid morrish reporting service

General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 Mesa to drill a well and dedicate the north half to it and
2 thereby avoid the necessity of compulsory pooling?

3 A I believe I'll defer that to the geologists and
4 basically until the first of March we did not have control
5 of the west half. Then, our position was that our immediate
6 deal was whether or not when we proposed the well in January
7 it was not contingent upon our getting the west half. That
8 was an oral bid in February. We could not be certain that
9 we could get it at that time.

10 Q Does Mesa now control the entire north half of
11 Section 24?

12 A Yes, it does.

13 MR. CARR: No further questions. Just a minute --

14 Q (Mr. Carr continuing.) Mr. Donnelly, you indicated
15 that Marathon had declined to participate. Would you read
16 what they said in response to your letter of January 6th?

17 A "Your letter of January 6th, 1978," this is from
18 the March 2nd letter, "Proposed drilling of your No. 1
19 Lincoln State Com well as an 8,800 foot Morrow test," and it
20 gave the location, "Under a communitization agreement to
21 cover the east half of Section 24. Marathon's subject lease
22 covers an undivided fifty percent interest in the north-
23 west-southeast quarter and south half of the southeast quarter
24 of Section 24 for a resultant interest of eighteen point
25 seven-five percent."

sid morrison reporting service

General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 I think that is reflected in our January letter,
2 as well.

3 "We appreciate being offered the opportunity to
4 participate in this proposal; however, our decision as to
5 participation in such a well will be deferred until more
6 information is available on nearby wells, including Gulf's
7 recently completed east offset.

8 Q So, they really didn't decline, they just deferred
9 their decision for a time period?

10 A That's correct.

11 MR. CARR: No further questions.

12
13 CROSS EXAMINATION

14 BY MR. STAMETS:

15 Q Mr. Donnelly, looking at your letter of January 6th,
16 it seems to me that at this time you must have already decided
17 that Mesa was going to drill a well in the east half of
18 this section, is that correct?

19 A That's correct.

20 Q Okay. And this is a preliminary letter asking the
21 other owners in there if they are willing to talk about drilling
22 this well, is that correct?

23 A This is our formal proposal.

24 Q Now, I don't believe you included an A.F.E. with
25 this letter. I think you only indicated what the overall costs

sid morrison reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 would be?

2 A. In February we submitted the A.F.E. to them.

3 Q You say detailed A.F.E. will be furnished promptly
4 upon your reponse to the proposal. In other words if any-
5 body indicated that they would like to join you would send
6 them an A.F.E., is that correct?

7 A. That's correct.

8 Q All right. Did you have any response at all from
9 Marathon to this letter, either by telephone or by written
10 communication, before their letter of February -- rather
11 March 2nd?

12 A. Yes. Mr. Northington talked with Mr. Hanley at
13 some point in this interim period before the February letter
14 went out.

15 There was some indeterminate response at this point
16 from Marathon. However, Yates Petroleum and Northern Natural
17 did respond and we did send out the February letter.

18 Q As far as the acreage of ownership in Section 24,
19 it really would not make any difference in your percent of
20 participation in a well if you dedicated the east half or if
21 you dedicated the south half?

22 What I am saying is if you drill a well in the north
23 half then in the south half of the section, and that were to
24 be developed, your participation would be the same as what
25 you are seeking here in the east half?

sid morrish reporting service
General Court Reporting Service
825 Calle Ilegua, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 A. That's correct.

2 MR. STAMETS: Any other questions of the with ss?

3 He may be excused.

4 (THEREUPON, the witness was excused.)

5

6

JOSEPH W. JEFFERS

7 was called as a witness by the applicant, and having been

8 first duly sworn, testified upon his oath as follows, to-wit:

9

10

DIRECT EXAMINATION

11 BY MR. EATON:

12 Q Would you please state your name and by whom you
13 are employed and in what capacity?

14 A Joseph W. Jeffers and I am employed by Mesa Petroleum
15 Company in Midland, Texas, as a Division Geologist.

16 Q Mr. Jeffers, have you testified before this Commission
17 in the past?

18 A I have.

19 Q In that capacity?

20 A Yes, sir.

21 Q And were your qualifications accepted?

22 A Yes.

23 Q Please refer to what has been marked for identification
24 as Exhibit Number Five and state what this exhibit shows?

25 A Exhibit Five is a geologic map showing both structure

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 contoured on the top of the Mississippian shale and an
2 isopach, the colored contours, of the Morrow sandstone
3 the primary objective of the subject well. The scale of the
4 map is one inch equals five thousand feet. The map covers
5 portions of Townships 18 South, Range 24 and 25 East, and
6 19 South, Range 24 and 25 east, Eddy County, New Mexico.

7 The colored well spots are coded as to the productive
8 horizons shown in the production legend. The numbered
9 notations next to the wells show Mississippian datum and
10 the Morrow sandstone thickness. The I.P.C.O.F. or D.S.T.
11 data in the Morrow sandstone wells are in small print next
12 to the significant wells.

13 As indicated on the map the east half of Section 24,
14 Township 18 South, Range 24 East, is offset by a Morrow
15 well that I.P.C.O.F. for twenty-two million eight hundred
16 and sixty-nine M.C.F. of gas per day and will be on stream
17 in the next few weeks.

18 The four point gauges indicated the possibility that
19 this offset well will go on stream at a high flow rate,
20 probably five million or more a day.

21 Q Before you go any further, Mr. Jeffers, what meaning
22 to you does this offsetting Gulf well have?

23 A Meaning to me?

24 Q Yes?

25 A Well, it indicates that there is a highly productive

sid morriss reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 Morrow sand as indicated by the contours on the map trending
2 across the subject acreage. If this well goes on stream in
3 the next month or so we will suffer immediate high volume
4 drainage in the event that we find the same sand at the
5 subject location.

6 Q What evidence do you have that the well will go on
7 stream within the next month?

8 A Communication with Gulf Oil Corporation employees
9 indicate that the well head and facilities are on location
10 awaiting pipeline connections.

11 Q Now, would you proceed with your testimony?

12 A Well, I covered the sandstone -- the Morrow isopach
13 indicates a thick sandstone across the subject acreage.
14 However, a considerable degree of risk is taken in predicting
15 Morrow reservoir rocks in the area and is indicated by offset
16 wells in the area being non-economic or dry holes in the
17 objective Morrow sandstones.

18 Wells in the north half of Section 20 and in the
19 South half of Section 28 and in the north half of Section 32,
20 Township 18 South, Range 25 East, are either marginal or
21 non-productive in the Morrow.

22 However, wells in Section 19 and the south half of
23 20 and the north half of 29 and the north half of 30 indicate
24 high capacity productive wells.

25 Q What are your thoughts with respect to the risk

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 facing Mesa and the other working interest owners that joined
2 with it in this well in drilling and completing this well
3 as a producer?

4 A Well, we feel that there is a fairly high degree of
5 risk in predicting Morrow sandstones in any circumstance.
6 However, we feel that closology is one of the prime prerequisites
7 for Morrow development.

8 I doubt if I will find any questioners of that in
9 the audience and we are getting as close as we can to the
10 Gulf well.

11 Q With respect to this Commission awarding a risk
12 factor, what does Mesa request?

13 A Two hundred percent penalty.

14 Q In your opinion will the approval of the application
15 be in the interest of conservation and the preservation of
16 waste and protection of correlative rights?

17 A I do.

18 Q Was this Exhibit Five prepared by you or under your
19 supervision?

20 A It was prepared by me.

21 Q Do you have any additional testimony which you wish
22 to make?

23 A Not at this time.

24 MR. EATON: We offer Applicant's Exhibit Five into
25 evidence.

sid morrish reporting service
General Court Reporting Service
925 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 MR. STAMETS: The exhibit will be admitted.

2 MR. EATON: I have no further questions of the
3 witness.

4 MR. STAMETS: Are there any questions of this
5 witness?

6 MR. CARR: I have a few.
7

8 CROSS EXAMINATION

9 BY MR. CARR:

10 Q Mr. Jeffers, looking at your Exhibit Number Five, it
11 appears to me that this seems to be a Morrow channel running
12 from the Antweil well in Section 29 to the northwest. Does
13 that seem to be a fair characterization?

14 A That's correct.

15 Q Your proposed location appears to be in the center
16 of what would be this channel, is that also correct?

17 A That is what we are attempting to do.

18 Q Based on the theory of closology you want to be
19 as close as you can be to the Gulf No. 2 in Section 19, as a
20 standard location, is that correct?

21 A That's correct.

22 Q And you still believe that this is a high risk
23 venture on your part?

24 A Yes. There is evidence there that the well in
25 Section 32, when it was drilled, it indicated that it would be

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 in the middle of the channel and after it was drilled it kind
2 of slipped out of it and so this can happen in any case,
3 in any Morrow test.

4 Q Now, the Bennett and Ryan well in Section 32 would
5 be on the south flank of the channel based on the other
6 completion?

7 A That's correct. However, when that well was being
8 drilled I had it in the channel.

9 Q What is the status of the Gulf Well No. 2, in
10 Section 19?

11 A It's preparing to go on production. It I.P.'d for
12 twenty-two million eight hundred sixty-nine cubic feet of
13 gas a day.

14 The four point gauges are on an eighteen sixty-fourth
15 choke that flowed three million eight hundred fifty-three
16 cubic feet of gas per day with a tubing pressure of twenty-
17 four fifty.

18 The final four point guage, it was flowing on a
19 twenty-eight sixty-fourth choke with a tubing pressure of
20 sixteen hundred and forty-five pounds at a rate of nine
21 million and twenty-two M.C.F. of gas per day.

22 Q I would like to direct your attention to the Gulf
23 No. 1 in Section 19, what has been the experience with that
24 well since it has initially been put on stream?

25 A That well came on stream at approximately one point

sid morrish reporting service

General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 nine million cubic feet per day. It is presently producing
2 as of yesterday at the rate of one point eight million per
3 day.

4 Q When was it initially put on stream?

5 A I don't know the date.

6 Q Approximately, a month ago?

7 A That's an assumption.

8 Q Okay. In your opinion has this well stabilized?

9 A I don't know. I have no data to go one way or the
10 other.

11 Q Would you anticipate that the Gulf Well, No. 2, in
12 that section might experience the same kind of decline as the
13 No. 1?

14 A Well, based on the difference in the I.P.'s I don't
15 anticipate that rapid of a decline and I feel like that in
16 all likelihood they will take it as fast as they can get it.

17 I might point out in the south half of 20, the
18 Antweil well there, No. 1 Penasco, I believe, was I.P.'d for
19 twenty-seven million and it has delivered over the past one
20 hundred and twenty days an average of five million cubic
21 feet of gas per day. I would anticipate that it is very
22 similar to the Gulf G.K. 2.

23 Q Is it safe to say that the Gulf experience in Section
24 19 was the incentive for the proposed drilling of the well
25 in Section 24?

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 A. We were thinking about drilling the well when
2 Antweil drilled the first well in the field and as the
3 development progressed towards our acreage we got happier and
4 happier.

5 Q. Would it also be safe to say that the more data you
6 can get on the well the happier or the less happy you might
7 become?

8 A. You never know. I might point out that the well
9 in the north half of Section 30 just I.P.F.'d for thirteen
10 point three million out of the same zone and it only had
11 sixteen feet of pay.

12 Q. If the Gulf No. 2 proves to be a better well than
13 it presently appears to be would that encourage you in regard
14 to your efforts in Section 24?

15 A. I am encouraged enough right now to be drilling the
16 well in Section 24 without any additional information from
17 Gulf.

18 Q. If it is better would you anticipate that your
19 well in 24 would be a better well? Would that be a sign of a
20 situation?

21 A. My assumption would be that it would have more feet
22 of sand. However, due to the high risk in the Morrow there
23 is a possibility that we may have less feet or none but we
24 have secondary objectives in the well that may take care of
25 any eventualities met.

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 Q If the Gulf No. 2 is put on stream, how rapidly would
2 you expect an affect on the proposed Mesa well assuming that
3 it was drilled, how long would you expect it to be before you
4 would realize a response in the offsetting wells?

5 A You will have to rephrase it, I don't understand your
6 question.

7 Q Okay. The Gulf No. 2 Well, is that a standard
8 location?

9 A As far as I know it is. I think it is probably a
10 stand up three twenty, I am not sure.

11 Q Would you expect immediate drainage of the acreage
12 to be dedicated to the well you are proposing to drill here
13 today?

14 A I would anticipate immediate draininge by the Gulf
15 well, yes.

16 Q What do you mean by immediate?

17 A In other words if they went on production for a few
18 months why they would be getting half of our gas.

19 Q The Gulf well is drilled at a structurally lower
20 position is that correct?

21 A It is anticipated that it is. However, we positioned
22 a well on the east side of the slight structural nose trending
23 from the northwest to the southeast looking at the map -- that
24 most of the wells are on the east side of that nose and we
25 were hesitant to move away from that location at this time.

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 Gulf is presently preparing to drill a well in the
2 south half of 18 and Amoco is preparing to drill a well in the
3 east half of Section 13, 18, 24 South, and Antweil has a
4 proposed well in there and we anticipate offsetting to the
5 south, the Yates Number 4AB Federal in Section 30, immediately
6 following the Lincoln State Comm.

7 Q At present there is no producing offsetting well?

8 A Are you saying the Gulf well is not now producing?

9 Q No. I am saying the well that you are proposing to
10 drill in Section 24 there is no -- at the present time there
11 is no producing offset?

12 A That is correct.

13 Q I am not trying to say that the Gulf well is not
14 going on.

15 A I anticipate that by the time that we get to T.D.
16 that the Gulf well will be on stream.

17 MR. CARR: I have no further questions.

18 MR. STAMETS: Ms. Teschendorf?

19

20

CROSS EXAMINATION

21 BY MS. TESCHENDORF:

22 Q I have one question. Mr. Jeffers, given your
23 testimony about the Gulf No. 2 in Section 19 to the east of
24 your proposed location, is it your opinion that unless a well
25 is drilled in the east half of Section 24 that the correlative

sid morrison reporting service
General Court Reporting Service
825 Calle Mijia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 rights of the interest owners in that acreage would be
2 violated?

3 A. I do.

4 MR. STAMETS: Any other questions? The witness may
5 be excused.

6 (THEREUPON, the witness was excused.)

7 MR. EATON: The applicant rests.

8 MR. STAMETS: Mr. Carr?

9 MR. CARR: I will call Mr. Doug Hanley.

10
11 A. W. HANLEY

12 was called as a witness by the protestants, and having been
13 first duly sworn, testified upon his oath as follows, to-wit:

14
15 DIRECT EXAMINATION

16 BY MR. CARR:

17 Q Mr. Hanley, will you state your full name and place
18 of residence?

19 A A. W. Hanley, Midland, Texas, and I am the District
20 Landman with Marathon Oil Company.

21 Q Have you previously testified before this Commission
22 and had your credentials accepted and made a matter of
23 record?

24 A Yes, I have.

25 Q Do you also hold a degree in Petroleum Engineering?

sid morriss reporting service
General Court Reporting Service
825 Calle Mijia, No. 172, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 A. Mechanical Engineering.

2 Q. Are you familiar with the application of Mesa
3 Petroleum in this case?

4 A. Yes.

5 Q. Do your duties with Marathon include dealing with
6 other companies when they are proposing to drill other wells?

7 A. Yes.

8 Q. And you were the contact person with whom Mesa
9 should deal in this matter?

10 A. Yes.

11 Q. When did you first learn of Mesa's plan to drill a
12 well?

13 A. When I received on March the 9th Mesa's letter --
14 excuse me, when I received Mesa's letter of January 6th in
15 our Midland office on January the 9th.

16 Q. Did this give you any indication as to when they
17 actually intended to spud the well?

18 A. Well, only as mentioned in there and has been brought
19 out in previous testimony as a first quarter proposal.

20 Q. Following the correspondence received on January 9th
21 did you communicate with Mesa concerning this proposal?

22 A. I talked to Mesa's representative about this and
23 advised him that we were taking the proposal under consideration.

24 Q. How does this proposal affect Marathon's plans for
25 development in the area?

sid morrish reporting service

General Court Reporting Service
825 Calle Mejia, No. 172, Santa Fe, New Mexico 87501
Phone (505) 982-9212

sid norrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 A. This would be a non-budget item.

2 Q. This is not an item that you have --

3 A. In our budget -- 1978 budget, no, sir.

4 Q. What interest would Marathon have in the well?

5 A. Three sixteenths or eighteen point seven-five
6 percent.

7 Q. And your share of the drilling costs would be what?

8 A. Based on their preliminary figures mentioned in
9 this January 6th letter, dry hole costs of fifty-eight thousand
10 and completed well costs eighty-nine thousand.

11 Q. Why is it that Marathon is reluctant to join in the
12 drilling of this well?

13 A. Well, as stated in our letter we feel that by
14 observing or securing more information on offsetting wells
15 we could better evaluate the possibilities of this.

16 Q. How long do you think it would take to obtain
17 sufficient data to make a factual evaluation?

18 A. Well, very possibly ninety days' production on the
19 Gulf No. 2 could give you a lot of information.

20 Q. Now, you are familiar with the general area that we
21 are talking about here today?

22 A. Yes.

23 Q. And you heard Mr. Jeffers' testimony?

24 A. Right.

25 Q. In your opinion and based on the information that you

1 have to date, what sort of a deposition or situation do you
2 think the Mesa well will be drilling to?

3 A. A channel situation.

4 Q. Now, based on the information presented by Mr.
5 Jeffers, do you consider this to be a high risk prospect?

6 A. No, sir.

7 Q. Could you recommend to the Examiner what you would
8 consider to be a reasonable risk factor?

9 A. Well, I think reasonable -- a reasonable risk, would
10 not exceed one hundred percent.

11 Q. Do you have anything further to add to your
12 testimony?

13 A. No. Mr. Jeffers brought out the other two locations
14 staked to the north and east by Gulf and Yates -- I believe
15 it is Yates and Amoco State, not Amoco, which wells could add
16 to the available information in this immediate area.

17 Q. But your real problem is that you just simply are
18 in a time crunch and the information is such that you have
19 a hard time --

20 A. This is proposed as a first quarter proposal but it
21 wasn't proposed until after the commencement of the first
22 quarter, actually.

23 Q. When you receive a letter saying that a person proposes
24 to drill a well in the first quarter does that actually mean
25 that they are going to drill at that time?

sid morrish reporting service

General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 A. That would be strictly an opinion.

2 MR. CARR: I have no further questions of Mr.
3 Hanley on direct.

4 MR. STAMETS: Any questions of this witness?

5 MR. EATON: Yes, sir.

6

7

CROSS EXAMINATION

8 BY MR. EATON:

9 Q Mr. Hanley, is Marathon's acreage held by production?

10 A It's extended by a portion of it being included in
11 a communitization agreement covering the east half of
12 Section 22.

13 Q Was there a producing well?

14 A Yes, sir, there is on that communitized portion.

15 Q So, as a consequence Marathon's lease is held by
16 production?

17 A That's right.

18 Q Would that be one reason why Marathon does not feel
19 that it is under any pressure to make a decision on whether
20 or not to drill?

21 A The only thing that I can say to that is that we do
22 not have an exploration problem in the next few months on this
23 lease. No, sir, we do not have.

24 Q Now, the January 6th letter said, did it not, that
25 the test well will be drilled in the first quarter?

sid morrish reporting service
General Court Reporting Service
825 Calle Maja, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 A. That is what it said, yes, sir, will be commenced
2 immediately following the completion of the necessary
3 paperwork and during the first quarter of 1978.

4 Q. Now, you mentioned that this well is a non-budget
5 well?

6 A. Yes, sir.

7 Q. What do you mean by that?

8 A. It was not included in our 1978 budget projects.

9 Q. Is that the reason why you have not consented to
10 join in the drilling of the well?

11 A. I cannot say that. It was not a 1978 budget and it
12 was not anticipated and therefore it had to be considered
13 from the start, when we received the proposal.

14 Q. Has it been considered from the start?

15 A. Yes, sir, it has and we have responded.

16 Q. By declining to join in the drilling of the well at
17 this time?

18 A. We preferred to defer, yes, sir.

19 Q. And I believe your testimony was that you want to
20 get more information from other wells in the area before
21 making the final decision?

22 A. That is what our response indicated, yes.

23 Q. And that is why this is a risky venture?

24 A. No, sir, not necessarily. We specifically mentioned
25 in our response the Gulf offsetting well to the east, the

sid morriss reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 No. 2 GK, which was not -- it was, I think -- at the time we
2 received this proposal that well was in the final stages of
3 being completed. We did not even have a C.A.O.F. on it.

4 Q Do you consider Yates Petroleum and Northern Natural
5 Gas Company to be competent and knowledgeable operators in
6 the area?

7 A Yes, sir. I might add one thing if I may, we have
8 never been definitely advised that Yates has indicated that
9 they would join in this proposal.

10 We have a copy of Northern Natural's response but not
11 from Yates.

12 Q Do you know now that Yates has --

13 A Well, I would presume that that is true. I notice on
14 the final copy of the A.F.E. that Marathon has since been
15 deleted and Northern Natural, Yates and Mesa have proportionately
16 shared Marathon's portion.

17 MR. EATON: No further questions.

18 MR. STAMETS: Any questions on redirect?

19
20 REDIRECT EXAMINATION

21 BY MR. CARR:

22 Q Mr. Hanley, does Marathon have any wells in the
23 immediate area?

24 A Not in this immediate area.

25 Q Unlike Yates that does?

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 A. Yates does, yes, sir.

2 Q. When did you receive notice of this hearing?

3 A. I, by specific request to Mesa, I was given a copy
4 of the first draft -- let's see when I got it -- March 10th.
5 That's the only notice, actually, of a hearing from Mesa.

6 Q. And you requested that?

7 A. Yes.

8 MR. CARR: I have no further questions.

9 MR. STAMETS: Any other questions of this witness?

10 He may be excused.

11 (THEREUPON, the witness was excused.)

12 MR. STAMETS: Anything further, Mr. Carr?

13 MR. CARR: A short statement.

14 MR. STAMETS: I would like to go off the record a
15 moment.

16 (THEREUPON, the hearing was in recess.)

17 MR. STAMETS: Back on the record. Do you have anything
18 further, Mr. Eaton?

19 MR. EATON: No further witnesses.

20 MR. STAMETS: Mr. Carr, you had a closing statement?

21 MR. CARR: Mr. Examiner, the problem we have here
22 is simply that it is not that Marathon is unwilling or that
23 we do not desire to join in the drilling of this well. It is
24 simply that we are in a time bind, the date that they have
25 received -- and the discovery that the matter was actually set

sid norrish reporting service
General Court Reporting Service
825 Calle Mijila, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 for hearing and that delay, through no fault of their own,
2 have put them in a position where it is difficult, one, to
3 evaluate whether or not they should come in, and two, is the
4 budgetary problem.

5 I feel the way the case has been brought really
6 denies to Marathon the opportunity to take advantage of the
7 best information that will be available when there is more
8 data on the two Gulf wells located in the section immediately
9 to the east of the section involved in this hearing.

10 I also point out that a delay wouldn't result in
11 serious drainage problems and no leases were expiring but
12 the real time constraint is probably more an outgrowth of
13 their rig scheduling activity than anything else.

14 We would request that we be given the standard thirty
15 days or a reasonable time within which to join or to make
16 our decision.

17 Secondly, Mr. Jeffers' testimony shows that the well
18 is being drilled in what appears to be a channel in the Morrow
19 and the well is to be drilled dead center and they are
20 anxious to drill the well even before they get complete data
21 on the offsetting wells and it would seem to us that all of
22 this when you read it together is that this is not a high
23 risk venture and that a two hundred percent risk factor, even
24 in the Morrow, is unreasonable and that something of one hundred
25 percent or less certainly would appropriately square with the

sid norrish reporting service

General Court Reporting Service
825 Calle Mijia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 evidence that has been presented here today.

2 I have nothing further.

3 MR. STAMETS: Mr. Eaton?

4 MR. EATON: Mr. Examiner, to reiterate, Marathon was
5 advised on or about January the 6th that a well would be
6 drilled in the first quarter. They were advised at that time
7 of the estimated cost and on February 24th Marathon was further
8 advised that the well would be drilled prior to April the
9 1st. At that time it was submitted an A.F.E. The other
10 working interest owners, Yates and Northern Natural, apparently
11 have taken the position that, yes, they want to join in the
12 drilling of this well. That it is not too early to drill it.

13 We feel that the contention that Marathon really
14 hasn't had time to consider this is not well taken. We feel that
15 we are entitled to an order force pooling the interests. That
16 in view of the fact that the well has been commenced and
17 commenced within the time that Marathon had been advised that
18 it should be that the order should provide for Marathon to
19 immediately pay the estimated well costs or else to go on to
20 consent, so to speak.

21 MR. STAMETS: Mr. Eaton, what do you think that
22 immediate is, fifteen days?

23 MR. EATON: It depends on when the order is entered,
24 Mr. Examiner. The testimony shows that the well will be
25 down approximately thirty days from March 18th or roughly

sid morrish reporting service
General Court Reporting Service
825 Calle Mojia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 April the 18th.

2 It seems to me that out of complete fairness,
3 Marathon is going to have to make its decision, or forced to
4 make its decision, before the well reaches the objective
5 depth.

6 All I can say is that fifteen days may be fine
7 depending on when the order comes out.

8 MR. STAMETS: If there is nothing further the case
9 will be taken under advisement.

10 (THEREUPON, the case was concluded.)
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a Certified Shorthand Reporter,
do hereby certify that the foregoing and attached Transcript
of Hearing before the New Mexico Oil Conservation Commission
was reported by me, and the same is a true and correct record
of the said proceedings to the best of my knowledge, skill
and ability.

Sidney F. Morrish
Sidney F. Morrish, C.S.R.

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 962-9212

do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 6184
heard by me on 3-22, 1978.
Richard L. Blum, Examiner
New Mexico Oil Conservation Commission

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

CASE NO. 6184
Order No. R-5687

APPLICATION OF MESA PETROLEUM
COMPANY FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on March 22, 1978, at Santa Fe, New Mexico, before Examiner, Richard L. Stamets.

NOW, on this 18th day of April, 1978, 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, Mesa Petroleum Company, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the E/2 of Section 24, Township 18 South, Range 24 East, NMPM, Eddy County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(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 interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

(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.

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

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

(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 paid estimated well costs exceed reasonable well costs.

(11) That \$2000.00 per month while drilling and \$225.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges 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.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before June 1, 1978, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the E/2 of Section 24, Township 18 South, Range 24 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of June, 1978, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of June, 1978, Order (1) of this order shall be null and void and of no effect whatsoever; unless said operator obtains a time extension from the Director of the Oil Conservation Division of the New Mexico Energy and Minerals Department for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division and show cause why Order (1) of this order should not be rescinded.

(2) That Mesa Petroleum Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 15 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 Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 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, 200 percent 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.

(9) That \$2000.00 per month while drilling and \$225.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges 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 such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered 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 interest's 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 Division 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 Division may deem necessary.

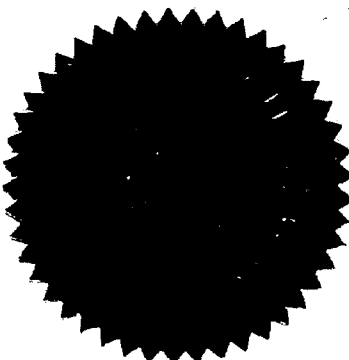
-5-

Case No. 6184

Order No. R-5687

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


Phil R. Lucero
PHIL R. LUCERO, Chairman

EMERY C. ARNOLD, Member

Joe D. Ramey
JOE D. RAMEY, Member & Secretary

S E A L

jr/



OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501



DIRECTOR
JOE D. RAMEY

LAND COMMISSIONER
PHIL R. LUCERO
April 19, 1978

STATE GEOLOGIST
EMERY C. ARNOLD

Mr. Paul Eaton
Hinkle, Cox, Eaton,
Coffield & Hensley
Attorneys at Law
Post Office Box 10
Roswell, New Mexico 88201

Re: CASE NO. 6184
ORDER NO. R-5687


Applicant:

Mesa Petroleum Company

Dear Sir:

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

Yours very truly,

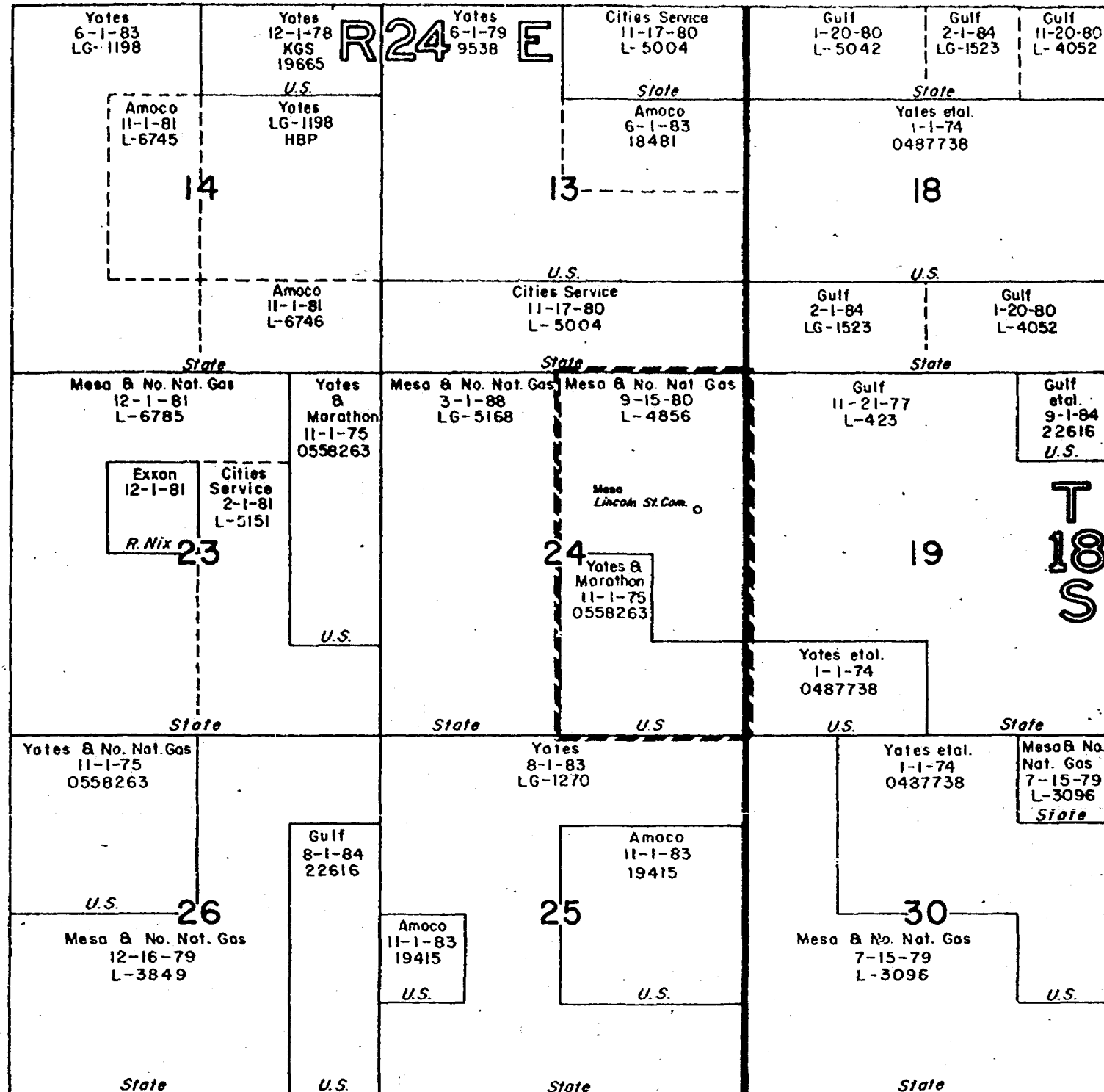

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC

Other William F. Carr



BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
EXHIBIT NO. 1
CASE NO. 6184

MESA
PETROLEUM CO.
PERMIAN BASIN DIVISION

CASS RANCH PROSPECT

DRAWN BY D.H.
DATE 3-15-78
SCALE 1" = 2000'

January 6, 1978



Letter mailed to Northern Natural Gas Company, Marathon Oil Company and Yates Petroleum Company

Copy: CG, MEC, JJ & MPN

RECEIVED
COLLECTION

6184 2

Re: #1 Lincoln State Com, 8800' Morrow Test
E_{1/2} Section 24-18S-24E
Eddy County, New Mexico
Mesa OP 05-NM-0764-5

Gentlemen:

Mesa, as Operator, proposes to drill the captioned well at a location 1980' FNL and 660' FEL of Section 24. The test well, located on the communitized E_{1/2} of said Section 24, will be commenced immediately following completion of necessary paper work and during first quarter 1978. According to our information, ownership within the above described well spacing unit is as follows:

Company	Net Acres	Participation
Northern Natural Gas Company	100	31.25%
Marathon Oil Company	60	18.75%
Yates Petroleum Company	60	18.75%
Mesa Petroleum Co.	100	31.25%

We estimate a dry hole cost of \$310,000 and completed well cost of \$475,000; however, a detailed well cost estimate AFE will be furnished promptly following your response to this proposal. We plan to use the AAPL Model Form Operating Agreement - 1977 and COPAS 1974 with appropriate Exhibits and minor changes. In this connection, if you concur in the proposal, please furnish copies of your lease/title data for our use in preparing the operating agreement. Please advise if there are any questions.

Very truly yours,

Robert H. Northington

Robert H. Northington

RHN:hh

*Current
costs
est.*

*{ 302 700
440 800 }*

*Sent copy to
Marathon & Yates
w/ note asking
for response.
2-3-78*

February 24, 1978



Letter mailed to Northern Natural Gas Company, Marathon Oil Company
and Yates Petroleum Company

BCC: CPG: MEC: JJ: MPH

Re: #1 Lincoln State Com, 8800' Morrow Test
E₁ Section 24-18S-24E
Eddy County, New Mexico
Mesa OP 05-NM-0764-5

NEW STATEMENTS
SECTION 24-18S-24E
E₁ 3
6184

Gentlemen:

With reference to our proposal letter of January 6, 1978, this is to provide a status report and ask for your cooperation in proceeding toward commencement of the test well. As you are likely aware, the W₁ of Section 24-18S-24E was purchased at the February State of New Mexico sale by Northern Natural Gas Company and Mesa Petroleum Co. We are now prepared to move forward and expect to commence the test well prior to April 1, 1978.

Enclosed for your consideration are the proposed Operating Agreement/Accounting Procedure and preliminary Drilling Cost Estimate AFE. The final AFE, identical to the one furnished herewith but executed by Mesa management, will be forwarded within the next week or so.

If in order, please execute and return four sets of the enclosed signature/acknowledgment pages to the Operating Agreement.

Please advise if there are any questions.

Very truly yours,

Robert H. Northington
Robert H. Northington

RHN:wp

Enclosures



**Marathon
Oil Company**

P.O. Box 552
Midland, Texas 79702
Telephone 915/682-1626

RECEIVED

MAR 2 1978

MESA - PBD

March 2, 1978

Mesa Petroleum Co.
1000 Vaughn Building
Midland, Texas 79701

Attention: Mr. Robert H. Northington

Gentlemen:

OP 05-NM-0764-5

Re: Our Lease NM-1983 - U. S. Lease NM-9558263-A
Eddy County, New Mexico

Your letter of January 6, 1978, proposed drilling of your #1 Lincoln State Com well as an 8,800 foot Morrow test 1,980 feet from the North line and 660 feet from the East line of Section 24, T-18-S, R-24-E, N.M.P.M., Eddy County, New Mexico, under a communitization agreement to cover the E₂ of said Section 24. Marathon's subject lease covers an undivided 50% interest in NW $\frac{1}{4}$ SE $\frac{1}{4}$ and S $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 24 for a resultant interest of 18.75%.

We appreciate being offered the opportunity to participate in this proposal; however, our decision as to participation in such a well will be deferred until more information is available on nearby wells, including Gulf's recently completed east offset.

Yours very truly,

MARATHON OIL COMPANY

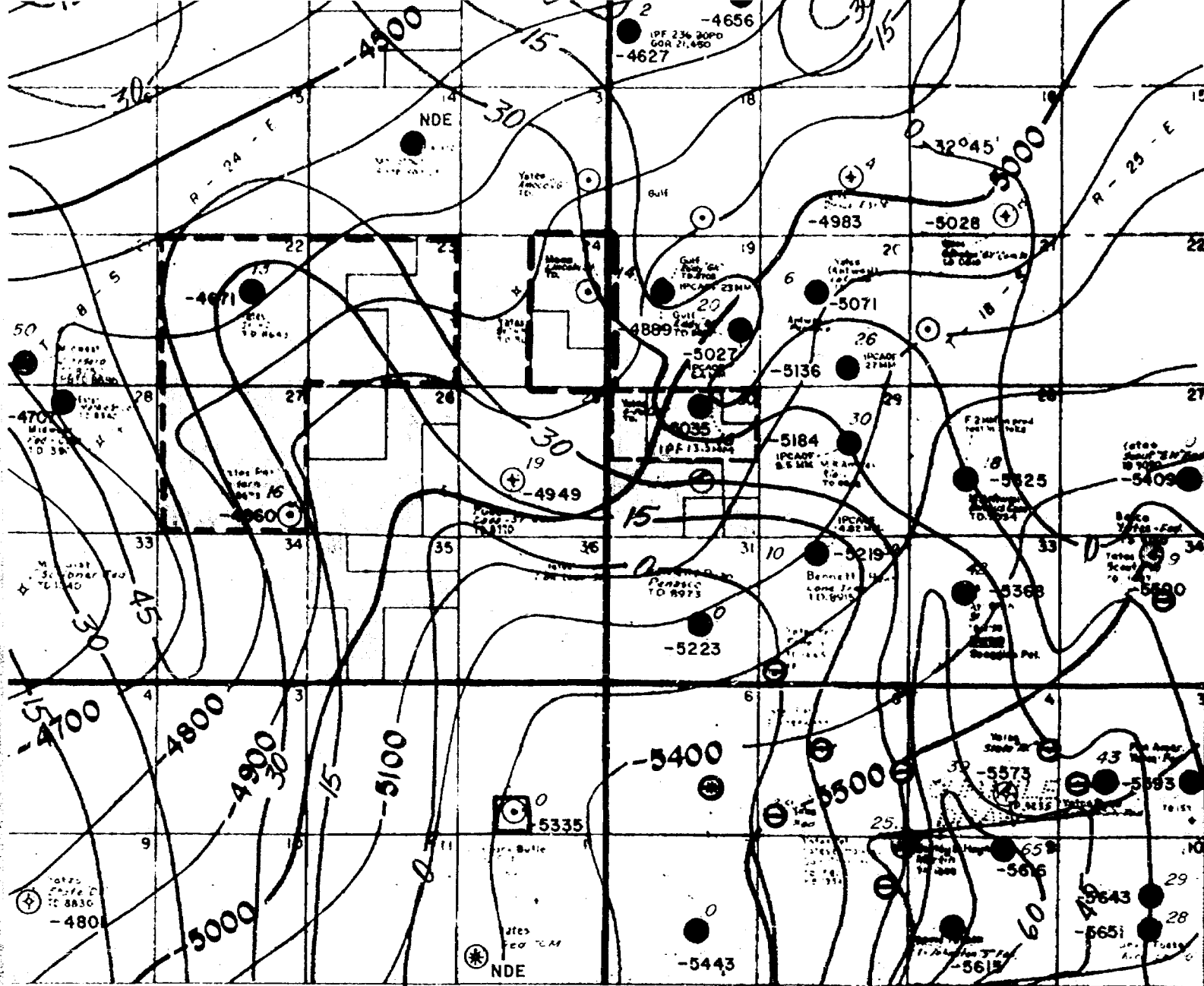
A. W. Hanley
A. W. Hanley
District Landman

AWH:dr

cc: Northern Natural Gas Company
401 Wall Towers West
Midland, Texas 79701
Attention: Mr. C. F. Keller

Yates Petroleum Corporation
207 South Fourth Street
Artesia, New Mexico 88210
Attention: Mr. Jack McCaw

*Maxim
Joe Robin -
We should get ready
for comp pooling of
this interest - on
NMOC docket for
March 22, 1978.
RJM
3-2-78*



PRODUCTION CODE

- ⊖ San Andres
- ⊙ Yeso
- Wolfcamp
- Cisco-Canyon
- Atoka
- Morrow A-I
- Morrow B-II
- Morrow B-III

**BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION**

EXHIBIT NO. 5
CASE NO. 6184
Submitted by _____
Hearing Date _____



MESA
PETROLEUM CO.
FERMIAN BASIN DIVISION



CASS RANCH PROSPECT

Eddy County, New Mexico

STRUCTURE
Top/Mississippian
C.I. = 100'

ISOPACH
Morrow A-I
C.I. = 15'

Blue

BY J.W.J.
DATE 3-10-78

DRAWN BY T.O.M.
SCALE 1" = 5000'

CASE 6184: Application of Mesa Petroleum Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the E/2 of Section 24, Township 18 South, Range 24 East, Eddy County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6185: (This Case will be dismissed)

Application of Mesa Petroleum Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the W/2 of Section 32, Township 18 South, Range 35 East, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6186: Application of Sun Production Company for a non-standard gas proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 320-acre non-standard gas proration unit comprising the NE/4 of Section 20 and the NW/4 of Section 21, both in Township 22 South, Range 36 East, Jalmat Gas Pool, Lea County, New Mexico, to be dedicated to applicant's Boren & Greer Gas Unit Well No. 2 to be located 890 feet from the North line and 1780 feet from the West line of said Section 21.

CASE 6187: Application of Centinental Oil Company for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Blinbry and Drinkard production in the wellbore of its Hawk B-1 Well No. 1 located in Unit F of Section 9, Township 21 South, Range 37 East, Lea County, New Mexico.

CASE 6170: Application of Aminoil USA, Inc., for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for its Westlake Unit Area comprising 1920 acres, more or less, of State lands in Township 24 South, Range 33 East, Lea County, New Mexico.

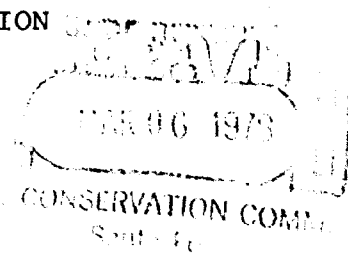
CASE 6188: Application of Sam D. Ares for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Seven Rivers formation through the open-hole interval from 3465 feet to 3497 feet in his Zattu Cushing Well No. 1 located in Unit F of Section 25, Township 24 South, Range 36 East, Jalmat Gas Pool, Lea County, New Mexico.

CASE 6189: Application of Merrion & Bayless for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Pictured Cliffs and Mesaverde production in the wellbore of its North Lindrith Com Well No. 2, to be drilled in the NW/4 of Section 20, Township 26 North, Range 2 West, Rio Arriba County, New Mexico.

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF MESA PETROLEUM)
CO. FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)



Mesa Petroleum Co., by its undersigned attorneys, hereby makes application for an order pooling all mineral interests in the Pennsylvanian formation underlying the E $\frac{1}{2}$ Section 24, Township 18 South, Range 24 East, N.M.P.M., Eddy County, New Mexico, and in support thereof would show:

1. Applicant is the owner of an oil and gas leasehold interest in the NE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 24, Township 18 South, Range 24 East, N.M.P.M. Northern Natural Gas Company, Yates Petroleum Company and Marathon Oil Company are the owners of the remaining oil and gas leasehold interests in the E $\frac{1}{2}$ Section 24, Township 18 South, Range 24 East, N.M.P.M.

2. Applicant proposes to drill a well 1,980 feet from the north line and 660 feet from the east line of said Section 24 to a depth sufficient to test the Morrow formation and seeks to dedicate the ^{E $\frac{1}{2}$} ~~W $\frac{1}{2}$~~ of said Section 24 to the well. Applicant has requested owners of the other oil and gas leasehold interests to join in the drilling of the well, but they have so far refused to do so.

3. The pooling of all mineral interests in the Pennsylvanian formation in the ^{E $\frac{1}{2}$} ~~W $\frac{1}{2}$~~ of said Section 24 will avoid the drilling of unnecessary wells, prevent waste and protect correlative rights.

4. Applicant requests that the Oil Conservation Commission consider the cost of drilling and completing said well, the proper allocation of said costs as well as actual operating costs, charges for supervision and charges for the risk involved in drilling a well. Applicant also requests that it be designated as operator of the well.

5. Applicant requests that this matter be heard at the March 22, 1978 examiner's hearing.

HINKLE, COX, EATON, COFFIELD & HENSLEY

By


P. O. Box 10

Roswell, New Mexico 88201

Attorneys for Mesa Petroleum Co.

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF MESA PETROLEUM)
CO. FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)

RECEIVED
FEB 06 1973
OIL CONSERVATION COMMISSION

Mesa Petroleum Co., by its undersigned attorneys, hereby makes application for an order pooling all mineral interests in the Pennsylvanian formation underlying the E $\frac{1}{2}$ Section 24, Township 18 South, Range 24 East, N.M.P.M., Eddy County, New Mexico, and in support thereof would show:

1. Applicant is the owner of an oil and gas leasehold interest in the NE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 24, Township 18 South, Range 24 East, N.M.P.M. Northern Natural Gas Company, Yates Petroleum Company and Marathon Oil Company are the owners of the remaining oil and gas leasehold interests in the E $\frac{1}{2}$ Section 24, Township 18 South, Range 24 East, N.M.P.M.

2. Applicant proposes to drill a well 1,980 feet from the north line and 660 feet from the east line of said Section 24 to a depth sufficient to test the Morrow formation and seeks to dedicate the W $\frac{1}{2}$ of said Section 24 to the well. Applicant has requested owners of the other oil and gas leasehold interests to join in the drilling of the well, but they have so far refused to do so.

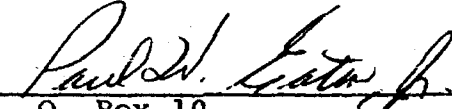
3. The pooling of all mineral interests in the Pennsylvanian formation in the W $\frac{1}{2}$ of said Section 24 will avoid the drilling of unnecessary wells, prevent waste and protect correlative rights.

4. Applicant requests that the Oil Conservation Commission consider the cost of drilling and completing said well, the proper allocation of said costs as well as actual operating costs, charges for supervision and charges for the risk involved in drilling a well. Applicant also requests that it be designated as operator of the well.

5. Applicant requests that this matter be heard at the March 22, 1978 examiner's hearing.

HINKLE, COX, EATON, COFFIELD & HENSLEY

By



P. O. Box 10

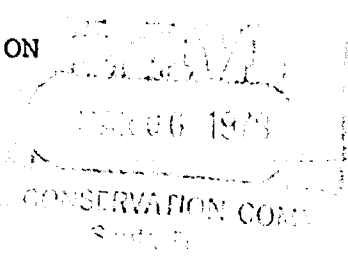
Roswell, New Mexico 88201

Attorneys for Mesa Petroleum Co.

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

APPLICATION OF MESA PETROLEUM)
CO. FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)



Mesa Petroleum Co., by its undersigned attorneys, hereby makes application for an order pooling all mineral interests in the Pennsylvanian formation underlying the E $\frac{1}{2}$ Section 24, Township 18 South, Range 24 East, N.M.P.M., Eddy County, New Mexico, and in support thereof would show:

1. Applicant is the owner of an oil and gas leasehold interest in the NE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 24, Township 18 South, Range 24 East, N.M.P.M. Northern Natural Gas Company, Yates Petroleum Company and Marathon Oil Company are the owners of the remaining oil and gas leasehold interests in the E $\frac{1}{2}$ Section 24, Township 18 South, Range 24 East, N.M.P.M.

2. Applicant proposes to drill a well 1,980 feet from the north line and 660 feet from the east line of said Section 24 to a depth sufficient to test the Morrow formation and seeks to dedicate the W $\frac{1}{2}$ of said Section 24 to the well. Applicant has requested owners of the other oil and gas leasehold interests to join in the drilling of the well, but they have so far refused to do so.

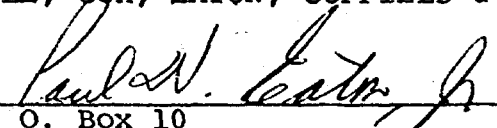
3. The pooling of all mineral interests in the Pennsylvanian formation in the W $\frac{1}{2}$ of said Section 24 will avoid the drilling of unnecessary wells, prevent waste and protect correlative rights.

4. Applicant requests that the Oil Conservation Commission consider the cost of drilling and completing said well, the proper allocation of said costs as well as actual operating costs, charges for supervision and charges for the risk involved in drilling a well. Applicant also requests that it be designated as operator of the well.

5. Applicant requests that this matter be heard at the March 22, 1978 examiner's hearing.

HINKLE, COX, EATON, COFFIELD & HENSLEY

By


P. O. Box 10

Roswell, New Mexico 88201

Attorneys for Mesa Petroleum Co.

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. 6184

Order No. R-5687

APPLICATION OF MESA PETROLEUM COMPANY
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on March 22, 1978
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this day of , 1978 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, Mesa Petroleum Company,
seeks an order pooling all mineral interests ~~of~~ Pennsylvanian
formation underlying the E/2
of Section 24, Township 18 South, Range 24 East,
NMPM, Eddy County, New
Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(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 interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

(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.

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

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

(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 paid estimated well costs exceed reasonable well costs.

#225000 per month while producing

(11) That _____ per month should be fixed as a reasonable charge for supervision (combined fixed rates); 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.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before June 1, 1978, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the E/2 of Section 24, Township 18 South, Range 24 East, NMPM, _____, Eddy County, New Mexico, are hereby pooled to form a standard 320- acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of June, 1978, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of June, 1978, Order (1) of this order shall be null

and void and of no effect whatsoever; unless said operator obtains a time extension from the Director of the Oil Conservation Division of the New Mexico Energy and Minerals Department for good cause shown.

Case No.
Order No. R-

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the ^{Division}~~Commission~~ and show cause why Order (1) of this order should not be rescinded.

(2) That Mesa Petroleum Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order ~~and within 30 days prior to commencing said well~~, the operator shall furnish the ^{Division}~~Commission~~ and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within ¹⁵~~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 ^{Division}~~Commission~~ and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the ^{Division}~~Commission~~ and the ^{Division}~~Commission~~ has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the ^{Division}~~Commission~~ will determine reasonable well costs after public notice and hearing.

(6) That within 60 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, 200 percent 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.

\$2000.00 per month while drilling and \$225.00 per month while producing are
(9) That per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges 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 such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered 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 ^{Division} ~~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 ^{Division} ~~Commission~~ may deem necessary.

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

H. H. NM
Oil Conservation Commission
Lucero Chairman
Arnold Member
Famey ^{Secretary} and
Division Director

Case 6184

Mesa Petroleum Co.
Compulsory pooling, Eddy
County
all mineral interests
in the Pennsylvanian
formation
E/2 of Sec. 24,
T18S, R24E
standard location

Called in by Paul Eaton
2-28-78

Mesa Pet. Co. }
1000 Vaughn Bld. } 10
Midland, Tex 79701 }
attention R. H. Northington