

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
August 29, 1962

EXAMINER HEARING

FARMINGTON, N. M.
PHONE 325-1182

DEARNLEY-MEIER REPORTING SERVICE, Inc.

ALBUQUERQUE, N. M.
PHONE 243-6691

IN THE MATTER OF:)

Application of Cactus Drilling Company for a)
non-standard gas unit, Lea County, New Mexico.)
Applicant, in the above-styled cause, seeks)
the establishment of a 120-acre non-standard)
gas unit comprising the E/2 NE/4 and NW/4 of)
Section 11, Township 18 South, Range 38 East,)
Arkansas Junction-Queen Gas Pool, Lea County,)
New Mexico.)

CASE 2622

BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

MR. NUTTER: Call Case 2622. Is there anyone present
from Cactus Drilling Company?

MR. DURRETT: Mr. Examiner, at this time, since there
doesn't seem to be anyone present from Cactus Drilling Company,
we'll move to have this case continued until the next Examiner
Hearing.

MR. NUTTER: This case will be continued to the next
Examiner Hearing, which is going to be at this same place on
September 27, 1962.

(Whereupon, the hearing was adjourned.)



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STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached transcript of proceedings was reported by me in stenotype and that the same was reduced to typewritten transcript under my personal supervision and contains a true and correct record of said proceedings, to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal this 9th day of October 9, 1962, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

Ada Dearnley

NOTARY PUBLIC

My Commission Expires:
June 19, 1963.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 2622 heard by me on Aug 27, 1962.
Arthur, Examiner
New Mexico Oil Conservation Commission



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BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

September 27, 1962

EXAMINER HEARING

IN THE MATTER OF:

(Continued) Application of Cactus
Drilling Company for a non-standard
gas unit, Lea County, New Mexico.
Applicant, in the above-styled cause,
seeks the establishment of a 120-acre
non-standard gas unit comprising the
E/2 NE/4 and NW/4 NE/4 of Section 11,
Township 18 South, Range 36 East,
Arkansas Junction-Queen Gas Pool, Lea
County, New Mexico.

Case No. 2622

BEFORE: Elvis A. Utz, Examiner

TRANSCRIPT OF HEARING

EXAMINER UTZ: Case 2622.

MR. DURRETT: Application of Cactus Drilling Company
for a non-standard gas unit, Lea County, New Mexico.

MR. MORRIS: Richard Morris of Seth, Montgomery, Federick
and Andrews, Santa Fe, New Mexico, on behalf of Cactus Drilling
Company. We would offer one witness, Mr. Jim Sharp , ~~whom~~ we
would like to have sworn, please.

EXAMINER:UTZ: Are there other appearances in this case?



You may swear the witness.

(Witness sworn.)

JIM SHARP,

called as a witness, having been first duly sworn on oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. MORRIS:

Q Mr. Sharp, will you state your name and position for the record, please?

A I am Jim L. Sharp. I am a geologist with the Cactus Drilling Company in Hobbs, New Mexico.

Q Have you ever testified before the New Mexico Oil Conservation Commission or one of its examiners?

A No, sir, I haven't.

Q Mr. Sharp, would you briefly outline your education and experience in the oil business for the Commission, for the Examiner?

A I graduated from Texas Tech in 1955 with a petroleum geology degree and after graduating, went to work for Pan American Petroleum Company in Roswell and was associated with them for five years in Roswell and Lubbock, Texas. I left them in 1960 to go to work for the Cactus Drilling Company as a geologist.

Q Did you do general geological work with Pan American?

A Yes, sir.

Q Mr. Sharp, are you familiar with the application of



the Cactus Drilling Company in Case 2622?

A Yes, sir, I am.

MR. MORRIS: Mr. Examiner, may Mr. Sharp testify as an expert witness in this case?

EXAMINER UTZ: Yes, sir, he may.

(Whereupon Applicant's Exhibit No. 1 marked for identification.)

Q (by Mr. Morris) Referring first, Mr. Sharp, to what has been marked as Applicant's Exhibit No. 1 in this case, would you state to the Examiner what that exhibit shows?

A That is a land replat map showing Township 18 South, Range 36 East in Lea County, New Mexico, outlining the known limits of the Arkansas Junction-Queen Gas Pool in green. Of course, this is, as I say, the known limits and further drilling could show a larger field. There is a well now producing in the field. The 160 acres in question is colored in yellow with the Catherine State No. 1-B Well pointed out in it; that is in the Northeast of the Northeast of Section 11 in this 160 acres.

Q Will you identify more specifically the Catherine State Well No. 1-B as to its location?

A It's in the Northeast of the Northeast of Section 11, Township 18 South, Range 36 East, Lea County, New Mexico.

Q This plat also shows the location of other wells in the Arkansas Junction-Queen Gas pool, does it not?

A Right now there are twelve wells, gas wells, producing

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now with two locations having now been staked. I don't believe they have been started yet. One is a Gulf well and one Tide-water. They probably haven't been started yet.

Q Your well, the Catherine State Well No. 1-B, that was the discovery well in this pool?

A Yes, sir, it was. We originally showed the well on the outline. We showed two locations west out of the top of the Queen, at the time, and drilling a little deeper, we ran into the lower well, the gas section; and consequently, we did not have the 160 acres tied up before we drilled the well.

(Whereupon Applicant's
Exhibit No. 2 marked
for identification.)

Q Now, referring to what has been marked as Applicant's Exhibit No. 2 in this case, would you state to the Examiner what that exhibit shows?

A That exhibit shows Section 11 of Township 18, Range 36, especially the Northeast quarter, ownership there being 80 acres drilled by the Cactus Drilling Company. Forty acres are by us committed and the remaining forty by Continental.

Q Now, the eighty acres is in the East half of the quarter?

A The East half of the Northeast.

Q You say Continental controls the Northwest quarter of the Northeast?

A Continental controls the Southwest quarter of the Northeast.



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Q At the time you drilled your discovery well, was the ownership the same as it is shown on this plat at the present time?

A No. When we drilled the discovery well, which was completed in March of 1960, the forty acres now controlled by Continental was owned by John Kelly. For the record, that was all state acreage that was owned by Mr. John Kelly. In the meantime, from the time we drilled the well, John Kelly had taken his federal position and sold his properties in this area to Continental Oil Company.

Q When was the subject well actually drilled and completed?

A It was completed in March of 1960.

Q And when was it put on the line?

A In June of 1961, due to no connection available for over a year before it was put on the line.

Q What arrangements did Cactus Drilling Company make with respect to acquiring acreage other than the eighty it controls within the 160 acres?

A After our completing and so forth, John Kelly acquired from us and submitted a farm-out from them with one-eighth override of that proportion. We offered them this or let them join and pay their quarter share of the well and join in as a quarter working interest.

They elected to farm it out and we wrote them a letter saying: "Gentlemen, we offered Mr. John Kelly the same deal and he asked us to let him look at the well a while before he made the



decision before he would join or farm-out. In the meantime, he sold out to Continental, which was later offered the same deal.

"Continental was offered the same deal you gave us, that being a chance to farm out the acreage but retaining a one-eighth overriding royalty to pay their proportionate share of the cost of the well and come in as a working interest on it."

Q Did Continental later elect either alternative?

A No, they refused our offer. Also, a letter to them was mailed in October of 1961 in which we stated that if they didn't, we would like to go to the Commission and ask for a non-standard unit cutting them out of the 160 acres.

(Whereupon Applicant's Exhibit No. 3 marked for identification.)

Q Referring now to what has been marked as Applicant's Exhibit No. 3, would you state what that exhibit shows?

A This exhibit shows the monthly production of the subject well, the Catherine B-1 well, since it was put on the line on June 26, 1961, through August, 1962.

The production has steadily declined in a little over a year's production and it also, at the bottom, shows the total cost of the well, which is high too, since it was a discovery well, some eight hundred feet deeper than the pay zone, and also shows the gross revenue received as of September 1, 1962.

Q Your total cost of this well was approximately five hundred thousand dollars?



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A Right, \$495,847 and some cents.

Q And deducting royalties and taxes, how much revenue have you had from this well?

A \$14,893.61.

Q Does it look like you are going to get a pay-out on this well, Mr. Sharp?

A With taxes and all, it doesn't even come close to paying out the well.

Q Do you feel that the poor economic picture on this well had something to do with Continental's position in refusing to elect either one of the alternatives offered to them?

A I do, yes, I do.

Q So it will probably pay out?

A It probably will pay out. There are a few poor ones like that one that will never come close, however.

Q Then your position in this Hearing in accordance with your application is that you, the Cactus Drilling Company, seek the establishment of a 120-acre non-standard unit comprised of the East Half, Northeast Quarter and the Northeast Quarter Northeast Quarter of Section 11?

A That is correct.

Q Mr. Sharp, did you prepare Exhibits 1, 2 and 3, or were they prepared under your supervision?

A Yes, sir, I prepared them or they were prepared under my supervision.



MR. MORRIS: If the Examiner please, we offer them in Case 2622 and that completes our presentation.

EXAMINER UTZ: Without objection, they will be entered into the record in this case.

(Whereupon Applicant's Exhibits 1, 2, and 3 admitted in evidence.)

CROSS EXAMINATION

BY EXAMINER UTZ:

Q Mr. Sharp, is the U. S. Smelting's quarter section federal acreage or state?

A It's state, all in the Northeast quarter of Section 11. It's all state acreage.

Q You actually took a farm-out on that so you do have the operating interest?

A That is right. Fletcher Catron et al, that was Mr. Catron's lease we had the farm-out on, the East half of the North-east quarter, too.

Q You have a twenty-five percent override on this?

A Right, and U. S. Smelting an eighth and the State an eighth.

Q The state an eighth?

A Right, eighth of override from production, which is an eighth or greater of the well.

Q To the forty?

A Yes, sir.

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Q Is the two months' production, July and August, all the well is capable of producing?

A In July the well would not buck line pressure. The reason in August, most of the other wells were shut down.

Q What kind of line pressure do you have?

A I think about two-fifty.

Q Warren is purchasing the gas?

A Yes, sir.

Q For use in the gasoline plant?

A Yes, sir.

EXAMINER UTZ: Are there other questions of the witness?

CROSS EXAMINATION

BY MR. DURRETT:

Q Mr. Sharp, have you considered force pooling Continental in this situation, filing an application for such an action?

A We considered this as an alternative, yes, sir.

Q Could you give us some idea as to why you decided not to go through that route?

A Well, I don't know; I don't think it would make for a force pooling. It would make a little more paper work. The well will not pay out. I don't believe it will make any difference to my company.

MR. DURRETT: I am familiar with the force pooling. That is all I have.

CROSS EXAMINATION

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BY MR. PORTER:

Q Mr. Sharp, you probably stated over what period of time you had accumulated this fifteen thousand dollars of revenue from the well. What was that?

A That was from June 26, 1961, through August of 1962, which would be a little over a year.

Q The period of time the well was produced at capacity, were you selling all the gas you could produce at that time?

A Yes, sir.

MR. PORTER: Thank you.

CROSS EXAMINATION

BY EXAMINER UTZ:

Q Mr. Sharp, do you recall what the date was you filed the C-128 requesting the 120 acres on this well?

A No, sir, I don't. I might have that. It's -- this might be it. It's probably a copy of it. I don't know for sure.

Q Yes, sir, it is.

A Our last letter to Continental was in October of 1961, in which we stated we would do this unless we heard from them otherwise.

Q So you produced from the first of June to the first of December when the plat shows in our files 160 acres?

A That is correct.

EXAMINER UTZ: Are there any other questions?

MR. MORRIS: Yes, sir, I have a few, if I may.



REDIRECT EXAMINATION

BY MR. MORRIS:

p Mr. Sharp, would you explain a little more fully to the Examiner just why 160 acres had been dedicated to this well prior to the time the 120 acres dedication plat was filed?

A We filed this because we had an agreement with Mr. Kelly, who owned the acreage at the time, that he would either farm out on an eighth or join us and pay his portion of the well.

When he sold out, which I don't know exactly the date, to Continental, then we were producing before he sold out and we were starting negotiations with Continental.

Q In other words, Mr. Sharp, the 160 acres was dedicated to the well in good faith by Cactus, proceeding upon the unwritten understanding with Mr. Kelly that some deal would be or could be worked out with respect to his forty acres?

A Yes. When that fell through, we filed a new plat.

MR. MORRIS: That is all I have.

EXAMINER UTZ: Are there any other questions?

The witness may be excused.

The case will be taken under advisement.

* * * *

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