

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
19 March 1975

EXAMINER HEARING

IN THE MATTER OF:

Case 5446. Application of C & K
Petroleum, Inc., for pool creation
and special pool rules, Lea County,
New Mexico. Applicant in the
above styled cause, seeks the es-
tablishment of a new oil pool for
Strawn production for its Shipp
"27" Well No. 1, located in Unit
O of Section 27, Township 16 South,
Range 37 East, Lea County, New
Mexico, and the promulgation of
temporary special rules therefor,
including a provision for 80-acre
proration units.

and

Case 5447. Application of C & K
Petroleum, Inc., for amendment of
Order No. R-4857, Lea County, New
Mexico. Applicant in the above-
styled cause, seeks amendment of
Order No. R-4857, which order
pooled all mineral interests in the
Pennsylvanian formation underlying
the SW/4 SE/4 of Section 27, Town-
ship 16 South, Range 37 East, Lea
County, New Mexico, to pool all
such mineral interests underlying
the S/2 SE/4 of said Section 27.

CASES #5446 and
#5447

BEFORE: Daniel S. Nutter, Examiner.

For the New Mexico Oil
Conservation Commission:

William H. Carr, Esq.
Legal Counsel for the Com-
Mission
State Land Office Building
Santa Fe, New Mexico 87501

For C&K Petroleum, Inc.:

Tom Kellahin, Esq.
KELLAHIN & FOX
500 Don Gaspar
Santa Fe, New Mexico 87501

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MR. NUTTER: Case 5446.

MR. CARR: Case 5446. Application of C & K Petroleum, Inc., for pool creation and special pool rules, Lea County, New Mexico.

MR. KELLAHIN: If the Examiner please, would you call also the next case?

MR. NUTTER: We'll call the next case, Number 5447.

MR. CARR: Case 5447. Application of C & K Petroleum, Inc., for amendment of Order Number R-4857, Lea County, New Mexico.

MR. KELLAHIN: Tom Kellahin, of Kellahin and Fox, appearing on behalf of the applicant, and I have one witness who has been previously sworn. I would like the record to reflect that Mr. Moseley is still under oath and his qualifications as an expert have been accepted.

MR. NUTTER: Mr. Moseley is still under oath in Cases Numbers 5446 and 5447, consolidated for purposes of testimony.

JOHN L. MOSELEY

being called as a witness and being duly sworn

upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Q Mr. Moseley, would you please refer to what has been marked as Applicant Exhibit Number 1, identify it and state what C & K is seeking?

A Yes. Our Exhibit Number 1 is a plat of the area southeast of Lovington, New Mexico, in Lea County, showing that here are the 80 acres in which we have drilled and completed a Strawn producing well. This is shown by the arrow. Also shown here are the other Pennsylvanian or Strawn fields in the area, shown in red; that is wells that are presently producing from the Pennsylvanian or Strawn.

Q Would you identify those three pools, please?

A Yes. The Elbo-City Pool, *Humble City* which is located as some 2-1/2 to 3 miles south of our completion is a field that is spaced on 80 acres completed in the Strawn and has a top allowable of 534 barrels per day with a GOR limit of 2000 to 1. This field had four producing wells in January of this year.

The Lovington Penn East field, which is located to the southwest of the Shipp well in question here, has only one producing well at this time. It has 80-acre spacing and the top allowable of 365 barrels per day.

The Lovington Northeast Penn Field, which is located to the northwest of our Shipp 27-1 is Pennsylvanian field with 80-acre spacing. The top allowable here is 445 barrels per day. This field had 8 producing wells in January of 1975.

Q Would you refer to Exhibit 2 and identify it.

A Exhibit 2 is a shot of the portion of the Strawn in which we are completing. We are perforated from 11336 to 11405. Our well potential flowing 412 barrels of oil per day, 44 gravity oil, 1864 choke with a GOR of 1004 to 1. The flowing tubing pressure on potential was 700 pounds.

Q Please refer to Exhibit 3 and identify it.

A Our Exhibit 3 shows the production from the subject well since it was completed in late January of 1975. We show a cumulative production as of the 1st of March of this year of 11,333 barrels of oil and 11,387 MCF of gas and no water.

Q Would you refer to Exhibit 4 and identify it?

A Exhibit 4 is a pressure cumulative production plot showing on it the initial reservoir pressure of 4,032 pounds, which we measured at a Sub-C depth of 7572, the mid-point of perforations. After producing 11,333 barrels as of the first of March the measured bottom hole pressure at the Sub-C depth was 3710 pounds, indicating a 322 pound drop in bottom hole pressure.

Also shown here is an estimate, a projected estimate of ultimate recovery from the well, assuming a 200 pound abandonment pressure. We have an ultimate recovery of 120,000 barrels.

Q In your opinion, Mr. Moseley, can this well or a well drilled in this pool be expected to drain an area of 80 acres?

A Yes, sir, I feel certain it can.

Q Please refer to Exhibit Number 5 and identify it.

A Exhibit Number 5 is a comparison of economics for 80-acre spacing versus 40-acre spacing. We have shown here the oil and gas prices, production tax, operating cost, the completion cost for the initial well, the ultimate recovery which was indicated previously of 120,000 barrels plus gas, indicating a total profit

to the full working interest of \$577,000 with 80-acre spacing for an undiscounted profit investment ratio of .96 to one.

As compared with 40-acre spacing, which would indicate a loss of approximately 22,000 barrels if forced to develop on 40-acre spacing.

Q In your opinion, then, Mr. Moseley, can you economically drill a well dedicated to less than 80-acres?

A No, we cannot.

Q Please refer to Exhibit 6 and identify that.

A Exhibit 6 is a copy of the recently completed AFE on the subject well or development well in this area. It shows a total cost of \$604,000 to drill and complete in the Strawn.

Q Please refer to Exhibit 7 and identify it.

A Exhibit 7 is a list of the ownership in the 80 acres in which we propose to force pool. This list is a total, a list of all of the ownership in this 80 acres here.

Q The southwest quarter of the southeast quarter of Section 47 is the subject of a previous forced pooling order by the Commission, is it not?

A Yes, sir, it was, that Order Number R-4857,

forced pool the east 40 acres of this 80 acres in which we propose to come in there.

Q The -- let me have you clarify the ownership on this Exhibit Number 7. Is this ownership the total ownership for the 80 acres or is it just that official ownership for the 40-acres that has not been forced pool?

A This is the total ownership of the 80 acres.

Q Please refer to Exhibit 8 and identify it.

A Exhibit 8 is a copy of the letter in which we -- to which we addressed this to the non-consent working interest on our list, a mailing list, of those parties who are non-consent; also showing or indicating that interest in this 80 acres, the working interest as well as the unleased mineral interest in that.

Q Would you please reiterate for us those particular points in which you would like to amend the order, R-4857?

A We would like to amend this order to include the west or the southwest quarter of the southeast quarter into the pooling order.

Q Second of all, with regards to the combined fixed rate charge of \$180 per month.

Q Then this \$205 figure is too high and should be

adjusted downward accordingly.

A Yes.

MR. NUTTER: What was the old one, \$205?

MR. KELLAHIN: \$205.

MR. NUTTER: And the new one?

A \$180.

Q (By Mr. Kellahin) Do you have any additional requests with regards to the location or the spacing between wells?

A Yes, we would recommend that spacing between wells be no less than 867 feet, which is the diagonal of 1320, right triangle.

Q Mr. Moseley, in your opinion will this well have the potential for exceeding its normal 80-acre allowable?

A Yes, it will, definitely.

Q Do you desire that a discovery allowable be granted to this well?

A Yes, we would like to have a discovery allowable for it.

Q Have you instituted the proper procedures for the filing of Form 109 in accordance with the Commission Rules?

A No, we have not to date done this. We anticipate doing it in order to ask for the discovery allowable in this case.

Q Let me go back and ask you one question with regards to the ownership. What is the percentage of the whole assigned to the non-consenting participants?

A Yes, we show and indicate a total of 18.188 percent non-consenting interest in the 80 acres involved.

Q Mr. Moseley, were Exhibits 1 through 8 either prepared by you directly or under your direction and supervision?

A Yes, they were.

Q In your opinion will the granting of this application avoid the drilling of unnecessary wells the protection of royalty rights and the prevention of waste?

A Yes, it will.

MR. KELLAHIN: If the Examiner please, we move the introduction of Exhibits 1 through 8.

MR. NUTTER: Applicant's Exhibits 1 through 8 will be admitted in evidence.

MR. KELLAHIN: That concludes our direct examination.

MR. NUTTER: Are there any questions of this witness?

(No response.)

QUESTIONS BY MR. NUTTER:

Q Mr. Moseley, first of all the Order Number R-4857 is a pooling order, is that correct?

A Yes, sir, that's right.

Q And it pools the southwest quarter of the southeast quarter of Section 27?

A Yes, sir.

Q For 40-acre units.

A Yes, sir.

Q Now, what were the provisions of that order? Did it pool the 40 acres for the purpose of drilling a well to test the Pennsylvanian, is that correct?

A Yes, sir.

Q And then there was a provision in there that in the event the well was completed in the Devonian formation, that formation would also be pooled.

A Yes, sir, that well was drilled to test the Devonian initially and was subsequently plugged back due to the fact --

Q How far did the well go? Did the well go into the Devonian?

A Yes, it did.

Q And the Devonian was found to be nonproductive.

A Yes, sir.

Q So in your opinion was the well completed in the Devonian formation, as a dry hole?

A Yes.

Q It went to the Devonian, they tested it, --

A They tested it, right.

Q -- and it was nonproductive and so it was plugged back then to another formation, and it was plugged back to the Pennsylvanian formation or to the Strawn, which is in the Pennsylvanian.

A Yes, sir.

Q So the order pooling the 40 applies not only to the Pennsylvanian but also to the Devonian.

A Yes, sir.

Q Now, what we're seeking here today is the amendment of that order ^{not} insofar as its vertical application is concerned but only horizontal application.

A Yes, sir, this is correct.

Q To include in the pooling the southeast of the southeast of Section 27; southeast/southeast so it would be pooling the entire south half of the southeast.

A Yes, I think it would be the southwest of the

southeast.

Q No, the well's on the southwest of the southeast. That's what was pooled originally. And we're extending it to apply to the southeast/southeast also.

A That's correct.

Q Now, just a minute. Mr. Moseley, you've also said that you seek to amend the order to change the combined fixed rates from \$205 to \$180. Do you know if anybody would object to a cut in their combined fixed rate or not?

A No, I'm sure they wouldn't. The reason for this was the apparently the \$205 was set prior to a firm commitment as to the operating agreement and the consent owners in the unit and in order to avoid an accounting problem here I would think that we would want to keep it constant for the consent owners as well as for the non-consent owners.

Q And the consent owners have all agreed to \$180, is this correct?

A Yes, sir, this is correct.

Q And so the only ones we're changing it on would be the non-consent owners and they're benefitting from

the change?

A Yes.

Q The reason I'm asking these questions is because the amendment of the order in that respect was not included in the call of the hearing, but I think that possibly we can go to a lesser rate without giving notice. I don't know why anybody would object to paying less.

MR. KELLAHIN: As an after-thought, Mr. Examiner, I don't think that you'll have to amend that particular section of the order anyway. It is written in such a way that I think it can be amended by the operator and this would constitute an administrative amendment by him. In other words, there is some degree of flexibility. What we're seeking here is to charge everybody equally.

Q (By Mr. Nutter) \$205 i hereby --

A If this would cause a problem, Mr. Examiner, I would think that we could leave the \$205, if it would cause more of a problem to change this.

Q The only thing I'm wondering if we're jeopardizing the order by making an amendment that hasn't been advertised, and these are the non-consenting work interest owners --

A That's right.

Q -- that are shown here on this Exhibit Number 8, second page.

A That's right.

MR. KELLAHIN: If the Examiner please, I would withdraw our request to amend Paragraph 12. I don't believe it's necessary. We withdraw the request.

Q Now, has C & K already filed the actual cost of drilling the well information pursuant to the provisions of Order Number R-4857?

A I'm assuming that we have. I don't know that for a fact.

Q When was the well completed?

A The well was completed in January of this year; January the 25th, I think, to be exact.

Q Well, provisions of Order Number 5 that the operator shall furnish to the Commission and each known working owner, an itemized schedule of actual well costs within ninety days following the completion of the well. So we've got here an AFE for a development well in the pool --

A Yes, sir.

Q -- but those would not necessarily be the actual well costs --

A They should be real close but not necessarily the exact, this is correct.

Q And C & K will comply with the provisions of Paragraph 5 and furnish actual well costs if they have not yet done so.

A Yes, sir, they will.

Q Now with respect to your mention, Mr. Moseley, of the discovery allowable, that was not included in the call of the hearing.

A No, sir, it was not.

Q And normally pursuant to the provisions of Rule 509 of the Commission's Rules and Regulations if the Commission staff is in agreement that a discovery has been made, they'll bring the creation of the pool on for hearing in a regular nomenclature hearing, and also the designation as a discovery well eligible to receive the discovery allowable. Now, if you will file the Commission form, whatever the number of it is, 109, C-109, requesting the discovery allowable for the pool, we can docket the creation of the pool and the assignment of discovery allowable on the next nomenclature hearing. Is that agreeable to you?

A Yes, that's fine.

Q And in the meantime withhold any action on the creation of the pool in this case and the promulgation of special rules until the creation of the pool came up on a nomenclature case in which the discovery allowable had been advertised.

A Yes, sir, that would be fine.

MR. NUTTER: Are there any further questions of Mr. Moseley?

(No response)

MR. NUTTER: He may be excused. Anything further, Mr. Kellahin?

MR. KELLAHIN: No, sir.

MR. NUTTER: Mr. Bateman, do you have anything to offer in this case?

MR. BATEMAN: Yes, Mr. Examiner, I'm Ken Bateman of White, Koch, Kelly and McCarthy of Santa Fe, appearing on behalf of Texaco, and I've been asked to make a statement in the case and I would request leave to do so at this time.

MR. NUTTER: Yes, sir, please.

MR. BATEMAN: The concern of Texaco, frankly, is the assignment of risk penalty. There's been no testimony or statement concerning that in the testimony which has

already been entered in this case. The previous order, which was 4857, assigned a 200% risk penalty to the well as completed in the Strawn. The concern of Texaco is simply what is to be done with respect to the interest owners, the working interest owners of new acreage which is potentially to be added to the proration unit under the Commission's order. Texaco, which owns an interest in the original 40 acres tract, which was subject to the early order, and is a non-consenting interest -- a non-consenting owner, and is therefore affected by the 200 percent risk penalty, which was quoted by the Commission previously, Texaco in addition is a working interest owner in the adjoining 40 acres tract, which would be potentially part of the proration unit. There apparently is a difference in the working interest ownership between the two 40 acre tracts; that is to say that there are owners affected by a potential order in the new tract which are not owners in the original 40 acre tract, 40 acre tract.

Therefore, it would be inequitable to assess any risk penalty against the owners of the additional 40 acre tract, including Texaco, for the reason that the owners of the acreage, adjoining acreage, were not given an opportunity to participate initially, and

secondly, because the well has already been completed. In my view, at least, the risk has been eliminated; therefore, there should be no penalty assessed against the new owners or an award for further risk taken granted to C & K.

We would request therefor that if the Commission sees fit to grant the application for the expansion of the proration unit, then the risk penalty be reduced to reflect an assignment of risk penalty to the acreage under the original 40 acres on the proration basis as that acreage bears to the total on the old acreage.

MR. NUTTER: All right, thank you Mr. Bateman. You opened up a whole new ballgame. Mr. Moseley, you're still under oath.

A Yes.

Q (By Mr. Nutter) Is the ownership different in the second 40 that's to be in this new unit than it is in the first 40?

A I'm not able to answer your question directly.

Q Particularly with respect to working interest owners who would have to pay a share of the well costs.

MR. KELLAHIN: The only change, Mr. Examiner, is with regard to royalty ownership. The difference lies in the

new 40 and not in the old 40.

MR. NUTTER: Is she a working interest owner?

MR. KELLAHIN: No, sir.

MR. NUTTER: Is everybody's working interest share identical whether it's under 40 or under 80?

MR. KELLAHIN: According to my information, it is. Stand corrected, Mr. Examiner, Ruth Armstrong has a working interest of some .26040 percent. Mr. J. V. Ringold has a .13020 percent. Those two individuals do not appear in the original 40 acres.

MR NUTTER: They have an unleased mineral interest in the second 40 but not the first 40.

MR. KELLAHIN: That is true.

MR. NUTTER: That's Ruth Armstrong with 1/384th? Now is that 1/384th of the 80 or 1/384th of the 40?

A It should be one -- as I understand it, this should be 1/384th of the 80.

Q Has Texaco's interest changed in going from a 40 acre unit to an 80 acre unit?

A According to our records it is not. Their working interest is the same.

Q According to your Exhibit Number 8, Texaco's interest is 16.67 percent working interest in the 80

acre unit, is that correct?

A Yes, sir, it is.

Q And is that what you show as being their interest in the 40 acre unit also?

A Yes.

Q Well now, it would have to change because you brought in two other wells, Mr. Kellahin.

A Yes, this 16.7 should be for the 80 acres; as to the original percent of working interest in the original 40 acres I don't have that readily available here.

Q I wonder, Mr. Moseley, just in the interest of time, if you could get us a complete accounting of all of the ownership, that is working interest ownership, overriding royalty ownership, and royalty ownership in the 40 and also in the 80?

A Yes, sir.

Q So we can see how people's interests change if we go from one spacing to the other spacing? The point Mr. Bateman brought up may be applicable; I don't know, or it may be not.

A Yes, sir, we will do this.

MR. NUTTER: Does anyone else have anything to offer in Case 5446 and 47?

(No response)

MR. NUTTER: We'll take the cases under advisement and
call the next case.

(Hearing concluded.)

STATE OF NEW MEXICO)
)
COUNTY OF SANTA FE)

REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, Notary Public and General Court Reporter, Santa Fe, New Mexico, DO HEREBY CERTIFY that the facts stated in the caption hereto are true and correct; that I reported the captioned proceedings; that the foregoing 23 pages, numbered 1 through 23 inclusive, is a full, true and correct transcript of my notes taken during the hearing.

WITNESS my hand and seal, this 18th of April, 1975, at Santa Fe, New Mexico.

Sally Walton Boyd

Sally Walton Boyd
Notary Public and General Court
Reporter

My Commission expires?
10 September 1975

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 5446-47
heard by me on 3/19, 19 75.

[Signature], Examiner
New Mexico Oil Conservation Commission

THE NYE REPORTING SERVICE
STATE-WIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 982-0386