

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6 1 March 1989

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Pennzoil Company for CASE
10 an unorthodox oil well Location, Lea 9612
11 County, New Mexico.

12 BEFORE: Victor T. Lyon, Examiner

13
14 TRANSCRIPT OF HEARING

15
16 A P P E A R A N C E S

17 For the Division: Robert G. Stovall
18 Attorney at Law
19 Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico

20 For Pennzoil Company: W. Thomas Kellahin
21 Attorney at Law
22 KELLAHIN, KELLAHIN & AUBREY
P. O. Box 2265
23 Santa Fe, New Mexico 87504
24
25

I N D E X

STATEMENT BY MR. KELLAHIN

3

JIM L. BARR

Direct Examination by Mr. Kellahin

4

Cross Examination by Mr. Lyon

20

LONNIE L. WHITFIELD

Direct Examination by Mr. Kellahin

22

Cross Examination by Mr. Lyon

28

E X H I B I T S

Pennzoil Exhibit One, Maps

7

Pennzoil Exhibit Two, Waiver

27

1 MR. LYON: Call next Case
2 Number 9612.

3 MR. STOVALL: Application of
4 Pennzoil Company for an unorthodox oil well location, Lea
5 County, New Mexico.

6 MR. KELLAHIN: Mr. Examiner,
7 my name is Tom Kellahin. I'm an attorney with the Santa Fe
8 law firm of Kellahin, Kellahin & Aubrey. I'm appearing to-
9 day on behalf of Pennzoil Company and I have two witnesses
10 to be sworn.

11 MR. LYON: Will the witnesses
12 stand and raise your right hands?

13
14 (Witnesses sworn.)

15
16 MR. LYON: Please be seated.

17 Proceed, Mr. Kellahin.

18 MR. KELLAHIN: Thank you, Mr.
19 Examiner.

20 We would like to present to
21 you two technical witnesses today.

22 Our first witness is Mr. Jim
23 Barr. He is an experienced petroleum geologist with exten-
24 sive knowledge and work in the Shipp Strawn fields of New
25 Mexico for his company. He's our first witness.

1 Our second witness is Mr.
2 Lonnie Whitfield. Mr. Whitfield is an experienced petro-
3 leum landman who has negotiated with the offsetting working
4 interest owners in this particular development a stipulated
5 compromise with regards to the location that all parties
6 feel that is appropriate, fair, and would like to seek the
7 Commission's adoption and approval of that as a solution in
8 lieu of any penalty on the proposed location.

9 Our location as requested is a
10 location that is 330 feet from the eastern boundary of the
11 spacing unit and that is the line in question. Under the
12 Shipp Strawn rules you can be as close as 510 to that line
13 and are the difference between 510 and 320. That is the
14 degree of encroachment on the offsetting property owners.
15 The offsetting owners are Wolverine Exploration Company in
16 the adjoining section.

17 Mr. Whitfield will be the
18 second witness and will discuss with you the proposed
19 compromise subject to your approval.
20

21 JIM L. BARR,
22 being called as a witness and being duly sworn upon his
23 oath, testified as follows, to-wit:
24

25 DIRECT EXAMINATION

1 BY MR. KELLAHIN:

2 Q Will you please state your name, occupa-
3 tion and by whom you are employed?

4 A Jim L. Barr. I'm a geologist for Penn-
5 zoil Exploration and Production Company, and I reside in
6 Houston, Texas.

7 Q Mr. Barr, would you summarize for the
8 Examiner when and where you obtained your degree in geo-
9 logy?

10 A I have an undergraduate degree from the
11 University of Kentucky and I have graduate degree from the
12 University of Cincinnati.

13 Q Would you give us the years in which you
14 obtained those degrees?

15 A I got my undergraduate degree in 1963
16 and my graduate degree in 1975.

17 Q Without relating to us your general pet-
18 roleum background and work experience, would you simply
19 commence your background with your personal involvement
20 with the review, development and exploration of the Shipp
21 Strawn Field in Lea County, New Mexico?

22 A I've been with Pennzoil for going on 15
23 years and my involvement with the Shipp Strawn Field has
24 been primarily in the last two, two and a half years.

25 Previous to that time I was involved in

1 international exploration and domestic exploration.

2 Over the past two and a half years this
3 has been one of my primary concerns, is working the Shipp
4 Strawn area in southeast New Mexico, east of Lovington, as
5 well as working the whole of the Permian Basin and Anadarko
6 and Arkoma Basins.

7 Q Can you generalize for us, Mr. Barr, the
8 approximate number of wells that Pennzoil has drilled or
9 participated in the drilling of in which you have directly
10 worked as a petroleum geologist?

11 A Within the Shipp Strawn Field, let's
12 see, I would have to say there's been about 8 to 10 wells
13 that I have been involved in that Pennzoil has either been
14 operator or we have been a major interest within the out-
15 side operation.

16 Q Have you on prior occasions testified as
17 an expert petroleum geologist before the Oil Conservation
18 Division?

19 A On several times.

20 Q And in those past occasions you have
21 specifically testified about and sought and eventually ob-
22 tained approval from the Division for unorthodox locations
23 in the Shipp Strawn Field, have you not, sir?

24 A Correct.

25 MR. KELLAHIN: We tender Mr.

1 Barr as an expert petroleum geologist.

2 MR. LYON: Mr. Barr is consi-
3 dered qualified.

4 Q Mr. Barr, let me have you take a moment
5 and identify for us Exhibit Number One.

6 A Exhibit Number One consists actually of
7 two parts. It's an index map and an isopach map of the
8 Lower Strawn Lime.

9 The map that you have on the left is a
10 map with a scale of one inch is equal to 8000 feet and it
11 shows essentially the wells that have been developed and
12 drilled in the Shipp Strawn area east of Lovington, south-
13 east New Mexico, and you can see down in the lower right of
14 the map you see the Hobbs Air Force Base and Hobbs is just
15 off the map to the southeast. So this will put you in some
16 perspective as to where we are located and the specific
17 area that we're talking about for the map on the right,

18 The map on the right is a Lower Strawn
19 Lime isopach map, contour interval of which is 20 feet.

20 I want to point out to you this is a
21 larger scale map and Section 21, as you'll see there in the
22 upper righthand part with the green indicating the prora-
23 tion unit, that is a full section. Section 16 up there is
24 the south half of Section 16. Section 15 is the southwest
25 quarter and on the east part you have the west half of Sec-

1 tion 22. This is to basically bring your attention to what
2 we are here about today.

3 Q Let me have you give us a brief review
4 of what is the geology for the Shipp Strawn Field.

5 A The Shipp Strawn Field is a very unique
6 field in which we are talking about an area of deposition
7 that saw the proliferation and growth of what is commonly
8 referred to in the industry as algal mounds. These are
9 mounds that essentially grew out there in a shelf area that
10 was dipping to the east and essentially -- and it's a very
11 loosely defined belt but essentially it trends somewhat
12 southeast to northwest across the area of the map on the
13 left, the regional map. You can see the concentrated
14 drilling there.

15 These algal mounds grew in very, I would
16 say, tropic like seas. A sporadic, there's no defined oc-
17 currence to these things, otherwise there's no definite
18 pattern. It's just essentially a natural phenomena with a
19 natural occurrence.

20 Q What has become the geologic exploration
21 procedure or method of choice for finding the optimum loca-
22 tions for penetrating the thickest portion of these various
23 algal mounds?

24 A The algal mounds, if you'll look at the
25 history of the drilling of the area, it's only within I'd

1 say the last 5 to 7 years that you've seen a prolifera-
2 tion of drilling because of the increase in the techniques
3 of defined seismic in the area.

4 Typically a seismic program, and I want
5 to point out here, is that you have two red lines on here
6 that are two seismic lines. These are the two seismic
7 lines that we have finally -- we've put on here as essen-
8 tially best to find the location of this well, but I want
9 to point out to the Commission that the initial grid that
10 is set up in the area is one which is typically set up on a
11 660 or multiple of 660, which would be on a 1980 or a 660
12 line.

13 Then if we get an indication or a lead
14 on the seismic, then we further refine that area with ad-
15 ditional seismic criss-crossing it in different directions
16 that will give us the best view of that particular algal
17 mound.

18 Q Why is the initial grid for the seismic
19 run done through locations that are 1980/660? What does
20 that accomplish?

21 A It's typically the -- the standard loca-
22 tion that we're allowed by the Commission. There are 660
23 -- 660, essentially it's the center of a governmental
24 quarter quarter section within the radius of 150-foot
25 circle, and we're trying to essentially set up our initial

1 grid along that particular directive to us.

2 Q What is the orientation of the lines for
3 the initial grid generally through this area?

4 A If you were to see a stick map, this is
5 a term referred to the seismic portrayal of a -- the
6 seismic available in an area, it looks like a cobweb.
7 There is seismic all over. Some of it is good and some of
8 it is very high price seismic data; you can't see a thing
9 on it.

10 And so there's a multitude of seismic
11 out here and each company, especially in recent years, has
12 come up with their own proprietary acquisition and proces-
13 sing and likewise, we have ours.

14 Q When we further refine, then, the ini-
15 tial seismic grid and that information and it's analyzed in
16 review, have you gone out for this particular well trying
17 to identify this unique pod and run additional seismic
18 runs?

19 A Yes, sir, and that's what you see as
20 these two lines here. These are the two lines we best feel
21 that identify our location. Typically we would like to
22 have the location at the center or the cross section of
23 lines. In this particular case here that would be pushing
24 it even too close to the -- the eastern boundary, so we're
25 asking for a location as we have 1650 from the north line

1 and 330 from the west line, as being the optimum location
2 on the top of the highest point of this mound.

3 I would like to point out just by being
4 on the highest point of the mound does not guarantee that
5 you're going to get a reservoir.

6 Q Let me ask you this. In looking at the
7 B line, seismic line, which runs generally northwest to
8 southeast?

9 A Correct.

10 Q What caused Pennzoil to select that par-
11 ticular orientation and location for that seismic line?

12 A Because it went very close to the Amer-
13 ican Quasar No. 1 C & K State Well up there, and likewise,
14 the line also, if I remember correctly, continues to the
15 southeast down through the Yates Petroleum No. 1 ACF Well.

16 Q Is that Yates Petroleum well down in the
17 southwest corner of Section 22, is that a Shipp Strawn
18 well?

19 A No, it is not a Strawn producer. It is
20 a Canyon producer as best I can determine from the log.

21 I'm sure there's several geologists that
22 argue with this, whether it's Canyon, but it is not in the
23 Strawn mound sequence.

24 Q What is the basis upon the orientation
25 and location of the seismic line that's labeled A?

1 A This is a line that was subsequently
2 show after we had our original grid and this was the line
3 that our geophysicist felt would help define where we
4 wanted to put our final location of the well.

5 Q How important is it to you as a geolo-
6 gist in finding the optimum location in the spacing unit to
7 place that location close to or on the intersection of
8 seismic lines?

9 A It's very critical because, as I under-
10 stand from our geophysicist, there's a lot of things that
11 go into the exact location. You have to remember we're
12 looking for something that's an abnormality at around
13 12,000 feet and you're dealing with very small differences,
14 very subtle things, so it's very critical that we get as
15 close to those seismic lines as we can.

16 Q Let me ask you, sir, to describe for us
17 why you believe you will be unable to locate a well at the
18 closest standard location which would be approximately 180
19 feet moving to either the west or the northwest?

20 A If you'll look on the map there, I have
21 an open circle that bisects the No. 2 and 4. That is the
22 circle of 150 foot radius that would be the 150 foot radius
23 around a standard location, being 660 and 1980.

24 In this particular case right here, we
25

1 feel that we would be off the optimum location of the
2 mound; we're getting toward the thinner part of the mound,
3 and our experience shows us out here that we go for the op-
4 timum location. Our track record is very good. We have
5 found from experience, and we also have caused a rash of
6 recent sidetracked wells in which wells have been drilled
7 into a Strawn mound with no production yet have been side-
8 tracked 400 feet and have a very good producing well. Our
9 own experience in Section 2 down in 17 South, 37 East, we
10 drilled a well. We had what we thought more than adequate
11 seismic coverage. We got a dry hole and went back in after
12 we shot another line of seismic and sidetracked the hole
13 and we had a fully allowable producing well and it was just
14 a matter of 590 feet is what it -- you're so close but yet
15 so far on one of these mounds.

16 The other thing about it is thickness is
17 not always a guarantee. There was a well that was drilled
18 down in Section 11. The original hole was 200 feet, the
19 thickness of the Strawn line. It had the appearance of a
20 mound facies. It did not produce. The well was sidetrack-
21 ed and the thickness of the Strawn Lime was 204 feet and I
22 understand it is going to be a good well.

23 Q Let's look at another illustration of
24 that point, Mr. Barr. If you'll look in the southeast cor-
25 ner of Section 21, the Monteith Well by C & K Petroleum?

1 A 266 feet and it's a dry hole. It's
2 tight.

3 Q When we look at the information avail-
4 able in the northeast quarter of Section 21, the display
5 shows that American Quasar No. 1 C & K State Well --

6 A Correct.

7 Q -- describe for us the history of that
8 well.

9 A That well was drilled through -- into
10 the Strawn Lime. I have 177 feet of Strawn Lime thickness
11 in there. It did have a DST performed on it. It recovered
12 some 400 feet of oil and around, if I remember correctly,
13 around 3200 feet of water.

14 The thing about those DST's though, it
15 only had 1800 pounds of pressure on the bottom hole pres-
16 sure, indicating that you had a tight reservoir and you had
17 probably a little -- there was some porosity encountered in
18 the well; however, it had no permeability to it and it had
19 low pressures and the well is nonproductive.

20 Again it's very tantalizing but it's not
21 a producer.

22 Q In examining the geology within this
23 specific area, are you confident as a geologist that you
24 are looking for a mound that is separate and distinct from
25 any other mound that is currently producing in this

1 vicinity?

2 A Oh, I feel very strongly that we're --
3 it's a separate mound; it's a wildcat. These -- the mound
4 play in this area is very unique and almost every mound
5 that you go into is a wildcat.

6 Q In examining the information on the
7 Shipp Strawn Pool, Mr. Barr, are we in a pool that the Com-
8 mission has as a matter of practice in the past granted
9 numerous unorthodox locations for operators for drilling
10 wells in the Shipp Strawn Pool?

11 A Yes. There have been many, many exam-
12 ples of unorthodox locations. I might add that Pennzoil
13 did, when the initial rules were set up, request that we
14 had 330 foot spacing, but this was not allowed.

15 Since that time historically we have
16 seen a multitude of unorthodox locations out there because
17 of the uniqueness of this play. It is not, if I may recall
18 from previous testimony today, the Strawn play there, I
19 think, is a different thing. It is not an algal mound.

20 Here these things are very isolated pods
21 and the distance, you can be so close but yet so far to one
22 of these things in terms of getting production, and it's --
23 what we've tried to do here is essentially protect the cor-
24 relative rights and develop the maximum hydrocarbon poten-
25 tial of an area, and it has necessitated the request of un-

1 orthodox locations which the Commission has granted several
2 times over the past years.

3 Q Let's talk about how the Commission his-
4 torically has handled both opposed unorthodox location
5 cases and those that are unopposed.

6 Let me ask you first, sir, with regards
7 to unopposed locations, has the Commission historically
8 granted those without imposing a penalty on the producing
9 rates of those wells?

10 A I have never seen any penalty being im-
11 posed on them on an unopposed location, an unorthodox loca-
12 tion.

13 Q Are you aware of instances in the Shipp
14 Strawn Pool where in the presence of active opposition at a
15 hearing the Commission has entered orders approving loca-
16 tions but imposing a penalty on those wells?

17 A In the two years that I have been -- or
18 two years plus that I've been working on the Shipp Strawn
19 area I only know of one case where there was a penalty im-
20 posed that was due to opposition from adjoining landowners
21 and operators.

22 Q Are you generally familiar with the
23 types of various penalties the Commission has used in the
24 recent past to attempt to balance what was considered to be
25 inequity in approving an unorthodox location and then es-

1 tablishing a penalty on that producing well?

2 A There are several types of penalties
3 that I'm aware of, the double circle method, arithmetic
4 percentage of distance of an unorthodox location relative
5 to a standard location, or a combination thereof. Also,
6 net acreage within a proration unit being assigned to, you
7 know, the allowable allowed a well, but then we get into
8 the problem, you know, is it's strictly a contouring option
9 as to what you're going to say is the net that can be put
10 into a proration unit, and without drilling, I mean, oh, 10
11 wells per quarter section, you really have difficult defin-
12 ing the limits of one of these mounds.

13 Q Based upon your experience and knowledge
14 of this area, Mr. Barr, do you have a recommendation to the
15 Examiner as to what type of generic penalty might be im-
16 posed in any type of unorthodox location case for Shipp
17 Strawn wells from now on?

18 A I think it would best be left up to the
19 operators because we've gone -- we know the uniqueness of
20 this play and we have worked with other operators in the
21 area that are knowledgeable with what's going on here, and
22 we've worked this out where we have no opposition from the
23 adjoining landowners because it benefits them likewise.

24 So I -- I would say that it's one of
25 those that the operators are working it out themselves and

1 they're not having opposition.

2 Q For this particular application, Mr.
3 Barr, has Pennzoil reached such a compromise and solution
4 with the offsetting working interest owners in Section 22?

5 A My landman that's with me today will
6 testify more to this, but, yes, we do have a waiver.

7 Q Let's examine for a moment the issue of
8 whether or not we can take your isopach and determine from
9 it the size and shape of the reservoir by which, then, you
10 could calculate what might be the productive acres within
11 this particular pod.

12 A This is really, the isopaching here, a
13 lot of it is contour (unclear) and what you hope to be the
14 optimum type of -- shape of the mound.

15 We will not know anything about that
16 mound until we get a hole in it and we can get data on it,
17 not only the data we can get from the logs, and such,
18 through these mounds, but likewise the production history
19 if we are successful and only then will we ever come up
20 with an idea of the true size of that mound.

21 You have to put the hole in the ground.

22 Q Do you have available to you any data or
23 information that you can turn over to your petroleum engin-
24 eering staff by which then they can do engineering calcula-
25 tions or studies about the reservoir within this particular

1 mound?

2 A Got to put the hole in the ground. We
3 have to drill it.

4 Q Do you have a geologic opinion, Mr.
5 Barr, with regards to whether or not the approval of this
6 application will cause Pennzoil to gain an unfair advantage
7 over the adjoining property owners in terms of their corre-
8 lative rights?

9 A I think we're protecting their correla-
10 tive rights, and I think --

11 Q In what particular way?

12 A We have gone to the adjacent operator,
13 we have worked out an arrangement with them, and it's to
14 their benefit, to our benefit, as well as to the owner of
15 the lease involved here. It protects all of those rights
16 involved and we're going for the optimum location.

17 Q In the absence of approval of this loca-
18 tion or with the approval with a significant penalty on
19 that location, what is the likely outcome of Pennzoil's
20 proposal to drill this well in the east half of the north-
21 east quarter of Section 21?

22 A We'd have to re-evaluate that because it
23 significantly would increase the risk assigned to this
24 location.

25 Q Was the Exhibit Number One prepared by

1 you directly, Mr. Barr?

2 A Yes, sir.

3 Q This represents your work product?

4 A Yes, sir.

5 MR. KELLAHIN: Mr. Lyon, we
6 move the introduction of Mr. Barr's Exhibit Number One.

7 MR. LYON: Is there objection?
8 Exhibit One will be admitted.

9 MR. KELLAHIN: That concludes
10 my examination of Mr. Barr.

11

12 CROSS EXAMINATION

13 BY MR. LYON:

14 Q Mr. Barr, in regard to your isopach --

15 A Uh-huh.

16 Q -- are there two reflective surfaces
17 where you could read the thickness off -- off your seis
18 data, or is this an inference from -- from structural ob-
19 servations?

20 A We don't use structure so much here as
21 we try to work with the -- the knowledge in the area of
22 what has been the typical thickness of mounds in that par-
23 ticular area. You'll find as you go from west to east
24 across this area the mound thickness increases. The think
25 in using seismic we can come up with that close of measure-

1 ment on the seismic to come up with the true thickness, so
2 we have to use what is a regional increase in thickness of
3 the Strawn versus the Strawn mound, and in this area here,
4 we see that we're dealing with 266 to the north up there,
5 258, so I feel justified in putting in that we have 260
6 feet potential thickness of the Strawn mound, and our ex-
7 perience in the area shows us that we're pretty good at
8 maintaining what we're projecting here.

9 Q And does this represent your -- your in-
10 terpretation of the -- of the thickness of the algal mound
11 or is this a gross section (unclear)?

12 A Gross section. The gross section, and
13 where we see the thicker things, then we hope that we have
14 the algal mound there, but like the C & K Monteith Well to
15 the south there, you had the thickness but you just did not
16 have the (unclear).

17 Q Obviously you just can't read quality.

18 A Right, don't have the crystal ball.

19 Q And I notice that there are a number of
20 dry holes here and I don't know that you discussed all of
21 them, but there are four in Section 21. Are those all --
22 did all those penetrate the Strawn?

23 A They sure did. Wherever you see the --
24 like the one down near the brown, No. 1 Monteith, 185 foot
25 of thickness is Strawn.

1 The Pennzoil No. 1 State 21 up there had
2 185 foot of Strawn.

3 Of course the American Quasar No. 1 of C
4 & K; everything that has a number there beside it, it shows
5 the thickness of the Strawn as we took it off the logs.

6 MR. LYON: That's all I have.
7 Thank you, Mr.Barr.

8 Are there any further ques-
9 tions of Mr. Barr?

10 MR. KELLAHIN: No, sir.

11 MR. LYON: He may be excused.

12

13 LONNIE L. WHITFIELD,
14 being called as a witness and being duly sworn upon his
15 oath, testified as follows, to-wit:

16

17 DIRECT EXAMINATION

18 BY MR. KELLAHIN:

19 A Mr. Whitfield, for the record would you,
20 sir, state your name and occupation?

21 A Yes, sir. My name is Lonnie L. Whit-
22 field. I'm a petroleum landman for Pennzoil Exploration
23 and Production Company.

24 Q Mr. Whitfield, as a petroleum landman
25 have you testified before the Oil Conservation Division on

1 prior occasions?

2 A Yes, I have.

3 Q And has it been your job for your com-
4 pany as a petroleum landman to negotiated with offsetting
5 operators the drilling of the subject well in this spacing
6 unit?

7 A That is correct.

8 Q And are you familiar with the ownership
9 of the area --

10 A Yes, I --

11 Q -- involved in this well?

12 A Yes, sir, I am.

13 MR. KELLAHIN: We tender Mr.
14 Whitfield as an expert petroleum landman.

15 MR. LYON: He is so qualified.

16 Q Mr. Whitfield, let me have you describe,
17 sir, in your own words, what you and the adjoining property
18 owners have sought to accomplish in order to penetrate and
19 test this algal mound at the unorthodox location and
20 whether or not in completing that process you can reach the
21 professional opinion that the end agreement among parties
22 is one that protects the correlative rights for all
23 interest owners.

24 A Okay, sir. We have proposed, as has al-
25 ready been pointed out, this test well to be drilled at an

1 unorthodox location which encroaches the lease line of
2 Wolverine Exploration Company. Any time you drill at an
3 unorthodox location which encroaches another working inter-
4 est owner, the question arises, what is the possibility of
5 drainage. Historically, any time that you've encroached an
6 offset operator and they thought that the possibility ex-
7 isted that you might drain them, then they would show up at
8 the hearing and protest at the hearing and try and get as
9 large of a penalty imposed upon the operator proposing to
10 drill the initial test well as possible.

11 In this case when we proposed to drill
12 this unorthodox location, I contacted the offset operator
13 which we were encroaching, being Wolverine Exploration Com-
14 pany. They were very glad to see us drilling in the area.
15 We have drilled several locations in the area; a couple of
16 the locations have been dry holes, and Wolverine was very
17 excited to see another well drilled.

18 As you can see on this map that's before
19 you, they have a lease, state lease, which expires 4-16-90.
20 Wolverine informed me that they had no plans themselves of
21 drilling that lease and so drilling adjacent to them cer-
22 tainly could, if we get a producer over there, would lend
23 encouragement to a well being drilled on Wolverine's lease.

24 When we proposed this well I asked Wol-
25 verine for an option farmout to support us in the drilling

1 of this well. They agreed to do so.

2 In return for granting us an option
3 farmout, to protect themselves against the possibility of
4 drainage should our well come in adjacent to their lease-
5 line, they are requiring us to drill that well within 60
6 days from our lease of our drilling rig. Under normal cir-
7 cumstances in this area if we worked a trade, we would be
8 allowed at least 120 days to commence the option test well
9 on the option farmout. In this case we feel that we have
10 been already penalized in having the time reduced to 60
11 days to observe our well. If our well comes in we'll only
12 have 60 days to observe it and should a penalty be imposed
13 upon us, that would even increase the risk that we would be
14 taking because not only would we only have 60 days to ob-
15 serve that well, but -- but we would not be allowed to pro-
16 duce it at maximum allowable.

17 So that kind of risk could very easily
18 cause us not to drill that well.

19 Q Correspondingly, what advantage has Wol-
20 verine gained by the compromise with regards to the devel-
21 opment of their acreage and the drilling of your well?

22 A The advantage that Wolverine has gained
23 is, in essence, their own acreage is -- is going to be
24 proved up by the drilling of our well. Also, if our well
25 comes in, we have -- we have the option to drill on Wolver-

1 ine and even if we chose not to exercise that option, a
2 producing well located 300 feet from their lease line is
3 certainly going to make their lease much more valuable. It
4 would make them -- it would make it much easier for them to
5 get something done to get a well drilled, even if they
6 didn't want to drill it themselves.

7 Q At this point is there a commitment on
8 where to locate the second well to be drilled, the first
9 well, if you will, in Section 22?

10 A No, sir, there's no commitment. Penn-
11 zoil has the option to drill anywhere on the farmout acre-
12 age, the farmout acreage being the entire northwest quarter
13 of Section 22.

14 Q What is accomplished with that degree of
15 flexibility in determining the location of the second well?

16 A A lot is accomplished because you never
17 know until you put the hole in the ground exactly where
18 you're going to want to drill that second well and once the
19 first well is down and we've had adequate time to examine
20 the reservoir, then we hope to obtain enough information to
21 know where we should drill that second well, or indeed, if
22 we should drill that second well.

23 Q What is the base ownership of the miner-
24 als Sections 22 and 21?

25 A Both are State leases.

1 Q Has this arrangement with Wolverine Ex-
2 ploration Company and Pennzoil Exploration and Production
3 Company been reduced to writing?

4 A Yes, it has.

5 Q And have you also obtained from Wolver-
6 ine what is marked as Exhibit Number Two for the hearing
7 purposes today?

8 A That is correct.

9 Q And what is that, sir?

10 A Exhibit Number Two is a waiver which
11 Wolverine has agreed to execute in writing waiving any ob-
12 jection to our unorthodox location encroaching their lease-
13 line.

14 Q I notice for the record, sir, that there
15 is a typo in the description of the location which they
16 approved. It says 335 feet. In fact have you contacted
17 Wol-verine about that matter?

18 A That is correct, and the cover letter
19 attached to the waiver shows the correct location being 330
20 feet from the east line, so they know where the -- where
21 the well is going to be drilled because it's already been
22 put in writing in the form of an option farmout agreement.

23 Q Thank you, Mr. Whitfield.

24 MR. KELLAHIN: That concludes
25 my examination of Mr. Whitfield.

1 We move the introduction of
2 his Exhibit Number Two.

3 MR. LYONS: Is there objec-
4 tion?

5 Exhibit Two will be admitted.

6 MR. KELLAHIN: Mr. Examiner, I
7 am searching for the notarized original of the certificate
8 of mailing for this case. Here's a photocopy and I will
9 find the original, but that represents the compliance with
10 the Division rules on sending notification to offsetting
11 operators towards whom we are encroaching. I have the ori-
12 ginal with return receipt card and somewhere in this
13 wonderful file of paper is the notarized original and I'll
14 supply that to you momentarily.

15 That concludes our presenta-
16 tion, Mr. Examiner.

17
18 CROSS EXAMINATION

19 BY MR. LYON:

20 Q Mr. Whitfield, you say that Wolverine
21 has farmed out to you the northwest quarter of Section 22?

22 A Yes, sir.

23 Q So they -- they are the operator -- they
24 still own the acreage directly offsetting you.

25 A That is correct.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

Q I have no further questions.

MR. LYON: Anybody have questions on this?

Anything further, Mr. Kellahin?

MR. KELLAHIN: No, sir.

MR. LYON: Mr. Whitfield may be excused and we'll take the case under advisement.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C. S. R. DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division (Commission) was reported by me;
that the said transcript is a full, true and correct record
of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 9612
heard by me on March 1 1989.

W. S. Lynn, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6 26 April 1989

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Pennzoil Company for CASE
10 an unorthodox oil well location, Lea 9612
11 County, New Mexico.

12 BEFORE: David R. Catanach, Examiner

13 TRANSCRIPT OF HEARING

14 A P P E A R A N C E S

15 For the Division: Robert G. Stovall
16 Attorney at Law
17 Legal Counsel to the Division
18 State Land Office Building
19 Santa Fe, New Mexico

20 For Pennzoil Company: W. Thomas Kellahin
21 Attorney at Law
22 KELLAHIN, KELLAHIN & AUBREY
23 P. O. Box 2265
24 Santa Fe, New Mexico 87504
25

1 MR. CATANACH: Call next Case
2 Number 9612.

3 MR. STOVALL: Application of
4 Pennzoil Company for an unorthodox oil well location, Lea
5 County, New Mexico.

6 MR. CATANACH: Are there ap-
7 pearances in this case?

8 MR. KELLAHIN: Mr. Examiner,
9 I'm Tom Kellahin of the Santa Fe law firm of Kellahin,
10 Kellahin & Aubrey, appearing on behalf of the applicant.

11 MR. CATANACH: Any other ap-
12 pearances?

13 Mr. Kellahin?

14 MR. KELLAHIN: Mr. Examiner,
15 this case was originally heard on March 1st, 1989, before
16 Mr. Lyon.

17 Order No. R-8885 was entered
18 on March 14th, 1989. I'll give you a copy of that order.

19 Prior to the hearing we cor-
20 rected both in the newspaper publication the actual notice
21 to any offset operators, the township so that it correctly
22 reflected Township 16 South; however the docket of hearing
23 did not get changed.

24 We presented our testimony and
25 the order then was issued and it perpetuated then the mis-

1 take in the township and in order to correct the mistake we
2 were advised to reopen the case for today's docket. We
3 request that you simply incorporate the record from the
4 March 1st hearing, 1989, and we would like to have either a
5 supplemental order or an order nunc pro tunc correcting an
6 obvious error so that the township is the true township of
7 16 South.

8 For your information, the well
9 has already been drilled. It was spudded on April 1st, I
10 believe, of this year, and there was no objection from any
11 offset operators, and we'd simply like to correct the order
12 to reflect the appropriate township.

13 And that's all we have, Mr.
14 Examiner.

15 MR. CATANACH: Okay. To your
16 knowledge the offset operators were timely notified of that
17 error?

18 MR. KELLAHIN: They were in
19 fact given correct notification of Township 16 South but in
20 order to correct the docket which had been mistakenly
21 showing Township 17 South, we were told to reopen the case
22 today.

23 MR. CATANACH: I see.

24 MR. KELLAHIN: And there's
25 obviously no one here but me, so I guess it wasn't impor-

1 tant to anyone else.

2 MR. CATANACH: Did any off-
3 set operator -- offset operator appear at the original
4 hearing?

5 MR. KELLAHIN: No, we had
6 waivers from all the offsets, Mr. Examiner.

7 MR. CATANACH: Okay.

8 MR. STOVALL: Do you have a
9 witness to testify as to the actual location of the well,
10 Mr. Kellahin?

11 MR. KELLAHIN: That witness
12 appeared and did testify on March 1st, 1989. There was a
13 geologist and a landman that discussed the actual location.

14 MR. CATANACH: Okay, there
15 being nothing further in this case, it will be taken under
16 advisement.

17

18 (Hearing concluded.)

19

20

21

22

23

24

25

C E R T I F I C A T E

I, SALLY W. BOYD, C. S. R. DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division (Commission) was reported by me;
that the said transcript is a full, true and correct record
of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 9612,
heard by me on April 26 1989.

David L. Catamond, Examiner
Oil Conservation Division