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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

CASE 9917

EXAMINER HEARING

IN THE MATTER OF:

Application of Stevens & Tull, Inc., for
Compulsory Pooling, Lea County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

April 18, 1990

ORIGINAL

A P P E A R A N C E S

FOR THE APPLICANT:

HINKLE, COX, EATON,
COFFIELD & HENSLEY

Attorneys at Law

By: JAMES BRUCE

500 Marquette, N.W.

Albuquerque, New Mexico

* * *

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E X H I B I T S

APPLICANT'S EXHIBITS:

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* * *

1 WHEREUPON, the following proceedings were had
2 at 2:14 p.m.:

3 EXAMINER STOGNER: Call the next case, Number
4 9917, which is the Application of Stevens and Tull,
5 Incorporated, for compulsory pooling, Lea County, New
6 Mexico.

7 At this time I'll call for appearances.

8 MR. BRUCE: Mr. Examiner, my name is Jim
9 Bruce from the Hinkle Law Firm in Albuquerque,
10 representing the Applicant, and I have two witnesses to
11 be sworn.

12 EXAMINER STOGNER: Are there any other
13 appearances in this matter?

14 Will the witnesses please stand to be sworn
15 at this time?

16 (Thereupon, the witnesses were sworn.)

17 EXAMINER STOGNER: You may be seated.

18 Mr. Bruce?

19 JERRY WEANT,
20 the witness herein, after having been first duly sworn
21 upon his oath, was examined and testified as follows:

22 EXAMINATION

23 BY MR. BRUCE:

24 Q. Would you please state your full name and
25 city of residence?

1 A. Jerry Weant. I live in Midland, Texas.

2 Q. And what is your occupation, and who is your
3 employer?

4 A. I am currently employed as a landman for
5 Stevens and Tull, Inc.

6 Q. Have you previously testified before the OCD
7 as a petroleum landman?

8 A. No, I haven't.

9 Q. Would you please outline your educational and
10 work experience?

11 A. Okay. I graduated from the University of
12 Texas in Austin in December of 1980 with a petroleum
13 land management degree, and I've been employed for the
14 past nine years as a landman with various oil companies
15 in Midland.

16 I've achieved a Certified Professional
17 Landman status.

18 Q. And does your area of responsibility, both
19 with your current employer and your previous employers,
20 include the matters related to the Permian Basin?

21 A. Yes, for the past nine years I've worked both
22 the Permian Basin and what is referred to as southeast
23 New Mexico.

24 Q. And are you familiar with the land matters
25 involved in Case 9917?

1 A. Yes, I am.

2 MR. BRUCE: Mr. Examiner, are the witness's
3 credentials acceptable?

4 EXAMINER STOGNER: They are.

5 Q. (By Mr. Bruce) Would you please state
6 briefly what Stevens and Tull seeks in this case?

7 A. Okay. Stevens and Tull, Inc., seeks an order
8 pooling all mineral interest from the top of the Yates
9 Formation to the base of the Abo Formation, underlying
10 the northwest quarter of the southeast quarter of
11 Section 23, Township 20 South, Range 38 East, in Lea
12 County, New Mexico, to form a 40-acre well unit.

13 The well will be drilled at an orthodox
14 location. Stevens and Tull requests consideration of
15 the cost of drilling and completing the well,
16 allocation of those costs, and approval of actual
17 operating costs and charges for supervision. Stevens
18 and Tull, Inc., asks that it be designated as operator
19 of the well and that a charge for the risk involved in
20 drilling will be assessed.

21 Q. Would you please refer to Exhibit Number 1,
22 describe its contents, and identify the interest owners
23 that Stevens and Tull seeks to force-pool.

24 A. Okay. Exhibit 1 is a land plat which
25 highlights our current leasehold position in Section

1 23. The acreage -- The 40-acre proration unit is
2 highlighted or shaded in yellow, and the well is
3 spotted with an orange dot.

4 The current owners, Stevens and Tull, has
5 leased 83.135 percent of the mineral-interest owners
6 under this tract, and there are currently five mineral-
7 interest owners who have not completed a trade of any
8 sort with Stevens and Tull. However, three of these
9 mineral owners are currently in the process of
10 negotiation, and we anticipate having them committed in
11 the near future.

12 However, there are two companies, being
13 Concord Oil Company and Union Texas Petroleum Company,
14 which we will be unable to reach an agreement with, it
15 appears, prior to the drilling of this well. That is
16 why we're seeking the forced pooling.

17 Q. And who are the three interest owners who you
18 have tentatively come to terms with?

19 A. Okay, Koch Industries; a Mr. Ralph Duncan,
20 III; and the Trust Company of Oklahoma in Tulsa,
21 Oklahoma.

22 Q. Okay. Would you please describe your efforts
23 to get the noncommitted interest owners to join in the
24 well? I refer you to Exhibit Number 2, and I would ask
25 you to describe when you first contacted them and then

1 your subsequent contacts.

2 A. Okay. I refer you to Exhibit Number 2, which
3 is a packet of correspondence between Stevens and Tull,
4 Inc., and the uncommitted mineral-interest owners.

5 We first contacted Union Texas Petroleum
6 Corporation by letter dated January 4, 1990. In the
7 letter we requested that they consider either leasing
8 their minerals or selling their minerals to Stevens and
9 Tull, Inc., outright.

10 We spoke with them on the 25th of January,
11 verbally, with their landman, Mr. Rod Cranford, in
12 their Houston office, who handles this area, and were
13 informed that Union Texas was not prepared to act in
14 any form or fashion on this acreage at this point in
15 time due to the small interests that they owned. Their
16 current interest in this tract is 7.8125 percent of the
17 minerals.

18 We have subsequently followed up with
19 telephone conversations on March 16th, increasing our
20 offer to purchase their minerals, and that has, to
21 date, not been accepted. And Union Texas has -- They
22 are aware that we are proceeding with forced pooling.
23 In fact, they recommended that we proceed with a forced
24 pooling in order to have them tied up on this acreage.

25 Koch Industries was contacted by letter dated

1 January 25th of 1990, with an offer made to lease their
2 mineral interest. As recently as Monday of this week,
3 they -- the -- I believe the 16th, we have -- they had
4 submitted an oil and gas lease to Stevens and Tull,
5 Inc. We have reached a verbal agreement on this lease,
6 and we anticipate the lease being executed on the 20th
7 of this month, when their Vice President of Land
8 returns to their office.

9 However, due to circumstances that could be
10 beyond our control, that's why we are leaving them in
11 this forced pooling area.

12 The Trust Company of Oklahoma was contacted
13 by letter dated February 1st, 1990, with an offer in
14 hand to lease their minerals. We have had subsequent
15 verbal conversations with them, and we anticipate them
16 executing our lease. However, there are numerous title
17 requirements that need to be completed prior to the
18 execution of the lease, and we are in the process of
19 having these title requirements cured.

20 We contacted Concord Oil Company on March
21 13th of 1990 with a letter requesting a lease on their
22 mineral interest.

23 We had extensive phone conversations with
24 them on March 20th of 1990, spoke with a Mr. Reagan
25 McCoy of Concord, and he advised me that if they leased

1 their mineral interests to us they would require a
2 minimum 50-percent royalty, and if we were not willing
3 to accept that we could just carry their interest.
4 They said that is a common form of trade that they have
5 in Texas.

6 I advised them that that was not a probable
7 avenue that we would want to pursue, and therefore we
8 would pursue a forced pooling of their interest.

9 We recently -- in fact, on the afternoon of
10 April 17th, 1990 -- received an oil and gas lease from
11 Concord after we had notified them of the forced
12 pooling hearing, which lease we have deemed totally
13 unacceptable because of the terms and provisions that
14 they have added on it, we feel would put us in an undue
15 hardship of administration of such a small mineral
16 interest compared with all the other interests that we
17 currently have under lease, and we have responded to
18 them in that fashion by a letter dated April 17th,
19 1990.

20 Mr. Ralph Duncan was contacted with a lease
21 on March 16th, 1990. He has returned an executed lease
22 to our office. However, the lease was not acknowledged
23 so we had to return it to him to seek an
24 acknowledgement. We anticipate receiving this lease
25 back. However, as in the case with the others, until

1 we have a formal commitment from him in writing we must
2 pursue the forced pooling proceedings.

3 Q. And if Koch, Mr. Duncan, and Trust Company of
4 Oklahoma do commit their interests, will you notify the
5 OCD that they have done so?

6 A. Yes, we will.

7 Q. Now, you might have mentioned it, but how
8 much of the acreage in the northwest quarter of the
9 southeast quarter of Section 23 does Stevens and Tull
10 own, and how much is currently committed to the well?

11 A. Okay, we currently own 100 percent of the
12 leasehold of 83.13572 percent, is currently under lease
13 to us.

14 Q. Thank you. And would you please refer to
15 Exhibit Number 3 and discuss the cost of the proposed
16 well?

17 A. Okay. I refer to Exhibit Number 3 which is
18 an AFE prepared by Stevens and Tull -- a consulting
19 engineer for Stevens and Tull, Inc., Mr. Rod Seale.
20 The projected dry-hole cost of a 7900-foot Abo test is
21 \$174,920.

22 A completed cost for this well is \$467,970.
23 On the AFE we make specific reference to the fact that
24 we anticipate using seven-inch production casing
25 because we anticipate dually completing this well in

1 shallow horizons, and that will be covered by Mr. Randy
2 Hall, our geologist, in his testimony.

3 Q. Now, is the proposed well cost in line with
4 those normally encountered in drilling wells to this
5 depth in this county?

6 A. Yes, sir, based on the information, the dual
7 completion, yes, sir, it is.

8 Q. Okay. And do you have a recommendation as to
9 the amount which Stevens and Tull should be paid for
10 supervision and administrative expenses?

11 A. Yes, sir, I do.

12 Q. And what are they?

13 A. We recommend that \$4500 per month be allowed
14 for a drilling-well rate and that \$450 per month be
15 allowed for a producing rate. And this rate is based
16 on offset -- not directly offset, but near production
17 which Stevens and Tull currently operates in the area.

18 Q. And for the Examiner as a reference, how far
19 away is that production?

20 A. That production is exactly one diagonal mile.
21 It would be the northeast quarter of Section 25, of
22 Township 20 South, Range 38 East.

23 Q. And what penalty do you recommend against
24 nonconsenting interest owners?

25 A. We recommend a 200-percent penalty for

1 nonconsent.

2 Q. And is this a figure commonly used in this
3 area of New Mexico?

4 A. Yes, these rates fall directly in line with
5 those normally used in the area.

6 Q. And were all interested parties notified of
7 this hearing?

8 A. Yes, they were.

9 Q. And are the notice letter and certified
10 return receipts submitted as Exhibit Number 4?

11 A. Yes, sir, I refer to Exhibit Number 4, which
12 contains two letters, the first dated March 21, 1990, a
13 copy of which was sent to all uncommitted mineral
14 owners. The letter is addressed to the New Mexico Oil
15 Conservation Commission, requesting that Stevens and
16 Tull be placed on the docket for a forced pooling
17 hearing.

18 Subsequently, we notified all uncommitted
19 owners by letter dated March 29th, 1990, with a copy of
20 our March 21st letter attached, that we have been
21 placed on the docket and advised them of the time and
22 place, should they elect to voice their disapproval to
23 our forced pooling.

24 Q. Thank you. Were Exhibit Numbers 1 through 4
25 prepared by you or compiled from company business

1 records?

2 A. Yes, they were.

3 Q. And in your opinion, will the granting of
4 this Application be in the interests of conservation,
5 prevention of waste, and the protection of correlative
6 rights?

7 A. Yes, I believe it will.

8 MR. BRUCE: Mr. Examiner, I move the
9 admission of Exhibits 1 through 4.

10 EXAMINER STOGNER: Exhibits 1 through 4 will
11 be admitted into evidence.

12 MR. BRUCE: I have nothing further of the
13 witness at this time.

14 EXAMINATION

15 BY EXAMINER STOGNER:

16 Q. Mr. Weant, on Exhibit Number 3, you talk
17 about the running of the seven-inch production casing
18 and completing this as a dual. Did you also double up
19 on the amount of tubing, and is that reflected in the
20 completion tangibles?

21 A. I'll have to refer that to our geologist, Mr.
22 Andy Hall.

23 EXAMINER STOGNER: Okay. In that case, I
24 have no other questions of this witness.

25 Mr. Bruce?

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RANDY HALL,

the witness herein, after having been first duly sworn
upon his oath, was examined and testified as follows:

EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name and city of
residence?

A. Randy Hall, I live in Midland, Texas.

Q. And who do you work for and in what capacity?

A. I'm a geological consultant retained by
Stevens and Tull, Inc.

Q. Okay, and have you previously testified
before the Division as a geologist?

A. No, I have not.

Q. Would you please briefly outline your
educational and work experience?

A. I graduated from Texas Tech in 1974 with a
bachelor's degree in business administration, graduated
from the University of Texas at the Permian Basin in
1979 with an earth-science degree.

I've been employed in the oil and gas
industry since 1979 in various geological capacities
and have worked exclusively in the Permian Basin of
west Texas and southeast New Mexico.

Q. And are you familiar with the geological

1 matters involved in Case 9917?

2 A. I am.

3 MR. BRUCE: Mr. Examiner, is the witness
4 considered acceptable?

5 EXAMINER STOGNER: Mr. Hall is so qualified.

6 Q. (By Mr. Bruce) Mr. Hall, would you please
7 refer to Exhibit Number 5 and discuss its contents for
8 the Examiner.

9 A. Exhibit Number 5 consists of a structure map
10 on the top of the Tubb Formation and a stratigraphic
11 cross-section hung on the top of the Tubb used as a
12 datum line.

13 There are four producing horizons in the
14 prospect area that are of interest to Stevens and Tull,
15 that being -- the upper 2 zones being the Blinebry and
16 the Tubb and the lower two being the Drinkard and the
17 Abo.

18 The wells in Section 25 and Section 30 on the
19 Tubb structural map are in the D.K. Drinkard and Abo
20 Fields. The wells in Section 23, 26 and 35 on the west
21 side of the structure map are in the Warren, Blinebry
22 and Tubb and Drinkard and Abo Fields.

23 Stevens and Tull currently operates three Abo
24 wells in the northeast quarter of Section 25.

25 Basically what we are attempting to do is extend

1 production in the lower two zones in the Drinkard and
2 Abo to the field in Section 23.

3 We'll be directly offsetting the well that
4 was drilled primarily for the McKee deep horizon. It
5 was plugged and abandoned and then re-entered and
6 completed in the Blinebry and Tubb as indicated by the
7 green perforation intervals on that log. It's the
8 second log from the left.

9 Our objective formation is illustrated by the
10 third log from the right -- from the left, excuse me --
11 which is the well operated by Stevens and Tull. We're
12 completed in the green interval on that well, in the
13 Abo Formation, which is our primary objective. The Abo
14 was not tested in the well we're directly offsetting.

15 We're also -- Our secondary objective will be
16 the Drinkard Formation, which produces in Section 25
17 and Section 30, as illustrated by the two cross-section
18 -- by the two logs on the right.

19 That Drinkard produces -- is a stratigraphic
20 trap, and the oil is trapped by an updip porosity
21 pinchout. The oil we're directly offsetting appears to
22 be tight and has no productive capacity in the
23 Drinkard.

24 The Blinebry and Tubb above that, we feel
25 like we can obtain oil and gas production but it may

1 not be economically feasible.

2 Q. Okay. Would you please now refer to Exhibit
3 Number 6 and describe its contents for the Examiner?

4 A. Exhibit Number 6 is a structure map on the
5 top of the Drinkard. These two maps, the Drinkard and
6 the Tubb, as was on Exhibit 5, pretty well layer-cake
7 or overlay each other. Maybe the interpretation is
8 slightly different; but the thing is, there is not much
9 regional dip except to the east where it has gone
10 slightly downdip. These are 25-foot contours.

11 It also consists of a production map showing
12 the various cumulative productions and the beginning
13 production dates from the zones as indicated by the
14 legend on the base of the map.

15 We feel like there's significant risk in
16 producing the Blinebry and Tubb zones, although there
17 are good reserves produced out of that section.

18 You'll note that the production significantly
19 decreases as you go off the flank of the structures,
20 which we believe our drill site will be in that
21 position.

22 Q. And your drill site will be a step out from
23 the other Blinebry and Tubb wells, will it not?

24 A. That's correct.

25 Q. And as to the Abo, that will be a

1 considerable step out, will it not?

2 A. Our primary objective is the Abo, and as
3 illustrated on the cross-section on Exhibit 6, it's
4 approximately 7000 feet to our nearest Abo producer
5 that we operate, and it's another 8300 feet to the
6 south in Section 35 to the nearest Abo production at
7 that point.

8 Q. And in your opinion, is a cost-plus-200-
9 percent penalty reasonable as against nonconsenting
10 interest owners in this well?

11 A. We believe it is.

12 Q. Were Exhibits 5 and 6 prepared by you or
13 under your direction?

14 A. They were under my supervision.

15 Q. And is the granting of this Application in
16 the interests of conservation, the prevention of waste
17 and the protection of correlative rights?

18 A. I believe it is.

19 MR BRUCE: Mr. Examiner, I move the admission
20 of Exhibits 5 and 6.

21 EXAMINER STOGNER: Exhibits 5 and 6 will be
22 admitted into evidence.

23 EXAMINATION

24 BY EXAMINER STOGNER:

25 Q. What is the planned total depth on this well?

1 A. 7900 feet, I believe.

2 Q. And that would put me at the base --

3 A. Base of the Abo.

4 Q. And the nearest Abo production is somewhat
5 further south, is it not?

6 A. That's correct. The Abo production that we
7 operate is in Section 25, as indicated by the A in
8 front of the well, standing for Abo, on the production
9 -- I'm referring to the production map, on Exhibit 6.

10 Q. And that's a -- Are you talking about the --
11 Let's see, the two wells in the north -- Actually
12 there's four wells in the north half of Section 25?

13 A. That's correct. There's only three wells
14 there. The other is a location. The A in front of the
15 wells stands for Abo production.

16 Q. Now, a quarter of a mile west of your
17 proposed proration unit there shows to be a gas well
18 symbol. Is that a Tubb gas well?

19 A. That well was dual completed in the Blinebry
20 and the Tubb. Now, why they have a gas-well symbol on
21 it, I'm not sure. The Abo was not tested in that well,
22 nor the Drinkard.

23 EXAMINER STOGNER: Mr. Bruce, you didn't
24 cover -- or I missed it -- the overhead charges?

25 MR. BRUCE: Yes, we did, Mr. Examiner.

1 EXAMINER STOGNER: I missed that.

2 MR. BRUCE: Mr. Weant requested \$4500 and
3 \$450 per month.

4 EXAMINER STOGNER: Okay, I have no further
5 questions of either witness. Does anybody else have
6 anything further in Case Number 9917?

7 If not, this case will be taken under
8 advisement.

9 (Thereupon, these proceedings were concluded
10 at 2:37 p.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 9917,
heard by me on 18 April 1990.

Michael E. Stogner, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL April 28, 1990.



STEVEN T. BRENNER
CSR No. 106

My commission expires: October 14, 1990