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MR. STOGNER: Call next Case Number 9304, which is the application of Pennzoil Company for an unorthodox oil well location, Lea County, New Mexico.

We'll call for appearances.

MR. KELLAHIN: If the Examiner please, I'm Tom Kellahin, Santa Fe law firm of Kellahin, Kellahin & Aubrey.

I'm appearing on behalf of Pennzoil Company and I have two witnesses to be sworn.

Q Are there any other appearances in this matter?

There being none, will the witnesses please stand?

(Witnesses sworn.)

Mr. Kellahin.

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

DIRECT EXAMINATION

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BY MR. KELLAHIN:

Q All right, sir, would you please state your name and occupation?

A My name is Jim Barr and I'm a Senior Explorationist with Pennzoil Company.

A Mr. Barr, have you previously testified before the Oil Conservation Division as a geologist?

A Yes, I have.

Q And did you make a geologic presentation with regards to your interpretation of the geology for the Maude Medlin Well No. 1, located in Section 22 of 16 South, Range 37 East, in the Northeast Lovington Pennsylvanian Pool?

A Yes, I have.

MR. KELLAHIN: Mr. Examiner, at this time we tender Mr. Barr as an expert petroleum geologist.

MR. STOGNER: Mr. Barr is so qualified.

Q Mr. Barr, let me direct your attention to what we've marked as Exhibit Number One. First of all, would you identify for us the section that the well is to be located in?

A The well is to be located in Section 22,

1 16 South, 37 East, and it will be in the northeast of the
2 southeast quarter of that section.

3 Q This display does not show all of Section
4 26, does it?

5 A Not show all of Section 22.

6 Q I'm sorry, all of Section 22.

7 A Correct. It shows primarily -- the cen-
8 ter of the exhibit is essentially the southeast quarter of
9 Section 22.

10 Q The stippled area contained in the north
11 half of the southeast quarter is an 80-acre tract?

12 A Yes, 80-acre proration unit.

13 Q Would you give the Examiner the history
14 behind Pennzoil's proposal for this well, commencing with
15 the original request in the forced pooling case that was
16 file by Pennzoil and that resulted in Order R-8555, that was
17 entered on November 24th of 1987?

18 A Okay. At that time we had requested a
19 location 810 feet from the east line and 1980 feet from the
20 south line.

21 Subsequent to our appearance at the hear-
22 ing back in November, we have drilled an additional well, an
23 additional two wells, as a matter of fact, and the informa-
24 tion that we gained from those wells necessitates that we
25 have come back before the Commission and request to move the

1 location 180 feet further west. This is based upon the
2 geology, primarily the petrophysical part of the information
3 gained from those two holes and integrated with other data
4 that we have in the area that -- in the best interest and to
5 optimize our location we are requesting that we move this
6 location 180 feet further west, which would put it in 990
7 from the east line and still a 1980 from the south line.

8 MR. KELLAHIN: Mr. Examiner,
9 I'd like to show you a copy of Order R-8555. It was entered
10 in Case 9267 and also I'll give you my copy of Mr. Barr's
11 Isopach of the Strawn from that hearing date so that you can
12 see the exhibits to which he refers.

13 This is the original pooling
14 order and this is his original display.

15 MR. STOGNER: Okay, Mr. Kella-
16 hin, this copy that you give me with the red markings on it
17 --

18 MR. KELLAHIN: Yes, sir.

19 MR. STOGNER: -- this is the
20 proposed location as it is now?

21 MR. KELLAHIN: No, sir, that
22 was the original requested location.

23 MR. STOGNER: And this is the
24 proposed one now?

25 MR. KELLAHIN: Yes, sir.

1 MR. STOGNER: Okay, and it is
2 990 from the east line?

3 A Correct.

4 MR. KELLAHIN: And 1980 from
5 the south line.

6 MR. STOGNER: What is your pro-
7 posed acreage dedication?

8 MR. KELLAHIN: it would be the
9 north half of the southeast quarter. It would be a laydown.
10 Originally it was approved as a
11 standup.

12 What we're seeking is an order
13 vacating the pooling order because all parties have now
14 agreed to participate in the well, to the re-orientation of
15 the spacing unit, and to the adjust of the location of the
16 well.

17 MR. STOGNER: Now, let's see,
18 before we go any further, are the interest owners the same
19 throughout that southeast quarter of this section?

20 MR. KELLAHIN: I have a landman
21 who will testify. I believe --

22 MR. STOGNER: All right, I'm
23 jumping ahead of myself.

24 MR. KELLAHIN: I believe that
25 is correct.

1 MR. STOGNER: Okay, I'm jumping
2 ahead of myself now.

3 MR. KELLAHIN: No, but the an-
4 swer is they are the same.

5 MR. KELLAHIN: Okay.

6 A Uh-huh.

7 MR. STOGNER: Okay, please con-
8 tinue, Mr. Kellahin.

9 Q Now that Mr. Stogner has those two dis-
10 plays before him, Mr. Barr, describe for us the methodology
11 used to pick locations and that method that was originally
12 used for the Maude Medlin location that resulted in a com-
13 pulsory pooling order.

14 A Essentially the methodology that we used
15 is integration of well data within the area and seismic
16 data, and everytime that we do drill a new hole, we evaluate
17 and integrate the data, and in this particular case we find
18 out that it would be in our best interest to optimize our
19 location by moving it 180 degrees west.

20 Q 180 feet.

21 A Excuse me. 180 feet west.

22 Q What was the additional development of
23 information subsequent to the pooling hearing upon which you
24 have based your re-interpretation of the location for the
25 Maude Medlin Well?

1 A Well, the primary, the main interest was
2 the drilling of the Pennzoil No. 1 State in Section 2, 17
3 South, 37 East, in which case we felt we had a very good
4 location. As it turned out, we ended up with a dry hole.
5 Re-evaluating the information gained from that hole and the
6 seismic, take that information and in this particular case,
7 looking at the seismic across this location, we feel that it
8 necessitates the moving of the location.

9 Q Would you summarize for the Examiner, Mr.
10 Barr, the type of Strawn formations and reservoirs encoun-
11 tered in here and why it is so critical to move even 180
12 feet in a particular direction?

13 A These are algal mound-like structures
14 which typically are considerably thicker than the surround-
15 ing Strawn lime section and they're characterized by --

16 MR. STOGNER: Excuse me, Mr.
17 Barr.

18 A Yes.

19 MR. STOGNER: What kind of --
20 repeat that last sentence that you said.

21 A Okay. What they are, they are algal
22 mound structures that the primary constituents are algal
23 material; also have corals in it.

24 Q What is the areal extent generally of
25 these algal mounds?

1 A That's what we're still trying to decide
2 as to the exact areal extent.

3 Q All right, they tend to be small, irreg-
4 ular, steep-sided mounds, do they not?

5 A They are small but the interest is that
6 they are very steep-sided and this is where you can be 180
7 feet off and you can have the difference between a dry hole
8 and a producer.

9 Q Mr. Barr, you use seismic information to
10 help you locate and identify the mound structures?

11 A Yes, we do.

12 Q And you attempt to confirm the seismic
13 interpretation with the actual drilling of wells?

14 A Correct, but it's not infallible.

15 Q The encroachment of this well has to do
16 with the spacing for the pool and we're dealing with the
17 Northeast Lovington Pennsylvanian Pool?

18 A Yes.

19 Q And that's an 80-acre spaced Strawn Pool,
20 is it not?

21 A Correct.

22 Q Those pool rules provide that wells at a
23 standard location will be drilled within 150 feet of the
24 center of either 40.

25 A Correct.

1 Q And in this instance you will be 330 from
2 the side boundary as opposed to 510 from the side boundary.

3 A Correct.

4 Q And you're encroaching upon acreage that
5 Pennzoil also controls?

6 A Correct.

7 Q And would be dedicated to the well.

8 A Correct.

9 Q In your opinion is there a geologic jus-
10 tification that's sufficient to cause you to recommend the
11 relocation of this well?

12 A Yes, there is.

13 Q And to the best of your knowledge, have
14 the other participants in the well agreed to relocate the
15 well?

16 A To the best of my knowledge, they have.

17 MR. KELLAHIN: That concludes
18 my examination Mr. Barr, Mr. Stogner. We would move the
19 introduction of his Exhibit Number One.

20 MR. STOGNER: Exhibit Number
21 One will be admitted into evidence.

22 I assume, Mr. Kellahin, that
23 your next witness will present testimony on the notification
24 and agreement of the other partners?

25 MR. KELLAHIN: Yes.

CROSS EXAMINATION

1
2 BY MR. STOGNER:

3 Q Mr. Barr, you're talking about this move
4 was instigataed because of the completion of another well
5 within the area, is that correct?

6 A We got a dry hole.

7 Q Okay, and where was this dry hole?

8 A That would be -- that well was the Penn-
9 zoil No. 1 State 2, which is in Section 2, 17 South, 37
10 East, and it would have been in the northwest quarter of the
11 southwest quarter.

12 Q How far away was that well?

13 A From this well here?

14 Q Yes.

15 A Let's see here, by the way the crow flies,
16 about four miles.

17 Q Are there any other wells between this
18 old dry and abandoned well and your proposed well today?

19 A Oh, yes, there's wells in there. There's
20 other mound structures. There is a well that you see there
21 in the southeast -- or excuse me, southwest part of the ex-
22 hibit, the Yates, et al, and think that is part of the mound
23 there that sometimes is referred to as Casey.

24 Q Is that within the Casey Strawn or the
25 Northwest?

1 A I think it's in the -- within the Casey
2 Strawn.

3 Q Okay. But you have -- does seismic show
4 or indicate that these two mounds, or the mound that you're
5 proposing to drill into and the mound that the Yates Shipp
6 Well is in are not connected or --

7 A To the best of our knowledge, they are
8 not connected.

9 Q Are mounds usually about this small, as
10 you indicate on Exhibit Number One?

11 A For the most part, yes. They're about
12 this areal extent. I would say this would be more of an
13 average size. There are, you know, maximum and minimum.

14 Q So with moving your proration unit you'll
15 just be offsetting yourself.

16 A Correct.

17 Q And being more centered within the 80-
18 acre proration unit.

19 A Correct.

20 Q Other than offsetting anybody else.

21 A Correct.

22 Q Okay, I have no further -- wait, how do
23 you spell algal?

24 A Beg pardon?

25 Q How do you spell algal?

1 A Algal?

2 Q Yeah.

3 A A-L-G-A-L, algal.

4 MR. STOGNER: Okay, I have no
5 further questions for Mr. Barr. He may be excused.

6 Mr. Kellahin?

7 MR. KELLAHIN: Thank you. I
8 have one more witness, Mr. Examiner.

9

10 GREG DAVIS,
11 being called as a witness and being duly sworn upon his
12 oath, testified as follows, to-wit:

13

14 DIRECT EXAMINATION

15 BY MR. KELLAHIN:

16 Q Mr. Davis, for the record would you
17 please state your name and occupation?

18 A My name is Greg Davis and I'm a land
19 specialist with Pennzoil Company.

20 Q Mr. Davis, have you testified on behalf
21 of your company as a petroleum landman before the Division
22 on previous occasions?

23 A I have.

24 Q And were you involved with the land trans-
25 actions concerning the compulsory pooling case previously

1 presented to the Division in Case 9267 that resulted in Or-
2 der R-8555?

3 A Yes, I was. I prepared most of the exhi-
4 bits but did not testify.

5 Q Okay. subsequent to the entry of that
6 order, have you negotiated with other working interest own-
7 ers in order to obtain a voluntary agreement for the drill-
8 ling of the Maude Medlin No. 1 Well?

9 A Yes.

10 MR. KELLAHIN: We tender Mr.
11 Davis as an expert petroleum landman.

12 MR. KELLAHIN: Mr. Davis is so
13 qualified.

14 Q Mr. Davis, let me direct your attention
15 to Exhibit Number Two. Would you take a moment and identify
16 for the Examiner the relationship between Pennzoil Company
17 and these other working interest owners or offset operators
18 with regards to the Maude Medlin Well?

19 Let me first of all start, sir, with the
20 offset operators. Can you generally identify for us where
21 each of those offset operators has an interest?

22 A Yes. Yates Petroleum, et al, have offset
23 acreage to the east in the south half of Section 23, and al-
24 so in the southwest quarter of Section 22, and I believe
25 they've got some hbp acreage in the north half of Section

1 27.

2 Rio Pecos Corporation farmed out their
3 interest in the drill site, the southeast quarter of 22, to
4 Yates Petroleum and also owns a leasehold position in the
5 northwest quarter of 23 and the north half of Section 22.

6 Wes Perry, who I have now been informed
7 is buying these leases for Sun Exploration, but it's not of
8 record, so he was the party we notified, owns some leases in
9 the northeast quarter of Section 27.

10 Wolverine Exploration and E. M. Nominee
11 Partnership own the interest, record title interest in the
12 northwest quarter of Section 22.

13 Q Have you received any objection from any
14 of the offset operators to Pennzoil's application today?

15 A No, I haven't.

16 Q Let's talk about what has occurred
17 concerning the forced pooling case in which it was proposed
18 that the east half of the southeast quarter be dedicated to
19 this well.

20 A Subsequent to the entry of the order for
21 forced pooling we did gain approval of all parties who own
22 an interest in the drill site to enter into an operating
23 agreement for the drilling of the No. 1 Maude Medlin, and we
24 subsequently dismissed that order through the Commissioner,
25 requested it be dismissed.

1 Q Have you also obtained unanimous consent
2 of the working interest owners to orient the spacing unit so
3 it is now the north half of the southeast quarter?

4 A Yes, we have.

5 Q In addition have all appropriate parties
6 approved the relocation of the well to the now proposed un-
7 orthodox location?

8 A Yes, they have.

9 Q Did you have lease expiration concerns
10 with regards to the leases that Pennzoil controlled that
11 would be dedicated to this spacing unit?

12 A Yes, we did. We had leases expiring on
13 January 24th.

14 Q As a result of the lease expiration prob-
15 lems, did you obtain verbal approval from the Oil Conserva-
16 tion Division Director to spud this well prior to the ter-
17 mination of any of your leases?

18 A Yes, we did.

19 Q Approximately when did you commence the
20 well?

21 A January 23rd, I believe.

22 Q And was it spudded at the unorthodox lo-
23 cation?

24 A Yes, it was.

25 Q And that approval was conditioned upon us

1 coming forward at an Examiner Hearing to present evidence as
2 to the voluntary consent of all parties in the participation
3 in the well?

4 A Yes.

5 Q Let's look at the balance of Exhibit Num-
6 ber Two.

7 A letter of January 11th shows return re-
8 ceipt cards for all the offset operators. Have you re-
9 viewed that exhibit and satisfied yourself, Mr. Davis, that
10 those in fact are all the offset operators that might be af-
11 fected by this application?

12 A Yes, I have.

13 Q And are they?

14 A Yes, sir.

15 Q Let's turn now, sir, to Exhibit Number
16 Three and have you identify and describe Exhibit Number
17 Three.

18 A Exhibit Number Three is a letter that we
19 sent to Yates Petroleum, et al, requesting approval to move
20 the location of the No. 1 Maude Medlin, and also to approve
21 the location, the unorthodox location, and we needed to
22 amend our operating agreement to change the spacing in the
23 proration unit to the north half of Section -- the north
24 half north -- southeast quarter of Section 22.

25 Q And what was the result of your request

1 to those parties?

2 A We got unanimous approval.

3 Q And those are indicated by the signatures
4 contained on the second page of that exhibit?

5 A Yes, sir.

6 Q And those are indicated by the signatures
7 contained on the second page of that exhibit?

8 A Yes, sir.

9 Q Do you -- do you no longer need the
10 operation of the forced pooling that was entered as Order R-
11 8555?

12 A No, sir.

13 Q And you're request that the Examiner
14 enter an order that dismisses that order?

15 A Yes.

16 MR. KELLAHIN: That concludes
17 our presentation of Mr. Davis' testimony.

18 We would move the introduction
19 of Exhibits Two and Three.

20 MR. STOGNER: Exhibits Two and
21 Three will admitted into evidence at this time.

22

23 CROSS EXAMINATION

24 BY MR. STOGNER:

25 Q Mr. Davis, so who are the parties in the

1 initial compulsory pooling, --

2 A Okay.

3 Q -- all entities --

4 A It was Rio Pecos Corporation, Yates
5 Petroleum Corporation, Yates Drilling Company, MYCO
6 Industries, Inc., and Abo Petroleum Corporation, the in-
7 house corporations of Yates Petroleum, basically.

8 Q Okay, as your Exhibit Number Three, I
9 don't see that Rio Pecos was included in that; however, they
10 --

11 A Well, they -- they had made -- subsequent
12 to our order they assigned all their interest to Yates Pet-
13 roleum, et al.

14 Q Now, when you say "et al", did they give
15 them -- did they give it all to Yates or did they let all
16 the --

17 A Well, they --

18 Q -- Yates, et al's (sic) take care of
19 their particular acreage?

20 A They made proportionate assignments to
21 the parties.

22 Q Okay.

23 A I don't --

24 Q It's a pretty well known fact that Yates
25 Petroleum Corporation is acting party on all --

1 A Right.

2 Q -- on using all of these parties, is that
3 correct?

4 A Right.

5 Q So, essentially, by moving this applica-
6 tion, you're moving into a better position geologically-wise
7 (sic). You're not crowding anybody except yourself. Every-
8 body has agreed and the reason for the hearing today is to
9 really have this cancelled out or when you made application
10 for the -- to come today, were you expecting some sort of
11 opposition or anything?

12 A No.

13 MR. KELLAHIN: We're requesting
14 now the approval of the location and the dismissal of the
15 prior order.

16 MR. STOGNER: I have no further
17 questions of Mr. Davis, either.

18 Are there any other questions?
19 He may be excused.

20 Does anybody else have anything
21 further in Case Number 9304?

22 The case will be taken under
23 advisement.

24

25 (Hearing concluded.)

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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. 9304, heard by me on 3 February 1988.
Michael E. Rogers, Examiner
Oil Conservation Division