

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO

25 July 1984

EXAMINER HEARING

IN THE MATTER OF:

Application of Robert E. Chandler  
Corp. for compulsory pooling, Lea  
County, New Mexico.

CASE  
8243

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

W. Perry Pearce  
Attorney at Law  
Oil Conservation Commission  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant:

W. Thomas Kellahin  
Attorney at Law  
KELLAHIN & KELLAHIN  
P. O. BOX 2265  
Santa Fe, New Mexico 87501

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(To be submitted following hearing)

MR. STOGNER: We'll call the hearing to order and we will now call Case Number 8243.

MR. PEARCE: That case is on the application of Robert E. Chandler Corporation for compulsory pooling, Lea County, New Mexico.

MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of Kellahin and Kellahin, Santa Fe, New Mexico, appearing on behalf of the applicant, and I have two witnesses in this case.

MR. PEARCE: Are there other appearances in this matter?

(Witnesses sworn.)

BRIAN MURPHY,  
being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Murphy, would you please state your name and your occupation?

A I am Brian Murphy. I'm an independent petroleum landman.

Q Mr. Murphy, have you previously testified as a petroleum landman before the Oil Conservation Division on a prior occasion?

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A I have not.

Q Would you explain to the Examiner for his benefit what has been your experience as a petroleum landman?

A Certainly. I have a degree in accounting and I have five years working under the auspices of a Division Landman as an independent landman.

Q And you do business in Midland, Texas?

A That's correct.

Q Does your employment as a consulting petroleum landman include land title matters in Lea County, New Mexico?

A Certainly.

Q And pursuant to practicing your profession, Mr. Murphy, have you been retained by Mr. Chandler and Mr. Savage to determine the land ownership underlying the 40-acre spacing and proration unit that's the subject of this hearing?

A I have.

Q And have you done so?

A I have.

Q All right.

MR. KELLAHIN: We tender Mr. Murphy as an expert petroleum landman.

MR. STOGNER: He is so qualified.

Q Mr. Murphy, let me have you describe for

1  
2 the Examiner what type of well the applicant proposes to  
3 drill.

4 A I understand it to be a House Drinkard,  
5 approximately 7200 foot level.

6 Q And this is a House Drinkard oil well for  
7 which 40 acres are required to be dedicated to that well?

8 A As I understand.

9 Q With regards to the ownership of the 40-  
10 acre tract, Mr. Murphy, have you been able to obtain a vol-  
11 untary agreement that involves all of the working interest,  
12 mineral owners or royalty owners for this tract?

13 A I have not to date.

14 Q What percentage of the interest owners of  
15 this tract have voluntarily agreed at this point to partici-  
16 pation?

17 A Seventy-five percent.

18 Q Let me direct your attention to what  
19 we've marked as a package of correspondence, as Exhibit Num-  
20 ber One, and have you describe for us what the cover sheet  
21 to Exhibit Number One is.

22 A The cover sheet is a letter to Mr. Tom  
23 Kellahin, dated July 10th, this year, outlining the owner-  
24 ship of the remaining outstanding 25 percent of the mineral  
25 ownership.

Q Is the 25 percent mineral ownership un-  
leased minerals or is that Federal or State minerals?

A It is fee minerals unleased.

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Q With regards to a tabulation of the individuals and percentages with regards to the 25 percent --

A Yes.

Q -- does this letter to me indicate the correct ownership and percentage for those individuals?

A As I understand it, it does.

Q As of the date of the hearing, Mr. Murphy, have any of these individuals or entities agreed to participate in some way in the drilling of this well?

A They have not.

Q Let me have you describe for the Examiner, Mr. Murphy, what efforts you have made in order to obtain the voluntary agreement from these various individuals and the trust involved.

A On page three of the exhibit is an activity summary.

On January 13 this year I called the -- what I understood to be the lady representing this interest, a Mrs. Dreessen in California. She outlined to me the steps I should take to lease this interest, which would be to contact the bank in California, San Francisco.

Q Would you generally describe for the Examiner the relationship, if any, between all these individuals and this 25 percent interest?

A Certainly. Priscilla Kyte, owner one, individually and as a conservator of the Estate of David Kyte, husband and wife, David Kyte is sister -- is brother,

1 rather, to Betty Dreessen.

2 Betty Dreessen and David Kyte are son and  
3 daughter of a Cecil Kyte and a Marie Kyte, both deceased.

4 Edward Dreessen, Junior, Craig or Ingrid  
5 Powell, rather, Craig is her husband, are daughters of Betty  
6 Dreessen. The Bank of California, acting for Betty Kyte  
7 Dreessen Trust comes from the Betty Dreesen interest, as  
8 well.

9 The Kyte -- Priscilla and David Kyte re-  
10 present half the 25 percent. Betty Dreesen, Everett Drees-  
11 sen, Ingrid Powell, and the bank represent the other half of  
12 that 25 percent.

13 Q In efforts to obtain voluntary joinder,  
14 have you had contacts with all of those individuals that  
15 you've related to us?

16 A No, I've not been able to reach Edward  
17 Dreessen.

18 Q All right. With the exception of Edward  
19 Dreessen you've had conversations with all the rest?

20 A Yes, I have.

21 Q All right, continue with describing for  
22 us your efforts to get them to voluntarily participate.

23 A Mrs. Dreessen suggested that I contact  
24 the bank with my proposal. The bank would forward my pro-  
25 posal to a consultant, she would not name the consultant, in  
Roswell for his appraisal. The consultant would then return  
to the bank their recommendations. The bank would then for-

1  
2 ward it to Mrs. Dreessen, who would then identify the cor-  
3 rect ownership of this interest for us to put on the lease.

4 I called the bank and confirmed that.

5 Sent out on the 20th of January, seven  
6 days later, a sample lease, rental division order. They  
7 were going to put on the lease the correct names. And our  
8 offer.

9 On the 22nd of February, approximately  
10 one month later, called Mr. Cronyn, a trust officer at the  
11 bank; did not get a -- an answer from him, satisfaction.  
12 They had not heard from their consultant.

13 Again on the 15th of March I called. The  
14 12th I called, of April. April 25th I called. May 3rd I  
15 called. May 17th I called. May 18th I called. May 29th I  
16 called. June 4th I called. To all of these calls, I got no  
17 answer.

18 June 5th I called and he was out. Final-  
19 ly I spoke to another trust officer and I explained that we  
20 were a little bit frustrated and we had the option to force  
21 pool, so please get back to us, and I said I would confirm  
22 that with a letter, which I did.

23 Q All right, sir, and the date of the let-  
24 ter confirming the possibility of force pooling if they did  
25 not deal with you in good faith over this property was sent  
to the bank on -- approximately when?

A June 5 this year.

Q All right, sir.



1  
2           A           Six months, approximately, from the ini-  
3 tial letter.

4           Q           All right. Without going into specific  
5 detail about all these efforts and attempts, Mr. Murphy,  
6 have you been able to reach agreement with the bank or any  
7 of these individuals concerning the possibility of leasing  
8 their various interests as of today?

9           A           I have not.

10          Q           All right, sir. Let me have you go ahead  
11 beyond the chronologic summary and have you briefly identify  
12 for us the other documents that are contained within Exhibit  
13 Number One.

14          A           Okay. The first instrument following  
15 that is a letter to the bank, January 23rd.

16          Q           In which you made a specific proposal  
17 with regards to lease terms?

18          A           That's correct.

19          Q           All right, sir, and following that, what  
20 else is attached?

21          A           There's a purchase report on which shows  
22 our draft, the lease that we sent, a copy of my handwritten  
23 notes.

24                      The next is the June 5 letter to Mr. San-  
25 toya (sic) outlining what we wish to do.

                    We sent with that letter to Mr. Santoya  
certified copies, or copies, rather, by certified mail to  
all of the other owners that we could identify.

1  
2 The next is a letter I received from the  
3 Bank of California dated June 14th, outlining what they  
4 thought they should lease for.

5 Q All right. In June and July, then,  
6 you've been dealing at least with the Trust Department in  
7 terms of a lease.

8 A That's correct.

9 Q And have you been able to reach an  
10 agreement with regards to any proposal they have made to you  
11 concerning lease terms or any counter proposals on behalf of  
12 your client to the bank?

13 A No. June 28th I sent a final letter to  
14 the bank outlining -- we had increased our offer and said  
15 this is what we will lease for, we hoped that they would  
16 accept it. I did not hear from them.

17 Q All right, sir, and the specific terms of  
18 the lease proposal was a 20 percent royalty.

19 A That's correct.

20 Q 100 percent per net acre for a --

21 A \$100.

22 Q I'm sorry, a \$100 per net acre for two  
23 years lease.

24 A That's correct.

25 Q And then rentals of \$1.00 per acre per  
year.

A We did not hear from the bank on that  
letter. On the 20th of July I called them to find out if

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they had decided to accept it or not. They said they declined.

Q All right. In your opinion, Mr. Murphy, were -- was that proposed offer to lease, were those terms fair and reasonable?

A Absolutely.

MR. KELLAHIN: That concludes my examination of Mr. Murphy at this point, Mr. Stogner.

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Murphy, I have two letters from the Bank of California.

A That's correct, sir.

Q One received June 28th. I'm sorry, let me back up. Received the 18th. That is the letter that you spoke of --

A Yes, sir.

Q -- dated June 14th.

A That's correct.

Q And what is the letter received June 19th, dated June 15th?

A It is another -- it's a confirming letter of a telephone conversation that we had on the 15th, Mr. Cronyn and I, in which he said that his consultant had recommended a sixth month no bonus quarter royalty lease. I told him that was going to be unacceptable in light of the

1  
2 type of prospect it was and told him that we would go to  
3 \$75.00, 1/5th, two years.

4 He said he would contact his consultant  
5 and let me know.

6 Q Would you please go over again -- okay,  
7 this is 25 percent that has not joined, is that correct?

8 A Leased or joined, yes.

9 Q Okay, the other 75 percent makes up of  
10 Federal government and --

11 A No, sir, all fee owners.

12 Q All fee owners and --

13 A Oil companies, other owners.

14 Q Was the same 25 percent --

15 A Yes, sir.

16 Q -- offered to them as these people?

17 A Yes, sir.

18 Q Thank you, Mr. Murphy.

19 MR. STOGNER: I have no further  
20 questions of this witness.

21 Are there any other questions  
22 of Mr. Murphy?

23 MR. KELLAHIN: No, sir.

24 MR. STOGNER: If not, he may be  
25 excused.

MR. KELLAHIN: Mr. Examiner,  
for purposes of the record, Exhibit Number Two are copies of  
the return receipts certified mail cardss showing that we,

1  
2 at the time that we filed the forced pooling application,  
3 sent copies of the same application to all the individuals.

4 We'd like to put that in the  
5 record.

6 MR. STOGNER: Thank you, Mr.  
7 Kellahin.

8 MR. KELLAHIN: At this time,  
9 Mr. Examiner, we'll call Mr. Savage.

10 JOHN D. SAVAGE,  
11 being called as a witness and being duly sworn upon his  
12 oath, testified as follows, to-wit:

13 DIRECT EXAMINATION

14 BY MR. KELLAHIN:

15 Q Mr. Savage, would you please state your  
16 name and occupation, sir?

17 A John D. Savage is my name and I'm a pet-  
18 roleum engineer.

19 Q Mr. Savage, would you describe briefly  
20 for the Examiner when and where you obtained your degree in  
21 engineering?

22 A I obtained a degree of engineer of mines,  
23 a professional degree, at the University of Minnesota in  
24 1937.

25 I subsequently took further work at Cam-  
bridge University in England.

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Q Subsequent to graduation, would you describe generally what has been your experience as a practicing petroleum engineer?

A Well, I went to work for Shell in Romania in 1938 and worked with the Shell Group pretty well all over the world for thirty-one years and I was -- had the position of Chief Petroleum Engineer when I retired.

Since then I've been an independent engineer in Midland, Texas, associated with Mr. Chandler.

Q You and Mr. Chandler are partners in this project to drill this proposed Drinkard well on this 40-acre tract?

A Yes, sir.

Q And pursuant to that project have you made a study of the geology and the producing wells in the area?

A Yes. I prepared the map, which I believe is --

Q Exhibit Number Three.

A -- Exhibit Number Three.

Q All right, sir.

MR. KELLAHIN: At this point we tender Mr. Savage as an expert petroleum engineer.

MR. STOGNER: He is so qualified.

Q Mr. Savage, I want to ask you some questions concerning your opinion of the proposed location in

1  
2 terms of the statutory risk factor penalty that the Commis-  
3 sion assesses against the nonconsenting mineral owners. As  
4 I've told you before, that maximum penalty is a 200 percent  
5 number.

6 In relation to that percentage do you  
7 have an opinion as a petroleum engineer as to what the risk  
8 factor the Division ought to apply in this pooling case?

9 A Well, I believe they ought to apply the  
10 200 percent. The map shows that the lease is down structure  
11 from present or prior production and with that is the accom-  
12 panying somewhat greater Morrow well risk that would be en-  
tailed.

13 Q Let's have you describe for a moment, in  
14 addition to the down structure position, have you describe  
15 for us generally the kinds and quality of production that  
currently exist in the House Drinkard Field.

16 A Well, the field is well out on -- toward  
17 its last days. The one well to the north and west is a 7-  
18 barrel a day producer. It has produced 147,000 barrels of  
19 oil.

20 The south, direct south offset no longer  
21 produces from the Drinkard nor in the San Andres, and was  
22 plugged back after 55,000 barrels of oil production.

23 Q Do you have an opinion as to whether or  
24 not the 40-acre spacing unit may have been subject to drain-  
age from any of these offsetting wells?

25 A Well, I think it's likely there's been

1  
2 some. There's been substantial production both to the  
3 northwest and to the southeast, and somewhat lesser immedi-  
4 ately south.

5 I think it just stands to reason that  
6 some of the oil that's been recovered to date probably came  
7 from underneath that proration unit.

8 Q In addition to your opinion on the penal-  
9 ty risk factor, Mr. Savage, let me ask you if you have an  
10 opinion as to what ought to be a fair and reasonable over-  
11 head rate to charge in the pooling order while drilling and  
12 then after production?

13 A For a drilling well \$3000. For a produc-  
14 ing well, \$300.

15 These are monthly figures. Those figures  
16 are well in line with common practice in this area.

17 Q Would you describe for us the depth of  
18 the well, any unique problems you may have in the drilling  
19 or completion of this well, and also the cost involved in  
20 your opinion for drilling this well?

21 A Well, the well would be drilled to ap-  
22 proximately 7200 feet to the base of the Drinkard. I don't  
23 think there should be any unusual or difficult problems.

24 I think the cost of the well, including  
25 tank and the pumping unit, would approximate \$375,000.

Q Would the \$375,000 figure, Mr. Savage, be  
for a completed well?

A Producing into the tanks.



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Q All right, sir.

MR. KELLAHIN: Mr. Examiner, as a result of an oversight on my part, I neglected to have Mr. Savage bring the estimated AFE to the hearing today. We would appreciate the opportunity to leave the record open and let us submit subsequent to the hearing the estimated itemized schedule of well costs for the well.

Mr. Savage, however, is an expert and can discuss with us, if you like, in some detail the cost involved in drilling the well and I will go into that if you so wish, but we would propose to submit the AFE following the testimony today.

MR. STOGNER: I don't think that will be necessary to go into detail today. If you would, please submit that as an Exhibit Four, do you propose?

MR. KELLAHIN: All right, sir, we'll do that.

Q Mr. Savage, let me ask you this. In your opinion is approval of this application by you and Mr. Chandler necessary in order to prevent waste and protect correlative rights?

A Yes. I think that there is oil to be obtained there and by drilling the well everyone would really be protected.

MR. KELLAHIN: That concludes my examination of Mr. Savage.

We move the introduction of Exhibits One, Two, and Three.

MR. STOGNER: Exhibits One, Two, and Three will be admitted into evidence.

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Savage, where do you reside at this time?

A 2301 Shell Street in Midland, Texas, 79705.

Q Thank you.

MR. STOGNER: I have no further questions of Mr. Savage.

Is there any other questions of this witness? If not, he may be excused.

Anything further in Case Number 8243 this morning, Mr. Kellahin.

MR. PEARCE: If I may, Mr. Examiner, I'd like the record to reflect that the Oil Conservation Division has received a Western Union telegram this morning directed to the Attention of Mr. J. Ramey. I will for the record read the contents of that.

Mr. Ramey. We attempted to negotiate with Mr. Brian Murphy, representing the operator, Robert E. Chandler Corporation, over the past several months for a royalty interest and a short term lease due to the de-

1  
2 pletion of the area by four other producing wells.

3 Operator declined to purchase.

4 We strongly protest and object  
5 to the forced pooling. End quote.

6 That is signed Kenneth R. Cronyn,  
7 Trust Real Estate Officer, Breessen Trust, Bank of California,  
8 P. O. Box 769, San Francisco, California, 94120.

9 I have nothing further at this  
10 time.

11 MR. KELLAHIN: Mr. Examiner,  
12 we've already had Mr. Murphy's testimony on his numerous and  
13 consistent efforts with Mr. Cronyn in order to work out a  
14 voluntary agreement. If there are any questions of Mr. Murphy,  
15 he certainly can be asked those. He's here today.

16 We have nothing further to submit  
17 in this case, however.

18 MR. STOGNER: That will be so  
19 shown in the record as will the telegram will be made part  
20 of the record shown in this case.

21 Is there anything further in  
22 Case Number 8243 this morning?

23 If not, this case will be left  
24 open pending the receipt of the Exhibit Number Four, which  
25 is the AFE.

(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 Con-  
serva-tion Division was reported by me; that the said tran-  
script 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 correct and true copy of the proceedings in  
the examination of Case No. 8243,  
heard by me on July 25, 1984.  
Michael D. Stogner, Examiner  
Oil Conservation Division

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO

11 July 1984

EXAMINER HEARING

IN THE MATTER OF

Application of Robert E. Chandler  
Corp. for compulsory pooling, Lea  
County, New Mexico.

CASE  
8243

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

W. Perry Pearce  
Attorney at Law  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant:

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3 MR. STAMETS: We'll call next  
4 Case Number 8243.

5 MR. PEARCE: That case is on  
6 the application of Robert E. Chandler Corporation for com-  
7 pulsory pooling, Lea County, New Mexico.

8 Mr. Examiner, that case is to  
9 be continued until July 25th, 1984.

10 MR. STAMETS: The case will be  
11 so continued.

12 (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 Con-  
servation Division was reported by me; that the said tran-  
script 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. 8243  
heard by me on 7-14 1984.

Richard R. [Signature], Examiner  
Oil Conservation Division