

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

6
7 31 October 1984

8 EXAMINER HEARING

9 IN THE MATTER OF:

10 Application of Pennzoil Company
11 for compulsory pooling and an un-
12 orthodox location, Lea County,
13 New Mexico.

CASE
8394

14 BEFORE: Michael E. Stogner, Examiner

15
16 TRANSCRIPT OF HEARING

17
18 A P P E A R A N C E S

19 For the Oil Conservation
20 Division:

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21
22 For the Applicant:

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I N D E X

LONNIE WHITFIELD

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GREG HAIR

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3 MR. STOGNER: We'll call next
4 Case Number 8394.

5 MR. TAYLOR: The application of
6 Pennzoil Company for compulsory pooling and an unorthodox
7 location, Lea County, New Mexico.

8 MR. KELLAHIN: Mr. Examiner,
9 I'm Tom Kellahin, Santa Fe, New Mexico, appearing on behalf
10 of the applicant and I have two witnesses to be sworn.

11 MR. STOGNER: Are there any
12 other appearances in this matter?

13 MS. WALKER: Mr. Examiner, I'm
14 Louhannah Walker and I represent the Commissioner of Public
15 Lands, Santa Fe, New Mexico.

16 It is possible the State Land
17 Office may wish to enter an objection in this application.
18 We will do so only if the application purports to include
19 within compulsory pooling the surface to the top of the
20 Pennsylvanian. In the event that I do enter an appearance
21 and objection, I will call one witness.

22 MR. STOGNER: Thank you. We
23 will ask the Pennzoil witnesses to stand at this time to be
24 sworn, and if your witness needs to be called, we will swear
25 him at that time, or them, I'm sorry.

(Pennzoil witnesses sworn.)

1
2 MR. KELLAHIN: Mr. Examiner,
3 the original application filed by the applicant in this case
4 on October 9th, 1984, proposed to pool the mineral interests
5 in the Atoka and the Morrow in addition to the approval of
6 an unorthodox location.

7 The application as advertised
8 on the docket included the pooling of all mineral interests
9 from the surface to the base of the Pennsylvanian formation.

10 Mr. Examiner, neither one of
11 those is correct and we would seek to amend the application
12 so that we are obtaining a forced pooling order from the top
13 of the Wolfcamp to the base of the Pennsylvanian.

14 It's apparent from the adver-
15 tisement that we're seeking a west half proration unit,
16 which is the acreage required for deep gas tests. There is
17 no purpose served by pooling those shallower formations, and
18 in fact, I think substantially most of that production is
19 already dedicated to wells in the Abo and above, and there-
20 fore, we would seek to move to amend the application.

21 I do not believe that it re-
22 quires us to readvertise the case because the amendment is
23 less restrictive than the application as advertised and as
24 the application as advertised has been broader than we now
25 seek to accomplish in the order, and all parties would have
had adequate notice with the advertisement, and we would so
move, Mr. Examiner.

MR. STOGNER: Mr. Kellahin, to

1 clarify a bit.

2
3 You wish to amend this case.

4 MR. KELLAHIN: Yes, sir.

5 MR. STOGNER: Force pool from
6 the top of the Wolfcamp to the base of the Pennsylvanian.

7 MR. KELLAHIN: That's correct.

8 MR. STOGNER: Which by standard
9 rules of the Oil Conservation Division for a gas well is 320
10 acres, and this particular location, 1320 from the north
11 line and 1980 from the west line, is a standard location.

12 MR. KELLAHIN: No, sir, the lo-
13 cation is still unorthodox.

14 MR. STOGNER: Still unorthodox,
15 okay, I misunderstood you there and I apologize.

16 As Mr. Kellahin said in his
17 opening statement, there will be no reason to readvertise
18 this since it was advertised on a broader scale than what
19 was now amended.

20 You may continue.

21 MR. KELLAHIN: Mr. Examiner, I
22 wonder if we might inquire as to whether that amendment as
23 accepted by the Examiner now removes the objection of the
24 Commissioner of Public Lands from this case?

25 MS. WALKER: It does, Mr. Exa-
miner.

MR. STOGNER: Thank you, Ms.
Walker.

1
2 You may continue, Mr. Kellahin.

3 MR. KELLAHIN: Mr. Examiner,
4 we'll call our first witness, Mr. Lonnie Whitfield.

5 LONNIE WHITFIELD,
6 being called as a witness and being duly sworn upon his
7 oath, testified as follows, to-wit:

8
9 DIRECT EXAMINATION

10 BY MR. KELLAHIN:

11 Q Mr. Whitfield, would you please state
12 your name and occupation, sir?

13 A My name is Lonnie Whitfield. I'm a pet-
14 roleum landman for Pennzoil Company.

15 Q Mr. Whitfield, have you previously testi-
16 fied as a landman before the Division?

17 A No, I have not.

18 Q Would you -- your last name is spelled W-
19 H-I-T-F-I-E-L-D?

20 A That is correct.

21 Q All right.

22 MR. STOGNER: Please repeat
23 that.

24 MR. KELLAHIN: W-H-I-T-F-I-E-L-
25 D.

MR. STOGNER: Thank you, sir.

Q Mr. Whitfield, for the Examiner would you

1
2 describe your background as it applies to petroleum land
3 matters?

4 A Yes, sir. I graduated from Texas Tech
5 University with a Bachelor Business Administration degree.
6 I received my Master's from West Texas State University,
7 Master of Education degree.

8 I've worked for Pennzoil for over five
9 years as a petroleum landman.

10 Q With regards to your degrees, Mr. Whit-
11 field, would you describe the year in which you got your BA
12 and then your MA?

13 A Yes, sir. I graduated from Texas Tech
14 with a Bachelor of Business Administration in 1970.

15 I received my Master's degree from West
16 Texas State University in 1974.

17 Q Pursuant to your employment as a landman
18 with Pennzoil, would you describe generally what your duties
19 are?

20 A Yes, sir. I do all facets of land work
21 over a four state area, being Texas, New Mexico, Oklahoma,
22 and Arkansas; everything from lease acquisitions to putting
23 contracts -- drawing up contracts, farmouts, farmins, oper-
24 ating agreements, making all types of deals, et cetera.

25 Q Are you familiar with the mineral owner-
ship with regards to the west half of this section?

A Yes, sir, I am.

Q And are you familiar with the various

1 documents and contracts involved on behalf of your company
2 in order to drill the proposed well?

3 A Yes, sir, I am.

4 MR. KELLAHIN: Mr. Examiner, we
5 tender Mr. Whitfield as an expert petroleum landman.

6 MR. STOGNER: Mr. Whitfield is
7 so qualified.

8 Q Mr. Whitfield, let's direct your atten-
9 tion to Exhibit Number One and have you identify that for
10 us.

11 A This is a land plat which has our pro-
12 posed location located thereon in Section 1, 17 -- Range --
13 Section 1, Township 17 South, Range 34 East, in Lea County,
14 New Mexico. It also has our surrounding locations --- excuse
15 me, our surrounding acreage located thereon, also, colored
in yellow on your exhibit.

16 Q What is the acreage that Pennzoil Company
17 proposes to dedicate to this well?

18 A We propose to dedicate the west half of
19 Section 1, containing 320.93 acres.

20 Q And what will be the proposed well loca-
21 tion?

22 A The proposed well location will be 1320
23 feet from the north line, 1980 feet from the west line, Sec-
tion 1.

24 Q As of the date of the hearing, Mr. Whit-
25 field, what, if any, working interest or operating rights

1
2 have not been dedicated to the well?

3 A The only working interest, operating
4 rights that have not been dedicated at this time are Shell
5 Oil Company's.

6 Q Let's turn to the second page that's at-
7 tached to Exhibit Number One, which is a plat showing var-
8 ious entries and have you generally describe what's depicted
9 on this attachment?

10 A Yes, I have. This plat simply shows a
11 breakdown of everyone's lease ownership in Section 1; the
12 State lease number; the revenue interest along with the
13 depth limitations of the rights, the deeper rights, are
14 shown thereon.

15 Q And following that plat and the informa-
16 tion is an Exhibit A that shows a tabulation by company and
17 acreage and working interest.

18 A That is correct. This is an Exhibit A to
19 our operating agreement which we've sent to all working in-
20 terest owners.

21 Q If you'll look at entry under paragraph
22 three, describe for us the status of each of those four com-
23 panies' participation in the well.

24 A Okay, sir. Paragraph three breaks down
25 the working interest ownership under the west half of Sec-
tion 1. It shows the net acreage of each company, the work-
ing interest before payout and the working interest after
payout.

1
2 Our working interest includes Winnoko Oil
3 and Gas' -- Winnoko Oil and Gas Company's interest as they
4 have farmed out their interest to Pennzoil Company at this
5 time. We have the agreement in hand, which increased our
6 working interest to 24.9276 percent. Winnoko has a back-in
7 at payout which decreases our working interest at that time
8 and gives them a working interest.

9 Exxon Company has agreed to participate
10 with their working interest being 37.5596 percent.

11 Shell Western EP, Inc. has not made a de-
12 cision at this time as to whether they want to participate
13 or do anything.

14 Q All right, sir, let's turn to Exhibit
15 Number Two and have you summarize for us your efforts to get
16 Shell to participate in the well.

17 A Yes, sir. This is Exhibit Number Two, a
18 letter dated September 10th, 1984, to Shell Western EP, Inc.
19 from Pennzoil Company whereby we propose the 320-acre work-
20 ing interest unit, being the west half of Seciton 1.

21 We ask Shell to either farmout their
22 working interest or participate in the well. They've done
23 neither. They have made no decision at this time.

24 Q You are therefore seeking a forced pool-
25 ing order that will include the Shell's interest in this
proration and spacing unit.

A That is correct.

Q Let me direct your attention to the at-

1
2 attachment to that letter, which is an AFE, and have you iden-
3 tify that one for me.

4 A Yes, sir. This is an AFE to the proposed
5 well which we propose to drill in the west half of Section
6 1.

7 Q Is that the AFE that's been approved and
8 accepted by Exxon in their participation in the well?

9 A It is the AFE that has been sent to all
10 working interest owners in the unit at this time. As of
11 this date we've not received any of them back but we've had
12 no objections to date.

13 Q All right, in your opinion is this a fair
14 and reasonable estimate of Authority for Expenditures for
15 this well?

16 A Yes, sir.

17 Q The Commission places in a pooling order
18 an allocation for overhead charges while drilling and during
19 operations on a monthly basis.

20 Based upon your experience do you have a
21 recommendation, Mr. Whitfield, for the Examiner as to what
22 that rate ought to be for this order?

23 A Yes, sir. We have included that in the
24 operating agreement that we've sent to all working interest
25 owners, our rate being \$4000 per well, \$400 per well on a
26 monthly basis.

27 Q And is that a rate that in your opinion
28 is fair and reasonable?

1
2 A Yes, sir.

3 Q The third attachment to Exhibit Number
4 Two is a plat. Following the plat is a letter of October
5 25th, '84. What's the purpose of this letter?

6 A This letter, dated October 25th, 1984,
7 was sent to Shell Western EP, Inc.. It was Burlington ex-
8 pressed on October 25th, '84, whereby we enclosed a title
9 opinion covering this unit, also a joint operating agreement
10 with two signatures -- two signature pages attached thereto
11 for their execution to return to Pennzoil Company.

12 To date we have received no signature
13 page indicating their acceptance to participate in said
14 well.

15 Q Is Pennzoil in a position where they can
16 continue to wait for Shell to make a decision on their par-
17 ticipation in the well?

18 A No, sir, we are not.

19 Q Why not?

20 A We feel that we're being drained pre-
21 sently by Shell's well in the east half. We also have money
22 budgeted to drill this well this year and it's very impor-
23 tant to us to get the well spudded this year.

24 Q In terms of timing an order to spud the
25 well in 1984 by what approximate date do you anticipate
needing a pooling order from the Division?

A As soon as possible. Our farmout agree-
ment from Winnoko Oil and Gas Company gives us until Decem-

1
2 ber 1st of this year to spud a well, so at the latest, De-
3 cember the 1st, if possible.

4 Q All right, sir.

5 MR. KELLAHIN: Mr. Examiner,
6 that concludes my examination of Mr. Whitfield.

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

9 CROSS EXAMINATION

10 BY MR. WHITFIELD:

11 Q Mr. Whitfield, on Exhibit Two that's
12 dated September 10th, was this the first contact you had
13 with Shell?

14 A No, sir, we'd had prior -- excuse me,
15 previous contacts on the telephone with Mr. Goenner, G-O-E-
16 N-N-E-R, who is the landman representing Shell Western EP,
17 Inc.

18 Q And approximately when will -- when were
19 those telephone conversations?

20 A Those telephone conversations would have
21 been, well, at least two weeks prior to this letter.

22 Q Approximately the latter part of August.

23 A Yes, sir.

24 Q Have you talked with him on the phone
25 since that time? I notice on Exhibit Two you have a
handwritten, or that there is a handwritten statement "will
advise by September 26".

1
2 A Yes, sir, he originally told us that he
3 would have us an answer by September 26th as to whether or
4 not Shell would participate. September 26th they did not
5 return our call or did not get in touch with us. I in turn
6 called him back several -- several times and Shell was un-
7 able to make a decision due to various reasons. One excuse
8 was their geologist was going to be out of the office for a
couple of weeks.

9 Q Mr. Whitfield, you made a statement that
10 you felt that Shell's well on the east half of Section 1 is
11 draining your property.

12 A Yes, sir.

13 Q Or Pennzoil's property, is that right?

14 A Yes, sir.

15 Q Do you know the location of that Shell
well by chance?

16 A My geologist will be able to better de-
17 scribe that for you. I'm not sure what the -- exactly what
18 the location is. I know that it is in the southeast quar-
19 ter, I believe, southeast quarter of Section 1, and that
20 statement was based on geological information that has been
told me -- that has been told to me by our geological staff.

21 Q Okay, and he will present further evi-
22 dence on that.

23 The overhead charges, if I may ask you
24 again, are \$4000 and \$400 while producing?

25 A Yes, sir.

1
2 Q And the total TD on this thing is appro-
3 ximately 13,000 feet?

4 A That is correct.

5 Q Some people can just drill cheaper than
6 others.

7 A Yes, sir.

8 MR. STOGNER: I have no further
9 questions of Mr. Whitfield.

10 Are there any other questions
11 of this witness?

12 If not, he may be excused at
13 this time.

14 MR. KELLAHIN: Mr. Examiner,
15 we'll call Greg Hair, H-A-I-R.

16 GREG HAIR,
17 being called as a witness and being duly sworn upon his
18 oath, testified as follows, to-wit:

19 DIRECT EXAMINATION

20 BY MR. KELLAHIN:

21 Q Mr. Hair, for the record would you please
22 state your name and occupation?

23 A Yes. Gregory L. Hair. I'm District Geo-
24 logist for Pennzoil Company in Midland, Texas.

25 Q Mr. Hair, have you previously testified
before the Division as a petroleum geologist?

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A I have.

Q And have you made a study of the geologic facts surrounding this application by Pennzoil?

A I have.

MR. KELLAHIN: We tender Mr. Hair as an expert petroleum geologist.

MR. STOGNER: He is so qualified.

Q Mr. Hair, let me direct your attention to Exhibit Number Three and have you first of all identify that exhibit for us.

A This is a plat of the proposed location along with an Isopach map of the Atoka pay sand, which we hope to find gas and gas condensate in.

It shows the wells that were -- that penetrate this horizon, as well as all of the wells in the area.

The wells that penetrate the horizon are circled. Shell's well is in the southeast quarter of Section 1, in answer to your previous question, Mr. Examiner. It's 990 feet from the south line, 990 feet from the east line of Section 1, Township 17 South, Range 34 East.

Q It's the gas well symbol in Unit P that has the number, the dash, and then the Roman numeral VI?

A Yes.

Q All right, sir. Would you identify for us the proposed location that Pennzoil intends to use?

1
2 A Yes. Pennzoil proposes to use a location
3 that's 1320 feet from the north line and 1980 feet from the
4 west line of Section 1.

5 Q In terms of a gas well location in the
6 west half of Section 1, Mr. Hair, a standard location would
7 be 1980 feet from the north line. Can you express for us a
8 geologic opinion as to why you prefer an unorthodox location
9 as opposed to the closest standard location?

10 A Yes. We've made both geological and geo-
11 physical surveys of this area.

12 Geophysical surveys indicate that the
13 Atoka sand package which we're -- is our primary objective,
14 pinches out just south of 1980 feet from the north line and
15 1980 feet from the west line, and we feel a location there
16 would be far too risky for a well.

17 By moving the well to the north we feel
18 we can encounter a much thicker sand section and reduce the
19 risk considerably.

20 Q Apart from the Atoka are there any other
21 possible gas formations or pools that might be productive?

22 A Yes, possibly the Wolfcamp, the Cisco
23 Canyon, the Strawn, and the Morrow.

24 Q All right, sir, let me direct your atten-
25 tion to Exhibit Number Four and have you identify that.

 A This is a geophysical structure map on
the approximate top of the Morrow clastic section. Shown on
it are structure contours in time. The two purple lines on

1 the map are geophysical faults, which cut across Section 1
2 there. These faults, while they do cut the Morrow, do not
3 cut the Atoka. They stop just below the base of the Atoka
4 section; however, we feel they had bearing upon the deposi-
5 tion of the Atoka sand and we feel that moving any farther
6 to the north than 1320 would get us into trouble with this
7 fault if we drill deeper into -- when we drill deeper into
8 the Morrow formation.

9 Q All right, sir, let's go to Exhibit Num-
10 ber Five and have you identify that.

11 A This is a production plat of the same
12 area. It shows all producing wells in the area. There is
13 production in the Queen, the San Andres, Grayburg, and the
14 Abo, which is above our area of interest. There is also
15 production in the Wolfcamp, the Middle Pennsylvanian and the
16 Atoka Morrow, which is in our zone of interest. Primary im-
17 portance here are the Atoka Morrow wells, the two producers
18 in Section 7, one producer in Section 12, one in Section 11,
19 and one in Section 1.

20 The well in Section 1 is the Shell well
21 previously described. It was completed in the Atoka sand
22 that is mapped on the Exhibit Number Three, and to date has
23 produced 241-million cubic feet of gas from that zone.

24 Q Do you have an opinion as to whether or
25 not you believe the Shell well in Unit P of Section 1 is
subjecting the west half of Section 1 to drainage from the
Atoka?

1
2 A Yes. As you can see from the Exhibit
3 Number Three, we feel that it is in the same sand series as
4 what we are drilling for. Also by Exhibit Number Four, you
5 can see that we are down dip to the Shell well. Therefore,
6 I believe that the Shell well is draining us.

7 Q In terms of an opinion on your part on
8 the penalty factor to be assessed against Shell in the event
9 that they elect to go nonconsent under the pooling order,
10 what is your opinion?

11 A Yes. I feel that the penalty should be
12 the maximum 200 percent. This is based primarily on produc-
13 tion in Section 7 shown on the map.

14 The two wells there encountered a very
15 thick Atoka sand and have been offset seven times within one
16 mile of the locations. Only one well has been successful,
17 and that's been the Shell well.

18 The risk shown here is very high for this
19 sand series, and I think that the penalty should reflect
20 that.

21 Q In your opinion, Mr. Hair, will approval
22 of this application prevent waste and protect correlative
23 rights?

24 A Yes, it will.

25 MR. KELLAHIN: Mr. Examiner, we
move the introduction of Exhibits One through Five.

 MR. STOGNER: Exhibits One
through Five will be admitted into evidence.

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Hair, that Shell well in the south-east quarter, is that a standard or a nonstandard location?

A I believe that is a nonstandard location.

Q Is that a nonstandard location in the aspects of the side boundary or the end boundary?

A I believe that that is from the end boundary.

Q By looking at this and my simple arithmetic, I see that this well is 650-foot, oh, from the Shell well, 1650 feet from Shell's west half proration unit. Is that right?

A I believe so. I have not done the arithmetic.

Q Okay. And your well will -- your proposed well will be 660 feet from that, from Shell's proration unit.

A Yes.

Q Would you go to Exhibit Four and explain to me again the purple markings on those?

A The purple marks are faults. They cut the Morrow formation displacing the Morrow formation; however, the Atoka sand deposited directly above the Morrows, laps over the top of those faults. It is not displaced by those faults.

1
2 Q Okay. Do you feel that -- let me back up
3 a little bit.

4 What zone is the Shell well presently
5 producing from?

6 A The Atoka sand that is mapped on Exhibit
7 Three.

8 Q So you feel that the Atoka is being
9 drained from your west half proration unit --

10 A That is --

11 Q -- by this Shell well.

12 A That is correct.

13 MR. STOGNER: I have no further
14 questions of this witness.

15 Are there any other questions
16 of Mr. Hair?

17 MR. KELLAHIN: No, sir.

18 MR. STOGNER: If not, he may be
19 excused.

20 Is there anything further this
21 morning in Case Number 8394?

22 If not, this case will be taken
23 under advisement.

24
25 (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-
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 true and correct copy of the original as the same appears in the files of the
Oil Conservation Division
Date Oct. 31 1984
Michael E. Stogor Examiner
Oil Conservation Division