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

7 17 June 1987

8 EXAMINER HEARING

9 IN THE MATTER OF:

10 Application of Bettis, Boyle and CASE
11 Stovall for an unorthodox gas well 9151
12 location, Eddy County, New Mexico
13 and
14 Application of Phillips Petroleum CASE
15 Company for a non-standard oil pro- 9147
16 ration unit, Lea County, New
17 Mexico.

18 BEFORE: Michael E. Stogner, Examiner

19 TRANSCRIPT OF HEARING

20 A P P E A R A N C E S

21 For the Division:

22 Jeff Taylor
23 Legal Counsel for the Division
24 Oil Conservation Division
25 State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

MR. STOGNER: Call next Case
No. 9151.

MR. TAYLOR: The application of
Bettis, Boyle and Stovall for an unorthodox gas well
location, Eddy County, New Mexico.

MR. STOGNER: At the request of
the applicant Case No. 9151 will be continued to the
Examiner Hearing 1 July 1987.

(Hearing concluded.)

* * * * *

MR. STOGNER: Call next Case
No. 9147.

MR. TAYLOR: The application of
Phillips Petroleum Company for a non-standard oil proration
unit, Lea County, New Mexico.

MR. STOGNER: At the request of
the applicant Case No. 9147 will be continued to the
Examiner Hearing 15 July 1987.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO
HEREBY CERTIFY 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 correct record of the proceedings in
the Examiner hearing of Case Nos. 9151 & 9147
heard by me on 17 June 1987.

Michael E. Stenger Examiner
Oil Conservation Division



PHILLIPS PETROLEUM COMPANY

ODESSA, TEXAS 79762
4001 PENBROOK

June 24, 1987

EXPLORATION AND PRODUCTION GROUP

Cont. to 7/15/87
M.S.

N.M.O.C.D. Examiner Hearing, Case 9147,
Application for Non-standard Proration Unit,
East Lusk Bone Spring Pool,
Lea County, New Mexico

JUN 26 1987

Mr. Michael E. Stogner
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Dear Sir:

This letter confirms the telephone conversation of June 15, 1987 between you and Mr. L. M. Sanders of this office. Phillips Petroleum Company respectfully requests that the subject Case No. 9147 be continued to the Examiner Hearing set for July 15, 1987. This additional time will allow the participants in the case to reach an agreement regarding dedication of acreage to the oil proration unit for the Phillips Petroleum Company State 1-2 Well No. 1.

Very truly yours,

G. R. Smith
Director, Reservoir Engineering

JCC:jj

cc: L. M. Sanders
W. J. Mueller
r) J. C. Currie

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
Santa Fe, New Mexico

3 June 1987

EXAMINER HEARING

IN THE MATTER:

Application of TXO Production Corp.
for compulsory pooling, Lea County,
New Mexico.

CASE
9142

and

Application of Phillips Petroleum
Company for a non-standard oil pro-
duction unit, Lea County, New Mexico.

CASE
9147

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

Jeff Taylor
Legal Counsel to the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico

For the Applicant:

1
2
3
4 MR. CATANACH: Call next Case
5 No. 9142.

6 MR. TAYLOR: The application of
7 TXO Production Corp. for compulsory pooling, Lea County, New
8 Mexico.

9 MR. CATANACH: At the request of
10 the applicant Case No. 9142 will be continued to the
11 Examiner Hearing 17 June 1987.

12
13 (Hearing concluded.)
14
15

16 MR. CATANACH: Call next Case
17 No. 9147.

18 MR. TAYLOR: The application of
19 Phillips Petroleum Company for a non-standard oil proration
20 unit, Lea County, New Mexico.

21 MR. CATANACH: At the request
22 of the applicant Case No. 9147 will be continued to the
23 Examiner Hearing 17 June 1987.

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 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. 9143, 9147
heard by me on June 3 1987.
David R. Catano, Examiner
Oil Conservation Division

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

15 July 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of Phillips Petroleum CASE
Company for a nonstandard oil prora- 9147
tion unit, Lea County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

For the Applicant:

W. Thomas Kellahin
Attorney at Law
KELLAHIN, KELLAHIN & AUBREY
P. O. Box 2265
Santa Fe, New Mexico 87504

For New Mexico State
Land Office:

Bill R. Garcia
Attorney at Law
State Land Office 1148
Santa Fe, New Mexico 87504

I N D E X

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E X H I B I T S

Phillips Exhibit One, Map 5

Phillips Exhibit Two, Data 8

Phillips Exhibit Three, Schedule 11

State Exhibit One, Plat 20

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MR. STOGNER: Call next Case
Number 9147, which is the application of Phillips Petroleum
Company for a nonstandard oil proration unit, Lea County,
New Mexico.

Call for appearances.

MR. KELLAHIN: If the Examiner
please, I'm Tom Kellahin, Santa Fe, New Mexico, appearing on
behalf of the applicant, and I have one witness to be sworn.

MR. STOGNER: Okay, are there
any other appearances?

MR. GARCIA: May it please the
Examiner, my name is Bill Garcia. I'm legal counsel for the
Commissioner of Public Lands and I have one witness.

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

Will all witnesses please stand
at this time?

(Witnesses sworn.)

Mr. Kellahin.

1 JOHN C. CURRIE,
2 being called as a witness and being duly sworn upon his
3 oath, testified as follows, to-wit:

4

5 DIRECT EXAMINATION

6 BY MR. KELLAHIN:

7 Q Mr. Currie, for the record would you
8 please state your name, sir?

9 A My name is John Currie. I live in
10 Odessa, Texas.

11 Q And your last name is spelled C-U-R-R-I-
12 E?

13 A That's correct.

14 Q Mr. Currie, what is your occupation?

15 A I'm employed as a petroleum engineer.

16 Q And by whom are you employed?

17 A Phillips Petroleum Company.

18 Q Mr. Currie, have you previously testified
19 before the Division on behalf of your company as a petroleum
20 engineer?

21 A Yes, I have.

22 Q Pursuant to your employment as an
23 engineer, are you prepared to present testimony on behalf of
24 your company concerning the application in this case?

25 A Yes, I am.

1 MR. KELLAHIN: We tender Mr.
2 Currie as an expert petroleum engineer, Mr. Stogner.

3 MR. STOGNER: If there are no
4 objections, Mr. Currie is so qualified.

5 Q Mr. Currie, let me direct you to what
6 we've marked as Exhibit Number One, and first of all ask you
7 to take this land ownership well location plat and identify
8 for the Examiner what is the significance of the area to the
9 south shaded in pink color?

10 A Okay, on this land map the area to the
11 south, as shown on this map, indicates the outline of the
12 East Lusk Bone Springs Pool.

13 Q When we look to the northern portion of
14 the exhibit to that rectangular area outlined in yellow,
15 what is the significance of that area?

16 A That denotes the limits of the Querecho
17 Plains Upper Bone Springs Pool.

18 Q What is the location of the well that's
19 the subject matter of this application?

20 A Okay. It's located roughly in the center
21 of this map. It's in Section 2, Township 19 South, Range 32
22 East.

23 Q And that is the well location that is
24 circled in red on the exhibit?

25 A That's correct, in the northwest quar-

1 ter.

2 Q In what formation is this well currently
3 completed?

4 A It's currently completed in the Bone
5 Springs formation.

6 Q When we look at the Lusk area to the
7 south, the pink area, what is the spacing for that Lusk
8 Pool?

9 A That -- that Bone Springs Pool is on 180
10 -- on 160-acre spacing.

11 Q And when we look at the Bone Springs Pool
12 to the north of the subject well, the area shaded in yellow,
13 what is the spacing for that Bone Springs?

14 A That's on 40-acre spacing.

15 Q Within Section 2 would you identify gen-
16 erally for us what are the various types of leases involved
17 in the section and whom, to the best of your knowledge, are
18 the various lessees and operators within that section?

19 A Okay. In Section 2 the majority of ac-
20 reage in Section 2, which I believe is 5670 acres, which is
21 labeled J. M. Huber, is currently operated by Phillips Pet-
22 roleum Company on a farm-in from Huber.

23 Then there's two small 40-acre tracts
24 towards the center of that section which are labeled as Gulf
25 on this map but I believe they've expired and been re-leased

1 Sol West III.

2 Q Is, to the best of your knowledge, the
3 acreage in Section 2, is that State of New Mexico oil and
4 gas minerals?

5 A Yes, I believe, to the best of my know-
6 ledge, all of the acreage in Section 2 is State lands.

7 Q What are you proposing to have the Exam-
8 iner do for the applicant with regards to the subject well
9 and its completion in the Bone Springs?

10 A Basically we are requesting a spacing
11 unit be assigned to this well for the purpose of having al-
12 lowable assigned for production from this well.

13 Q What is your recommendation to the Exam-
14 iner as to the spacing unit to be assigned to the well?

15 A Due to proximity to the East Lusk Bone
16 Springs Field and the fact that our completion interval is
17 allowed within the field rules of East Lusk Bone Springs
18 Pool, the well is being put by the Commission into a Bone
19 Springs, the East Lusk Pool.

20 Q When you talk about the Commission,
21 you're making reference to the District Office of the --

22 A The District Office, yes --

23 Q -- OCD?

24 A -- in Hobbs.

25 Q They've advised you and recommended that

1 this be subject to the East Lusk Bone Springs Pool rules?

2 A Yes. The well isn't in either pool.

3 Q It's within a mile?

4 A But it's within a mile of both pools and
5 the District Office advised that this well would be placed
6 in the East Lusk Pool.

7 Q Do you have 160 acres to dedicate to the
8 well in its current fashion?

9 A As you can see from the land map, we do
10 not have a standard 160-acre proration unit operated by
11 Phillips which we could designate to this well.

12 We have 120 acres in the northwest quar-
13 ter.

14 Q With the exclusion of the 40-acre tract
15 that is identified as a Gulf tract in the northwest quarter,
16 taking that out, then, you propose to dedicate the remaining
17 120 acres to the well.

18 A That is correct.

19 Q Let's talk about some of the history of
20 the well itself, Mr. Currie, and let me direct your atten-
21 tion to Exhibit Number Two and have you relate to the Exam-
22 iner what has been the history for the well and how the spa-
23 cing and formations have changed over the life of the well.

24 A Okay. The well was initially started
25 drilling in October of 1982. I believe it reached total

1 depth of January of 1983 at 13,670 feet in the Morrow forma-
2 tion.

3 Several Morrow intervals were attempted
4 for recompletion -- for completion in this well. I believe
5 two attempts were made and they were both abandoned, unable
6 to get economical production, and a third interval from
7 13,171 feet to 13,220 feet was -- we ended up making a com-
8 pletion in that well.

9 At that point the well was classified as
10 being in North Lusk Morrow Pool on 320-acre spacing. I be-
11 lieve the proration unit was the west half of Section 2.

12 Moving on, the Morrow became depleted
13 fairly rapidly and the well was recompleted up hole into the
14 Wolfcamp formation. The Wolfcamp was an oil well and it was
15 placed in East Lusk Wolfcamp Pool, which is spaced on 40 ac-
16 res.

17 At that time, or actually prior to the
18 recompleteion, since the well was depleted, Phillips pro-
19 posed to the other partners in the well that we would take
20 over the well in return for plugging responsibilities.

21 The partners agreed to this and Phillips
22 obtained 100 percent ownership in the well.

23 Q As a result of that purchase and agree-
24 ment, was the acreage in the southeast of the northwest
25 quarter, that 40-acre tract, was that excluded from partici-

1 pation, then, in the well?

2 A Yes, that was then excluded from partici-
3 pation in the well, and the proration unit became that 40
4 acres in the southwest of the northwest quarter.

5 Q All right, what then happened?

6 A The Wolfcamp completion did not hold up
7 very well, either. We -- we attempted some remedial work in
8 the Wolfcamp approximately a year ago. That wasn't very
9 successful either and earlier this year we recompleted from
10 the Wolfcamp to some zones in the Bone Springs which had
11 looked prospective on open hole logs and mud logs when the
12 well was initially drilled.

13 Q Let's turn your attention now to the
14 specifics of the production history for the Bone Springs
15 interval.

16 A Okay.

17 Q Is that information depicted on Exhibit
18 Number Two?

19 A Yes, that's shown at the bottom of
20 Exhibit Two.

21 This is taken from what Phillips has
22 filed with the state as production records on the Bone
23 Springs well. We were, let's see, we were testing and
24 recompleting in those first couple of months but the last
25 couple of months is the well just on production; that is,

1 note that the oil production shown there is the total month-
2 ly production, not a daily average, but the actual monthly
3 production. We've had difficulties producing the well and
4 the formation does not seem to be very productive at all.

5 Q Okay. You've reported total oil produc-
6 tion for the month of June of 8 barrels?

7 A That's correct.

8 Q All right. Let me direct your attention
9 to Exhibit Number Three at this point, Mr. Currie. Rather
10 than have you read all the details on Exhibit Number Three,
11 would you just summarize for me Phillips' efforts with the
12 District Office to obtain an allowable for the well and what
13 has been the general positions of the parties concerning
14 either 40 acres, 160 acres, or 120-acre spacing for the
15 well?

16 A Okay, initially when Phillips filed their
17 intention -- Notice of Intention to Plug Back to the Bone
18 Springs, we weren't aware that it would be 160-acre spacing.
19 We were subsequently informed by the District Office that it
20 would be on 160-acre spacing, at which time we applied for
21 the administrative approval of a 120-acre nonstandard prora-
22 tion unit. That was because of our acreage position in that
23 that 40 acres in the northwest quarter had already been re-
24 moved from participation in the well.

25 Q That administrative application was ob-

1 jected to on behalf of Sol West III. In the objection they
2 made mention or recommended 40-acre spacing instead of 160-
3 acre spacing for the pool.

4 So Phillips withdrew our request and
5 refiled as an Undesignated Bone Springs oil recompletion on
6 40-acre spacing.

7 After we had recompleted the well we
8 filed for a Notice of Recompletion and Request for Allowable
9 as Undesignated Bone Springs on 40-acre spacing. The
10 District Office then came back to Phillips and asked us --
11 informed us that the well would be placed into East Lusk
12 Bone Spring Pool, at which time Phillips re-filed its
13 request for administrative approval of the 120-acre
14 nonstandard proration unit.

15 Q As a result of Sol West III objection to
16 the administrative application, then, the Division has set
17 this matter for a public hearing on today's docket.

18 A I believe so. I believe the State Land
19 Office may also be objecting to this.

20 Q All right, sir. Do you have any
21 recommendation to the Examiner as to whether or not the well
22 should be assigned 160 or 120 acres?

23 A The primary reason that we feel the well
24 should be assigned 120 acres as opposed to 160 acres is that
25 because of the low productivity of the well, it appears the

1 workover attempt will never pay out and that the -- it would
2 be uneconomical for the owners of the 40-acre tract there to
3 join in this well.

4 MR. KELLAHIN: That concludes
5 my examination of Mr. Currie, Mr. Examiner.

6 We would move the introduction
7 at this time of Exhibits One, Two, and Three.

8 MR. STOGNER: Are there any
9 objections?

10 Exhibits One, Two, and Three
11 will be admitted into evidence.

12 Mr. Garcia, your witness.

13 MR. GARCIA: I have no ques-
14 tions of Mr. Currie.

15 MR. STOGNER: Thank you.

16

17 CROSS EXAMINATION

18 BY MR. STOGNER:

19 Q Okay, Mr. Currie, I guess I'm confused
20 here. From the point of December till January, December and
21 January, that there was an objection to the 120-acre non-
22 standard proration unit from Sol West and Murphy Operating
23 Corporation at that time, is that correct?

24 A That is correct. Murphy Operating was
25 acting on behalf of Sol West III.

1 Q And their objection 40-acre spacing is
2 suggested as an alternative, so did they mean a 40-acre non-
3 standard proration unit or a 40-acre pool designation or
4 what actually do you mean by that?

5 A It was somewhat unclear but I believe
6 they were -- they were more interested in having it
7 designated as a 40-acre pool.

8 Q Okay, then upon their request Phillips
9 withdrew their nonstandard 120-acre proration unit applica-
10 tion, right?

11 A Sure.

12 Q In hopes of getting a 40-acre proration
13 unit or put into a 40-acre pool.

14 A That's correct.

15 Q Well, once you actually did the work, the
16 District Office in Hobbs turned you down on your 40-acre re-
17 quest, is that correct --

18 A That's --

19 Q -- and still want you to be put in the
20 West Lusk Pool.

21 A That's correct. We suggested perhaps
22 being put in the Querecho Plains Upper Bone Spring Pool to
23 the north.

24 Q And what was the objection raised on
25 that?

1 A The district geologist determined that
2 the vertical limits of the Querecho Plains Upper Bone Spring
3 Pool did not include all of the perforated interval in the
4 State 1-2 Well.

5 Q And when I look at this map here, I show
6 that there is some plugged wells in Section 2, being the
7 southwest quarter, and there's a P&A'ed well in Section 3 in
8 the southeast quarter.

9 Did these test the Bone Spring, that you
10 know of?

11 A Let's see, the well in the southwest
12 quarter of Section 2 was not drilled deep enough to test the
13 Bone Spring.

14 Q Okay. And how about the one up in
15 Section 3?

16 A Let's see here. I believe it was also
17 not drilled deep enough. I'm uncertain of the other wells
18 in Section 3.

19 Q Okay, so by virtue this well just sort of
20 sets out there by itself.

21 A That's correct.

22 Q With the nearest -- now the nearest Lusk
23 producing well is in Section 10 in the northeast quarter, is
24 that correct?

25 A I believe that may be a Bone Spring well,

1 yes.

2 Q After -- in April, after the 40 acres was
3 turned down, why wasn't 160-acre proration unit sought at
4 that time, do you know?

5 A At that time, knowing what the
6 recompletion had cost to do the work and the production rate
7 we were getting out of that well, it was apparent that the
8 recompletion was never going to pay out; therefore it was
9 unlikely that any -- anybody would wish to join in, so we
10 proposed the 120-acre nonstandard proration unit to include
11 only Phillips acres.

12 Q Now at today's hearing, did you send out
13 the required notice?

14 A The required notices, I believe, would
15 have been sent out with the application which was made in
16 April.

17 MR. KELLAHIN: My copies of
18 your case file, Mr. Stogner, show various correspondence.
19 My understanding is the administrative request were sent to
20 all of the offsetting operators and owners and because of
21 the objections, then, the administrative application was
22 sent -- set for an Examiner hearing.

23 We did not, after this was
24 docketed at the Examiner level, send re-notifications to any
25 of those parties.

1 MR. STOGNER: Who's the lessee
2 in that one little quarter quarter section again?

3 MR. KELLAHIN: That's Sol West,
4 Mr. Examiner.

5 MR. STOGNER: Sol West, okay.
6 Now has Phillips been in contact with Mr. West since
7 November?

8 A We've been in contact with George Scott
9 of Murphy Operating Corporation, who represents Mr. West.

10 Q Okay, when was the last correspondence
11 you had or contact you had with Mr. --

12 A I last talked to him yesterday.

13 Q Okay.

14 A Or, I'm sorry, Monday.

15 Q Were they in objection to this?

16 A I did not get the impression that they
17 wanted their acreage joined in with our well. I did get the
18 impression that they would prefer 40-acre spacing for the
19 pool out there, which would involve designation of a new
20 pool, which for this marginal oil producer Phillips isn't
21 prepared to present testimony.

22 Q But Mr. Scott in one way or another
23 didn't seem to deem it necessary to correspond with you,
24 written, or otherwise.

25 A We've had no written correspondence from

1 Mr. Scott other than he has offered to purchase the well
2 from us.

3 Q Okay.

4 MR. STOGNER: I have no further
5 questions of this witness.

6 Mr. --

7 MR. KELLAHIN: No, sir.

8 MR. STOGNER: Mr. Garcia, do
9 you have any questions?

10 MR. GARCIA: No, sir.

11 MR. STOGNER: Okay. Mr. Currie
12 may -- do you have any other witnesses, Mr. Kellahin?

13 MR. KELLAHIN: No, sir, I have
14 nothing further to present at this time.

15 MR. STOGNER: Mr. Garcia?

16 MR. GARCIA: May it please the
17 Examiner, the State, as the landowner of the affected state
18 lands that are at issue today, and the Commissioner of
19 Public Lands, is opposed to the request by Phillips
20 Petroleum to establish a 120-acre nonstandard proration unit
21 on the basis that the interests of both conservation and
22 correlative rights would not be served by such a request.

23 At this time I would, in order
24 to substantiate the State's position, I would like to call
25 my witness.

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

DIRECT EXAMINATION

BY MR. GARCIA:

Q Could you please state your name and your
employer and your position of employment, please?

A My name is Ernest Szabo. I'm a geologist
with the State Land Office.

Q Mr. Szabo, are you familiar with the
facts and the nature of the request made by Phillips Petro-
leum in Case Number 9147?

A As much as the available information at
the Land Office would permit, yes.

Q Mr. Szabo, have you testified before this
body on previous occasions and had your professional creden-
tials established?

A I have.

MR. GARCIA: May it please the
Examiner, at this time I would like to offer Mr. Szabo as an
expert witness for the State Land Office.

MR. STOGNER: Are there any ob-
jections?

1 MR. KELLAHIN: No objection.

2 MR. STOGNER: He is so quali-
3 fied.

4 A Mr. Examiner, first I might add to the
5 previous information that was presented, we have been in
6 contact with Mr. Scott in his offices and as of Monday he
7 wasn't sure that he could make it to the hearing but indi-
8 cated he would try; however, he did oppose the idea of being
9 force pooled into a marginal proposition, and essentially,
10 this is where -- one of our problems.

11 Now the submitted plat, first of all,
12 shows the acreage situation in Section 2. That which is
13 outlined in pink is now controlled by Phillips and is their
14 LG Lease, which is a 10-year 1/8th lease.

15 The yellow indicates the leasehold of Mr.
16 Sol West III and consists of 80 acres, which Mr. West leased
17 in February of '86 with a 3/16ths burden.

18 Next, we've tried -- of course first let
19 me say that we like the letter designation of 40-acre unit
20 locations shown by the OCD in their reports; therefore we've
21 adopted that for the presentation so that A would be
22 northeast northeast 40-acre unit.

23 The plat further shows that -- the loca-
24 tion of the Phillips nonstandard L-shaped location in the
25 northwest corner. This consists of Units C, D, and E. At

1 the center of Unit E we marked the location of the Phillips
2 1-2 State Well.

3 Next to it, of course, we have Mr.
4 Scott's 40-acre tract.

5 In addition we've drawn a 160-acre circle
6 supposedly a radial drainage circle, around the Phillips
7 well and computed the approximate areas under the circle in
8 each of C, D, and F, and, of course, the full 40-acre in E.

9 So we show which areas are contributing
10 how much acreage to the drainage.

11 Now the lease terms, of course, are indi-
12 cated in the lower lefthand corner for each of the color
13 coded (unclear).

14 Now, it's our contention that a certain
15 amount of economics enters into this picture and that as a
16 result of the economic considerations the State would lose
17 revenue from possibly source F.

18 Second, the owner of lease F, which is
19 Sol West, would lose possibly his investment in the lease
20 itself.

21 And third, possibly the Phillips 1-2
22 could not drain the area under F.

23 Now, one of the problems that enters this
24 picture is the fact that the well has been assigned to the
25 East Lusk Bone Springs Pool, which automatically requires

1 160-acre spacing. This would, under normal conditions,
2 included Mr. West's 40-acre tract.

3 Our concern in part is that under normal
4 circumstances and normal procedure the OCD would assess a
5 penalty to a nonstandard unit. Thus in this case Phillips
6 would have a 75 percent acreage position. Mr. West would
7 have a 25 percent acreage position. If Phillips is granted
8 the 120-acre unit, they would be awarded 75 percent of the
9 production allowable and if later Mr. West were to try to
10 drill F, he would be pinched back to 25 percent.

11 The way the economics of this quarter
12 section work, it's doubtful if Mr. West or his successors or
13 assignees or anyone else could justify drilling a Bone
14 Springs well at location F assuming 100 percent of the drill-
15 ling costs and only 25 percent of the allowable, and make a
16 commercial operation out of it.

17 So we're aware from Phillips presentation
18 that the 1-2 is definitely a very, very marginal well. In
19 fact it presents almost no threat to any other development
20 that might go on in that quarter section, except if we have
21 120-acre unit awarded to that well. Then it presents a def-
22 inite threat because any further development there would be
23 pinched back.

24 There is a certain value to Unit F, which
25 is an anticipation value and as an anticipation unit, it

1 looks better to an explorationist than would Unit E. It's
2 undeveloped. It's potential is unknown, whereas Unit E now
3 is definitely noncommercial, nonprofitable, salvage.

4 So to all intents and purposes in the
5 view or the opinion of the Land Office, F represents a bet-
6 ter income producing potential than E does and it would be
7 our concern that it would never be drilled, never developed,
8 because of the restrictive allowable that would be place on
9 it and this in turn would possibly cause a loss of an econo-
10 mic resource. It would definitely cause a loss of revenue,
11 and to Mr. West it would represent a loss of his lease money
12 because he couldn't develop it, and it would not be part of
13 the unit itself.

14 Going down hole, they've abandoned the
15 Morrow; they've abandoned the Wolfcamp; and it would leave
16 very little to pick the southwest quarter, the well tested
17 probably to the Seven Rivers, it would be very little to
18 pick and work on for the 40-acre tract location F.

19 So it's of concern to us that F may be
20 abandoned because of restrictive allowables.

21 Now, we recognize that the 1-2 presents
22 no great threat and the reason we object is because of the
23 possibility that Unit location F would have a restrictive
24 allowable that would make development impossible, or ex-
25 tremely unlikely, and we feel that because of this, plus the

1 possibility that J may suffer the same fate, we would lean
2 toward rejection of the application for a nonstandard prora-
3 tion unit.

4 MR. GARCIA: May it please the
5 Examiner, at this time I would move the admission of SLO
6 Exhibit One.

7 MR. STOGNER: Are there any
8 objections?

9 MR. KELLAHIN: No, sir.

10 MR. GARCIA: I have no other
11 questions of the witness at this time and pass Mr. Szabo.

12 MR. STOGNER: Mr. Kellahin?

13 MR. KELLAHIN: Thank you.

14

15 CROSS EXAMINATION

16 BY MR. KELLAHIN:

17 Q Dr. Szabo, let me see if I can clarify
18 for myself what the Land Commissioner's position is on the
19 subject.

20 Let me use for reference your exhibit. I
21 think it's helpful.

22 If we look at the southeast quarter --

23 A Uh-huh.

24 Q -- there is not now any Bone Springs well
25 on that, so you're concerns about having Unit J suffer the

1 same fate, as you characterized it, as F, would not appear
2 to apply in the absence of a well in the southeast quarter.

3 A That's true, yes. That well is 160-acre
4 spacing. Exactly.

5 Q What would be 160-acre allowable for the
6 East Lusk Bone Springs Pool, do you know?

7 A Offhand, no.

8 Q Okay. Your radius of drainage is simply
9 taking a circle that contains 160 acres --

10 A Assuming radial drainage.

11 Q -- assuming radial drainage and scribing
12 it on --

13 A Exactly.

14 Q -- the exhibit.

15 A Phillips has presented no information
16 directing us towards, say, a linear reservoir and other than
17 a radial drainage.

18 Q Have you or any of the technical staff on
19 the Land Office's -- among the Land Office personnel done
20 any drainage calculations for the subject well?

21 A No, because we haven't had a true
22 indication of the source of the production and actually we
23 don't have, until now, we didn't have specific numbers on
24 how much they could produce, but at the time I contacted
25 Phillips concerning this case, it was my feeling that they

1 really can't drain 160-acre unit because of the limited
2 production that they were getting out of it plus the fact
3 that I think they're dealing with a clastic reservoir here
4 rather than a carbonate bank reservoir.

5 Q You said in your direct examination that
6 you did not think that the well was going to drain the area
7 underlying the 40 acres in Unit F.

8 A That would be my feeling, yes, sir.

9 Q The subject well certainly can't pose any
10 -- any danger to that state lease because it's not going to
11 demonstrate the capacity to take those --

12 A I -- I made a --

13 Q -- hydrocarbons.

14 A -- statement to that effect. I'm com-
15 pletely in agreement with that.

16 Q All right. What proposed allowable or
17 spacing unit would you recommend to the Examiner to solve
18 the difficulty we're in?

19 A Well, now we're in a Shylock type dilem-
20 ma, where we exact a pound of flesh without drawing the
21 blood.

22 My feeling is that since the Phillips
23 well does not present a threat we should, oh, allow the
24 Phillips well to continue to produce as a salvage operation.
25 In other words, this, then, puts us in a position where

1 really the State Land Office would favor a 40-acre proration
2 unit.

3 You see, unfortunately, if the allowable
4 is based on the 160 and the 1-2 gets 75 percent of it, that
5 presents a problem for the 40-acre tract F, so my feeling is
6 that since it is really not a boomer, a barn-burner, 40
7 acres is certainly a reasonable allowable or allowance for
8 that particular well.

9 Q You have, I believe, indicated to us that
10 forced pooling Sol West's lease and the 40-acre tract
11 labeled F into a standard 160-acre spacing unit really is ot
12 an appropriate solution, either.

13 A Well, in discussing this with Mr. West,
14 first Mr. West and then he directed me to Mr. Scott for fur-
15 ther discussion, the indication was that why should we be
16 forced into putting our money into a losing proposition. In
17 other words, the payout would be so long that you might as
18 well say never, and --

19 Q As Mr. Currie indicated to us, I think
20 everyone acknowledges --

21 A Yeah.

22 Q -- compulsory pooling of that 40-acre
23 tract is no solution.

24 A Exactly.

25 Q There is no economic incentive for Mr.

1 West or the Land Commissioner to have 25 percent of 8 bar-
2 rels a month.

3 A No.

4 Q All right. By excluding that 40-acre
5 tract, then, it does free up that particular 40-acre tract
6 to support its own Bone Springs well up to whatever a 40-
7 acre allowable would be.

8 A I would accept that. I see no problem
9 with giving the 1-2 a full allowable on a 40-acre spacing.
10 Of course the problem then is Phillips also has C and D in
11 addition to Mr. West's F.

12 Now, the problem is that should that then
13 be considered a nonstandard unit with a full allowable.

14 Q At such time as Mr. West decides to drill
15 his 40-acre tract, he certainly would have the opportunity
16 to come to the Commission and ask for a different spacing
17 pattern or some adjustment in his allowable in order to make
18 it economic.

19 A I think so.

20 Q All right.

21 A I think the ball's in his court now. We
22 don't run anyone's business. We merely try to protect each
23 from being hurt, so I think it would be his initiative.

24 Q All right.

25 MR. KELLAHIN: I have nothing

1 further, Mr. Examiner.

2 MR. STOGNER: Mr. Garcia?

3 MR. GARCIA: I just have one
4 question for clarification.

5

6 REDIRECT EXAMINATION

7 BY MR. GARCIA:

8 Q Mr. Szabo, would it be better to have a
9 40-acre undesignated pool instead of a 40-acre nonstandard
10 proration unit, in your opinion?

11 A It would have advantages, yes.

12 Q In what respect?

13 A Well, if we ran into confirmation that it
14 belonged to the Querecho Plains rather than the East Lusk,
15 later it could probably be added onto the Querecho Plains,
16 or depending on the development of the section itself, it
17 could then be pushed toward the East Lusk, whichever. In
18 other words, temporarily it would be an in limbo type opera-
19 tion where the developments would guide the final designa-
20 tion.

21 But definitely a 40-acre undesignated
22 would be the ideal solution for this; however, the request
23 was made on 120-acre spacing or inclusion and I have no
24 choice but to base it on 120 acres.

25 Now, to me the 120 acres would create

1 great problems whereas a 40-acre undesignated would give the
2 operators and the participants in the section the opportu-
3 nity to develop it and come to a determination at a later
4 time.

5 Q Thank you.

6 MR. GARCIA: Mr. Examiner, I
7 have no further questions.

8 MR. KELLAHIN: One follow-up
9 question, Mr. Examiner.

10 MR. STOGNER: Mr. Kellahin.

11

12 REROSS EXAMINATION

13 BY MR. KELLAHIN:

14 Q Dr. Szabo, have you prepared any geologic
15 study for this well in this area to assist the Examiner in
16 determining into what pool this subject well ought to be de-
17 signated?

18 A No, because the perforated interval in
19 this well is very broad. You have a 100 foot perforated in-
20 terval and the District Office already determined that it
21 fitted into the Lusk reservoir, so we, as I say, ours is to
22 protect the lessee rather than to direct the findings, and
23 we try to maintain a neutral attitude; however, another
24 problem we have is that we don't have all the data necessary
25 in our office. In other words, we're dependent on OCD for

1 for logs. We're dependent on the scout tickets for
2 information and the files, and the files on this particular
3 well (unclear).

4 Q Have you used those public sources of
5 information to then make a geologic study --

6 A I have used --

7 Q -- of the area?

8 A I have used the log and the I've used the
9 GeoMaps sources, yes.

10 Q Do you have a geologic opinion, Doctor,
11 as to what geologic -- geologically which of the pools this
12 well ought to be in?

13 A Well, the reservoir is different enough
14 so that I feel it should be attached, possibly, to Querecho
15 Plains.

16 To my understanding the East Lusk is a
17 carbonate bank reservoir, dolomitic, and this, apparently,
18 is a clastic, so they're different. The behavior would be
19 different. 6 percent porosity in a clastic is so-so whereas
20 6 percent in a carbonate could be (unclear), so my feeling,
21 I lean toward Querecho Plains.

22 Q Have you discussed your leanings or your
23 opinions with the staff geologist of the Oil Conservation
24 Division --

25 A No.

1 Q -- in the District Office?

2 A No. First of all, we try not to
3 influence with our opinions people who are ultimately going
4 to make a decision on these things.

5 MR. KELLAHIN: Thank you.

6 MR. STOGNER: Mr. Garcia, do
7 you have any follow-up?

8 MR. GARCIA: No, no, thank you.

9 MR. STOGNER: Let me make sure
10 I understand this right, when Mr. Kellahin was questioning
11 you, that you're proposing that the Phillips State Well No.
12 1 be given a 40-acre proration unit with the full acreage
13 allowable, is that correct?

14 A With its full allowable, yes, sir.

15 Q On full 160 allowable.

16 A Yeah, 100 percent.

17 Q Now I guess what this would accomplish
18 would be if there was four other wells drilled out here,
19 that they all get full allowable also.

20 A Well, this -- this is where I recognize
21 the problem. In other words, this is where I said the
22 dilemma comes in, is that if you allow this one to have
23 full allowable for 40 acres, then essentially you're break-
24 ing down the designation of this Lusk Pool and this is some-
25 thing that I -- I hesitate to suggest, since, first of all,

1 it's 120-acre request, and second, a designation has been
2 made, although I recognize the OCD can review its own deci-
3 sion and change it.

4 My feeling would be that it's a shame to
5 waste a good hole and if the Phillips well is abandoned, es-
6 sentially you've wasted a good hole. Also, whatever little
7 it contributes toward the income, it at least helps a little
8 bit and I think it deserves to be kept and it is no trick,
9 you won't cause an (unclear) and I feel that they should be
10 allowed to produce that for as long as they feel that it's
11 economically feasible to produce it, and allow it to salvage
12 some of the costs that have gone into it so far.

13 Whether that means the next proration
14 unit is 120 acres the other way out of the L, I refuse to
15 suggest either way.

16 MR. STOGNER: I have no further
17 questions at this time.

18 Is there any questions of this
19 witness?

20 MR. KELLAHIN: No, sir.

21 MR. STOGNER: He may be ex-
22 cused.

23 Mr. Kellahin, do you wish to --

24 MR. KELLAHIN: I have nothing
25 else.

1 MR. STOGNER: Okay, I guess
2 we're ready for closing statements.

3 Mr. Garcia, I'll let you go
4 first and, Mr. Kellahin, you can follow him.

5 MR. GARCIA: May it please the
6 Examiner, just briefly, based on the testimony given by Mr.
7 Szabo I would submit that there has been no justification
8 submitted today by Phillips Petroleum to have allowed the --
9 to agree to the request for a 120-acre nonstandard proration
10 unit and that such a request and approval would in fact be
11 adverse to the interest of conservation and correlative
12 rights, and for those reasons the State Land Office would
13 object to their request.

14 MR. STOGNER: Thank you, Mr.
15 Garcia.

16 Mr. Kellahin?

17 MR. KELLAHIN: Very briefly,
18 Mr. Examiner, I respectfully disagree with Mr. Garcia.

19 I think in taking a very mar-
20 ginal well we have left Sol West and the Commissioner of
21 Public Lands with the greatest flexibility and the most op-
22 tions in determining the development of the balance of the
23 acreage in the section.

24 Phillips simply seeks to have
25 an allowable assigned to the well. We do not desire to

1 spend money and effort contesting the District Office's de-
2 cision of the Division that this well and this acreage in
3 fact are in the East Lusk Bone Springs Pool.

4 We acknowledge that this well
5 certainly does not have and cannot have the ability to drain
6 the Unit F 40-acre tract. We propose then to exclude that
7 acreage so that that operator or owner does not have to un-
8 dergo a forced pooling hearing, have his 40 acres tied up
9 and to be precluded from using that acreage, then, should he
10 desire to drill his own Bone Springs well.

11 Mr. West is in a position where
12 he has the flexibility to come in and propose to the Exam-
13 iner a new pool; to move this section out of the East Lusk
14 and put it into another pool. He also has the flexibility
15 to get a special allowable. He certainly could come in and
16 ask that the spacing unit for the Phillips well be altered
17 in view of his own production, if he should establish it.

18 We think we've done the best we
19 can to resolve it. We have tried to establish 40-acre al-
20 lowable for the well through the Division's District Office.
21 They refused to do so, and we're simply looking for the most
22 expedient solution to get us an allowable for the well so we
23 can put this beyond us. We think we've got a solution for
24 you that poses the least difficulty for anyone else in the
25 area.

1 We'd request that you grant our
2 application.

3 MR. STOGNER: For clarification
4 on the record, are Units C, D, and E common throughout as
5 far as their interest?

6 MR. KELLAHIN: Yes, sir, it's
7 one state lease. The interest owners are the same.
8 Phillips has acquired that interest by way of farmout.

9 MR. STOGNER: Phillips is 100
10 percent interest owner in those three 40-acre units.

11 MR. KELLAHIN: That's correct.

12 MR. STOGNER: If there is
13 nothing further in this case, Case Number 9147 will be taken
14 under advisement. Thank you, gentlemen.

15

16 (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 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. 9142,
heard by me on 15 July 1987.

Mark E. Rogers Examiner
Oil Conservation Division