

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
July 27, 1960.

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)
IN THE MATTER OF:)
)

APPLICATION OF UNION OIL COMPANY OF
CALIFORNIA for approval of its South
Caprock Queen Unit Agreement, which
unit is to embrace 9526 acres in Town-
ships 14 and 15 South, Ranges 30 and
31 East, Caprock Queen Pool, Chaves
County, New Mexico.
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CASE
NO. 2031

BEFORE:

Hon. Daniel S. Nutter, Examiner.

TRANSCRIPT OF PROCEEDINGS

MR. NUTTER: Hearing will come to order. Next case will
be Case 2031.

MR. PAYNE: Case 2031. Application of Union Oil Company
of California for approval of its South Caprock Queen Unit Agree-
ment.

MR. CAMPBELL: Jack M. Campbell, of Campbell and Russell,
Roswell, New Mexico, appearing on behalf of the Applicant, Union
Oil Company of California. I have one witness to be sworn.

(Witness sworn.)

S A M H. S N Y D E R, a witness, called by the Applicant, having
been first duly sworn, was examined and testified as follows:

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DIRECT EXAMINATION

BY MR. CAMPBELL:

Q Will you state your name, please?

A Sam H. Snyder.

Q Where do you live, and by whom are you employed?

A Midland. Employed by Union Oil Company of California.

Q What is your position with that company?

A Attorney and land man.

Q In your position as attorney and land man for that company, have you had occasion to draft a unit, proposed Unit Agreement for the South Caprock Queen area in Chaves and Lea County, New Mexico?

A I have.

(Whereupon, Applicant's Exhibit
1 marked for identification.)

Q I refer you, Mr. Snyder, to what has been identified as Applicant's Exhibit Number 1 in this case, which is that Unit Agreement. Is that the final draft of that Agreement?

A It is.

Q Will you refer to Exhibit A and advise the Examiner whether that is the area that is to be covered by the proposed Unit Agreement?

A It is the area.

Q What is the approximate amount of acreage in the area?

A It is 9,526.04 acres.

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Q Is this unit established for the purpose of carrying on a secondary recovery project, Mr. Snyder?

A It is.

Q What is the present status of commitments to the Unit Agreement by the owners in the Unit area?

A With reference to the royalty owners, of course it is demonstrated by Exhibit A, the majority of the acreage is either Federal acreage or State acreage. In the instance of the State acreage, we have prior to this hearing visited informally with people in the Unit Section of the State Land Office, and furnished them drafts and the supporting data in connection with the Unit Agreement, and they have had no objections.

In connection with the Federal acreage, we have tentative approval, which is the customary thing, from the United States Geological Survey, as to our Unit Agreement.

In connection with the royalty owners, the majority of the royalty owners under the Unit Agreement on the override system were, and we do not have any that do not concur, and we have received only one side. Those were not mailed until last Friday.

I couldn't expect much better results in connection with the working interest owners. We have, through the Owners' Committee, that was formed, approximately 80 percent of the people in the area have agreed to the proposed Unit. Of the interest outstanding, that is in the Northeast part of the field, the Continental Oil --

Q Is that Section 27 and 34, the acreage lying to the



northeast of that?

A Yes, sir. Continental has indicated they would not go along with the proposed Unit. They have furnished us with a letter saying they would cooperate with us; and our Unit Agreement does provide for boundary agreements.

It is our understanding, as of last month we found out that Continental is now proposing a unit encompassing Sections 27 and 34.

As to the acreage to the northeast, east through off-lying districts into the field, I believe we were furnished with a telegram from the Gulf operator which owns the majority of acreage, stating they have concurred in our application, but will withhold their particular tracts in this area until, and come in under the 6-month rule in the event they decide not to go along.

As the exhibit suggested, we have a 99 percent agreement with the people on these other tracts, they have just shown a lack of interest, and conversations with them indicate they will probably go along. Down in Section 3, Tennessee Gas, which has one well there, and the very small percent, we believe they have, we do not have a definite commitment from there.

There are two tracts in the compound which, one of which is a Federal tract which is unleased and is on a known geological tract; the other is a State of New Mexico tract which is unleased. We have requested of the proper authorities in both instances that these tracts be put up for sale, and at such time we will attempt

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to buy them either ourselves, or with the concurrence of the people in the participating unit.

Q Do you consider that within the limits of the opposing unit area, as indicated on Exhibit A, that the operator has effective control of the unit area?

A Yes, sir.

Q Union Oil Company is to be the operator?

A Yes, sir.

Q Is there provision made in the Unit Agreement for expansion and constriction of the unit area?

A Yes, sir.

Q Would you briefly state where that is contained, and describe it briefly?

A It is, respectively, expansion is Section 4, found on page 7; contraction is Section 5, found on page 8. I believe that in both instances these are provisions that have been in Unit Agreements in this same field and approved by this Commission. It requires the 90 percent content of the working interest owners, plus the content of the Commissioner, as well as the Director.

Q Does the Unit Agreement contain provision with regard to the participation formula?

A Yes, sir, it does.

Q Could you state where those are, and briefly describe them for the Examiner?

A Participation formula is found in Section 14, found on

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pages 14 and 15. It will be noted there are two participating formulas, one for primary and one for secondary reserves. The primary reserves figure of course being in a known amount of oil, and this particular participation will determine whether even that amount of oil is recovered, and we will go to the secondary -- the primary formula is based for wells completed subsequent to the first day of -- I cannot remember if it is the first day of July of '59, but it is found in the definition -- it is a well completed subsequent to the 30th day of June, 1959, will be 100 percent on additional reserves as calculated by the engineering sub-committee and approved by the operators in the field.

The remainder of the tract in the field that will have the primary participation will be based 20 percent upon the tract current production. The tract current production comes from the base period, designed in the definition by a 6-months period which the operators selected as being representative of the field, that is when they felt everyone had a fairly even chance.

The tract cumulative production will be 50 percent, and this is self-explanatory, that was the production prior to the base period in June of '59. And then the remaining primary, this was determined by the engineering committee, and accepted by the operators, and has been gone over quite thoroughly by the Geological Survey as to the basic data that went in to arrive at these various perimeters assigned to the tracts.

The secondary participation formula which will be effective



when the amount of oil allocated to the wells defined as new wells, plus the 7,592,197 barrels that has been recovered, will be based 70 percent upon Acre Fee, and 30 percent on possible volume, which is a quality factor on the Acre Fee.

Q How long have negotiations been under way, Mr. Snyder, for the formation of this Unit?

A Three years.

Q And during that period of time, has there been an Engineering Committee functioning with regard to the establishment of a participation formula?

A Yes, sir.

Q During that period of time, have you also been engaged in drafting and re-drafting the Unit Agreement?

A Yes, sir.

Q Do you believe, Mr. Snyder, from your knowledge of this Unit Agreement, and the participation formula, that the correlative rights of the owners within the area will be protected under this Unit Agreement?

A Yes, sir.

Q Do you believe, if this Unit Agreement is approved by the Commission, and the secondary recovery contemplated by it is undertaken, will there be greater ultimate recovery of oil, than if the Unit were not formed?

A Yes, sir.

MR. CAMPBELL: I believe that is all.

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MR. NUTTER: Anyone have any questions of Mr. Snyder?

CROSS-EXAMINATION

BY MR. PAYNE:

Q If the Commission approved your Unit as proposed, then could not form a Unit consisting of the part of the acreage as in this Unit, how would you propose to handle, by the contraction formula?

A Yes, sir. We have the built-in mechanism within the Agreement that would adequately do that, and also although we are not particularly happy with it, we have the 6-months subsequent joint provision which allows these people, other than Continental, who were kind of on the fence right now, the option to wait for six months and see what they want to do; and of course that merely entails following the procedure in here for reverse excesses, and so forth. And the 30-day notice provision with respect to Governmental bodies who have control, or wells of the working interest owners.

MR. PAYNE: Thank you.

QUESTIONS BY MR. NUTTER:

Q Here on Exhibit 1, I found a red line on the west side of Section 27, and down the west side of Section 34, and the south side of Section 34. Now, does that mean everything that is north and east of that line would not be in the Unit for the time being?

A Well, I cannot say that the people who advised us -- Now, we have not talked to all of the people, we did not find out

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more than we only knew of Continental, the fact they did not intend to unite with us, and furnished us a letter saying they would cooperate. We do not know exactly what will transpire in this area, Mr. Nutter. It is possible that with a little more thinking, that they may come with us, other than the Continental. And it is my understanding that Continental has purchased some of the interest directly east of this tract. It is referred to on our map as "Trainer"; I understand that has been done. I have not seen instructions reflecting that transfer, it is strictly verbal on the thing, but if that be the case, it may be that just the Continental and acreage which it separates from the Unit, would be out.

Q Would there be any point in the acreage in Sections 22 and 23, and 26 and 35 coming into your Agreement, if Continental holds out?

A They could. We would have effective control, and for one thing, the Federal Government is, as I understand through its Geological Survey, would not approve that as a Unit for lack of effective control, so with the contraction of the Unit, it would be necessary at that point.

Q So if the Government and Continental refuse to join your Unit, then all of this acreage would be eliminated from the Unit Agreement?

A For the time being we would probably file, and then could come in during the six months, or we even have subsequent



joiners as time goes on, they change their mind, it could be done. For the time being, our Unit would be as you have drawn it with your red pencil there.

Q You stated that with the exceptions of this acreage, you had 99 percent of the working interest committed?

A We do not have it signed, they have agreed to our proposal.

Q So from the red line south and west --

A Yes, sir.

Q -- 99 percent has either committed its acreage, or agreed to commit its acreage?

A We had a little trouble with the printing press, we have not got the signatures. We do, and I think we substantially have telegrams which are representative of the vast majority of the owners in the south and the east there.

Q What percentage do you think has actually committed itself, or agreed to join this area?

A Through the Operators' Committee, and ballots, and so forth, and telephone conversations, 99 percent.

Q You said there are two tracts in here that were not leased as of now?

A Yes, sir.

Q What is the location of those tracts?

A Well, I may have just a little bit of trouble finding them, but one of those tracts is in -- it is a Federal tract, it is tract 46, it is in Township 30, as you can see.

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Q Is that 40-acre tract labelled Pan American?

A That is right.

Q It is our understanding that Pan American, their lease has expired.

A And then the other is, the Federal tract is tract 13, it would be in Section 6, the other portion of Section 6, in 15-31.

Q It has a dry hole on it also?

A Yes, sir. And the Federal lease wasn't given the customary 40-acre assignment; at the end of the ten years, it terminated in May. And we have requested in both instances that the tracts be put up for sale.

Q You have received tentative approval from both the Commissioner of Public Lands, and United States Geological Survey?

A This form from Public Lands through their advice and they furnished all of the supporting documents for the components of the participation formula, as well as the various drafts of the Agreement to the Unit Section.

Q What about the fee royalty owners, have they agreed?

A In certain instances they have.

Q What percent of the fee royalty owners have agreed?

A I only had one individual ratification from the fee owner when I left my office; it is a very small percentage that have formally done it. We have talked with several of the people, and they have agreed to it, but we do not have their names on the dotted line.



Q What is the total amount of fee acreage in this unit?

A 1,922.08 acres. It is shown in the breakdown on Exhibit B, attached to the Unit Agreement. There, likewise, the Unit Agreement cannot become effective even though we have approval, until we have at least 75 percent of it under the respective tracts of the fee owners royalty.

Q That is a provision in the Unit itself?

A It is the only mechanism of the agreement.

Q Will the royalty owners have under the various tracts in this Unit, share in the royalty on the same participation formula that the working interests share?

A Yes, sir, that is broken down on Exhibit B.

MR. NUTTER. Yes, sir. Any further questions of Mr. Snyder?

(No response.)

MR. NUTTER: You may be excused.

(Witness excused.)

MR. CAMPBELL: I would like to offer Exhibit 1, the Unit Agreement.

MR. NUTTER: Exhibit Number 1 is the Unit Agreement?

MR. CAMPBELL: Yes, sir. If there are telegrams, I would like to have those in the record.

MR. PAYNE: All right, sir. You want me to read them?

MR. NUTTER: Yes.

MR. PAYNE: These telegrams are applicable for the



succeeding case. Neville G. Penrose concurs. Gulf concurs, stated that have not decided yet on commitment to come in under the subsequent terms. Joseph I. O'Neill concurs; and Monsanto Chemical Company concurs.

MR. NUTTER: Does anyone have anything further for Case Number 2031?

(No response.)

MR. NUTTER: We will take the case under advisement.

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I N D E XWITNESSPAGE

SAM H. SNYDER

Direct Examination by Mr. Campbell

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Cross Examination by Mr. Payne

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QUESTIONS by Mr. Nutter

8

<u>NUMBER</u>	<u>EXHIBIT</u>	<u>MARKED FOR IDENTIFICATION</u>	<u>OFFERED</u>	<u>RECEIVED</u>
App.#1	Unit Agreement	2	12	12

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