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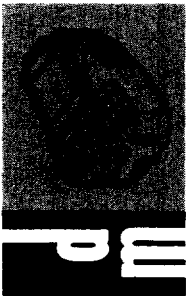
EXAMINER HEARING

IN THE MATTER OF: Application of Shell Oil
Company for a unit agreement, Eddy County,
New Mexico.

Case No. 3127

BEFORE: Elvis A. Utz, Examiner

TRANSCRIPT OF HEARING



MR. UTZ: We will now call Case Number 3127.

Application of Shell Oil Company for a unit agreement,
Eddy County, New Mexico.

MR. MORRIS: I am Richard Morris, of Seth, Montgomery,
Federici & Andrews, Santa Fe, New Mexico, appearing on behalf of
the Applicant. We will have two witnesses in this Case. Mr.
Lawrence and Mr. Stoesz. I ask that they both be sworn at this
time.

(Witnesses sworn.)

O. V. LAWRENCE, called as a witness herein, having
been first duly sworn on oath, was examined and testified as
follows:

DIRECT EXAMINATION

BY MR. MORRIS:

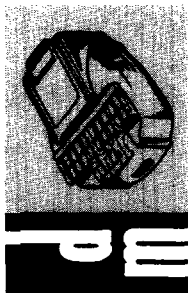
Q Mr. Lawrence, please state your name, by whom you are
employed and what capacity, and where you are located.

A O. V. Lawrence, Shell Oil Company, Roswell, New Mexico,
in the capacity of Division Land Manager.

Q You have previously testified before the Commission or
one of its Examiners in connection with Unit matters and had
your qualifications accepted as a matter of record?

A Yes, I have.

MR. MORRIS: Would you have the reporter mark the Unit
Agreement as Exhibit Number One.



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

Q (By Mr. Morris) Mr. Lawrence, I refer you to what has been marked as Exhibit Number One and ask you to state what it is.

A It is a Unit Agreement for the development and operation of the China Canyon Unit Area.

Q And what is it that Shell Oil Company seeks by the Application in this Case?

A We seek approval of this China Canyon Unit Area. It comprises 7,611 acres, more or less, of Federal, State, and Fee lands in Township 23 South, Ranges 23 and 24 East, Eddy County, New Mexico.

Q Will you refer to Exhibit "A" to this Exhibit Number One, which is a plat of the Unit Area; would you point out the pertinent features shown on that attachment?

A Yes, sir, I will. Exhibit "A" to the Unit Agreement is a plat which shows the Unit Area and the types of land covered. In this particular Unit there are 6,811 acres of Federal land which is 89.49 percent; 640 acres of State land which is 8.41 percent; and 160 acres of Fee land which is 2.10 percent; a total being 7,611 acres, more or less.

Q Are the various tracts within the Unit Area numbered and keyed over to Exhibit "B" to this Unit?



A Yes, sir, they are. And of course, Exhibit "B" is the leasehold ownership of each individual tract, as shown on Exhibit "A".

Q Would you state from Exhibit "B" who the working interest owners are within this Unit Area?

A They comprise Shell Oil Company, Humble, Gulf, Amex Petroleum Corporation and Sun Oil Company.

Q Of these working interests that you have just named: how many have committed their interest to the Unit Agreement?

A All of these owners have agreed to join in the Unit Agreement.

Q What is the status of joinder of the overriding royalty interest in this Unit?

A They are being contacted and will be given the opportunity to ratify the Agreement.

Q You said that the Unit includes Federal, State, and Fee lands; have you been in touch with the U.S.G.S. concerning this Unit Agreement?

A Yes, sir, we have. We have preliminary approval from the acting director on the Unit Area.

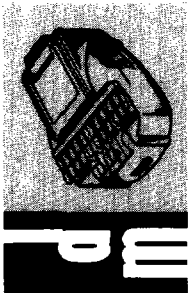
Q Have you been in touch with the State Land Office concerning this Unit Agreement?

A Yes, sir, we have; and it is presently being considered.

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Q Have you been in touch with the owner of the Fee acreage?

A The royalty interest under the Fee lands have or will be contacted, and they will be asked to ratify the Unit Agreement.

Q At the present time, Mr. Lawrence, has any interest holder in the Unit Agreement refused to join?

A No, sir.

Q What is the form of this Unit Agreement?

A The form is the suggested form where Federal, State, and Fee lands are involved. The same form has previously been approved by the director, the Commissioner, and also the Commission.

Q Under the -- excuse me. Go ahead.

A Go ahead.

Q Under the Unit Agreement, who is designated as the Unit Operator?

A Shell Oil Company.

Q What formations are unitized?

A All formations are unitized.

Q In this Exploratory Unit, Mr. Lawrence, what will be the drilling obligation of Shell Oil Company as the Unit Operator?

A The Unit Agreement provides that a unit test will be

commenced within six months after the Unit has been approved by the Commissioner and also the Director. This test is to be drilled to the Silurian Devonian formation, or until unitized -- at a later depth. In no event is the operator required to drill the open well in excess of 11,300 feet.

Q Was Exhibit One prepared by you or under your direction?

A It was prepared under my direction.

MR. MORRIS: At this time, Mr. Examiner, we offer Exhibit One into evidence, and that will complete the examination of Mr. Lawrence. We will have Mr. Stoesz available to testify concerning geological aspects of this Unit.

MR. UTZ: Did you offer this as --

MR. MORRIS: Yes, I offered the Unit Agreement into evidence; and here is the official copy we offer at this time.

MR. UTZ: Without objection, Exhibit One will be entered into the record of this Case.

CROSS EXAMINATION

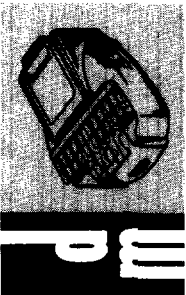
BY MR. UTZ:

Q Mr. Lawrence, have you located your test well, yet?

A Yes, sir, we have. I believe that will be covered in the next witness' testimony.

Q Okay.

MR. UTZ: Are there any other questions of the witness?



(No response.)

MR. UTZ: The witness may be excused.

(Witness excused.)

L. W. S T O E S Z, called as a witness herein, having been first duly sworn on oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. MORRIS:

Q Mr. Stoesz, will you state your name, by whom you are employed, and in what capacity, and where you are located.

A My name is L. W. Stoesz, I am presently employed by Shell Oil Company as Division Exploration Manager, in Roswell, New Mexico.

Q Would you briefly state your education and your experience in the oil industry?

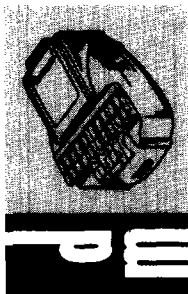
A I received a Master's Degree with a major in geology, from the University of Nebraska in 1949, and since have been employed by Shell for a period of 15 years as a geologist and Exploration Manager.

Q Are you familiar with the geology in the area of the proposed Unit?

A Yes, I am.

MR. MORRIS: Are Mr. Stoesz's qualifications acceptable?

MR. UTZ: Yes, sir, they are.



MR. MORRIS: Let's get these Exhibits marked.

(Whereupon, Applicant's Exhibit's Two and Three marked for identification.)

Q (By Mr. Morris) Mr. Stoesz, referring to what has been marked as Exhibit's Two and Three, in this Case, would you explain the geology of this -- of the Devonian formation in this proposed Unit Area?

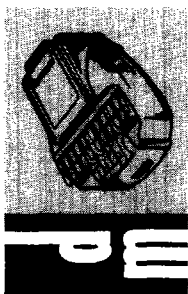
A Yes. Let me start with the structure which is shown on Exhibit Two. The prospect was disclosed by seismic mapping, the control of which is three generally eastwest lines. In one northwest southeast line data are generally fair to good. This work disclosed a southeast plunging structural well defined by structural lows to the southwest and to the northeast. The trap across this nose is indicated by a stratigraphic work to be a permeability limit across the northern part of the nose. The objectives are shown on Exhibit Three. I refer you to the center log on the cross section, Gulf North Caverns Unit Number One, which encountered a porous dolomite in the Strawn formation which tested water and a porous Silurian, both of which pinch out lost permeability to the northwest between the Gulf North Caverns Unit Well and the well shown to the left of this well on the cross section, and at a point number one.

Reference to these two wells in the Structure Map, Exhibit Two, will show the nature of the prospect.

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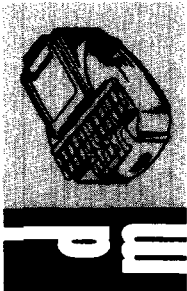
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Q From these Exhibits, do we conclude that the deformation is the prime prospect in this Unit Area?

A There are two prime prospects; both the porous Strawn dolomite and the porous Silurian Devonian. An additional object is the Morrow Sandstone which is producing gas in the Humble Point Number One.

Q In your opinion, Mr. Stoesz, does the Unit Area and the Unit outline, adequately cover and contain the prime objectives from a geological standpoint?

A Yes, sir. The Unit outline to the southwest is bounded by the well defined structurally low; the Unit boundry to the northeast is defined by a structural low. The termination of porosity defines the northern limits of water down dip defines the southern limits.

Q Do you have a tentative location for the initial well in this Unit Area?

A The tentative location is shown on Exhibit Two as near the center of Section 21. This is the first location, the first well to be drilled in the area where we can expect both favorable porosity in objective rocks at a favorable structural position. This test provides a fair test of the prospect.

Q Were Exhibit's Two and Three prepared by you or under your direction?

A Yes, sir.

MR. MORRIS: Mr. Utz, we offer these Exhibits into evidence.

MR. UTZ: Without objection Exhibit's Two and Three will be entered into the record in this Case.

MR. MORRIS: That is all I have of Mr. Stoesz.

MR. UTZ: Are there any questions of the witness?

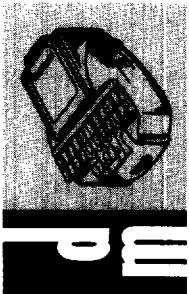
(No response.)

MR. UTZ: The witness may be excused.

We will take the case under advisement.

(Whereupon, the taking of the hearing was concluded.)

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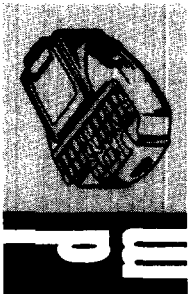
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STATE OF NEW MEXICO)
) ss.
COUNTY OF BERNALILLO)

I, CHARLES FLOYD WALKER, Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF, I have affixed my hand and notarial seal this 26th day of October, 1964.

Charles Floyd Walker
NOTARY PUBLIC

My Commission Expires:
March 25, 1968.

I do hereby certify that the foregoing is a complete record of the proceedings in the above captioned case No. 3127, heard by me on Oct. 13, 1964.

Elmer A. [Signature], Examiner
New Mexico Oil Conservation Commission

I N D E X

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E X H I B I T S

<u>NUMBER</u>	<u>MARKED FOR IDENTIFICATION</u>	<u>OFFERED</u>	<u>ADMITTED</u>
Exhibit One	2	6	6
Exhibit Two & Three	8	10	10