

dearnley, meier & associates

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1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
CONFERENCE ROOM, STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

May 23, 1973

EXAMINER HEARING

IN THE MATTER OF:

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

Case No. 4972

BEFORE: Elvis A. Utz,
Examiner.

TRANSCRIPT OF HEARING

1 MR. UTZ: Case 4972.

2 MR. CARR: Case 4972: Application of Skelly Oil
3 Company for a unit agreement, Eddy County, New Mexico.

4 MR. EATON: Paul Eaton, of Hinkle, Bondurant,
5 Cox and Eaton, Roswell, appearing on behalf of Skelly Oil
6 Company. We have two witnesses, Mr. Examiner.

7 MR. UTZ: Are there other appearances in this case?

8 (No response)

9 MR. UTZ: You may proceed.

10 * * * *

11 KENNETH GRIFFIN,

12 was called as a witness, and after being duly sworn according
13 to law, testified as follows:

14 DIRECT EXAMINATION

15 BY MR. EATON:

16 Q Would you state your name, by whom you are employed,
17 and your capacity?

18 A Kenneth H. Griffin, I'm employed as an independent
19 professional landman. I am engaged in this particular
20 project for Skelly Oil Company.

21 Q Mr. Griffin, have you previously testified before the
22 New Mexico Oil Conservation Commission with respect
23 to land matters and as a landman?

24 A I have.

25 Q Have you handled the preparation of the unit agreement

1 in this application, and been engaged in the work
2 necessary to establish the unit areas?

3 A Yes, I have.

4 Q Are you familiar with the application in this case?

5 A Yes.

6 MR. UTZ: He is qualified.

7 Q (By Mr. Eaton) What does Skelly seek by its application
8 in this case, Mr. Griffin?

9 A Exhibit One is a plat showing the area proposed for
10 unitization. It's in Township 23 South, Range 30 East,
11 Eddy County, New Mexico. The tentative approval from
12 the U.S.G.S. has been granted, and the State has
13 concurred through the Land Commission Office. The
14 acreage on Exhibit Two is a list of the actual ownership
15 of the individual tracts involved in the unit. This
16 letter shows there are twelve Federal tracts totalling
17 6,238.8 acres, or 81.24 percent. There is one State
18 tract of 1,401 acres, or 18.223 percent, and one
19 independent tract of 40 acres, or .521 percent.

20 Q I believe you stated the proposed unit agreement has
21 been given tentative approval by the U.S.G.S.?

22 A Yes.

23 Q Do you have a letter from the U.S.G.S. making that
24 designation?

25 A That's Exhibit Four.

1 Q Exhibit Four or Exhibit Three?

2 A Exhibit Three is from the State, and Exhibit Four is
3 from the Federal, from the U.S.G.S.

4 Q Now, you did state that the State Commissioner of
5 Public Land has also informally approved the unit
6 agreement?

7 A Correct.

8 Q Is Exhibit Three the letter indicating that condition
9 of approval?

10 A Yes, that's the letter from the State.

11 Q Has the unit agreement been prepared?

12 A Yes, the unit agreement has been prepared.

13 Q Do you have copies of it?

14 A We do have copies of it, and it is identified as
15 Exhibit Five. This follows the standard 1968 reprint
16 with the necessary amendments to provide for State
17 and fee acreage.

18 Q Now, under the unit agreement, who is designated as
19 operator?

20 A Skelly Oil Company.

21 Q Are all formations unitized?

22 A Yes.

23 Q What are the provisions with respect to the initial
24 test well?

25 A The initial test well will be commenced within six

1 months of the granting of the unit agreement.

2 Q Now, after the test well is drilled, what is the plan
3 or plans for development?

4 A The unit agreement contains the standard language from
5 the 1968 reprint for further development which requires
6 the operator file, with the approval of the non-operators,
7 with the Commission a plan by which the acreage will
8 be fully tested during the life and term of the agreement.

9 The six month development instrument that you have
10 to have approved can be extended under certain
11 circumstances by the Commissioner or supervisor as
12 the case may be.

13 Q What is the present status of the commitment to the
14 unit agreement by the working interests in the proposed
15 unit area?

16 A The total unit area is 7,678.8 acres. The committed
17 acreage is 7,558.8 or 98.4373 percent.

18 Q I assume that commitment will afford effective control
19 of the operations within the unit area?

20 A Very definitely.

21 Q Going back to Exhibit Number One, you have a dash-
22 dotted line running through a portion of the proposed
23 unit area. What does that line represent?

24 A The line that runs generally across the unit area
25 is the oil-potash area. North of the line is in the

1 R-111A area. South of the line is outside of it.

2 Q Now, the initial well is proposed to be drilled
3 outside of the oil-potash area, is that correct?

4 A Correct.

5 Q In your opinion, Mr. Griffin, is the unit agreement
6 in the interest of conservation, and will it prevent
7 waste and protect correlative rights?

8 A Very definitely. This is an area where unitization is
9 the only practical way to be able to develop it.

10 Q Were Exhibits One, Two and Five prepared by you or
11 under your supervision?

12 A Yes.

13 Q And Exhibits Three and Four were letters from the
14 U.S.G.S. and the Commissioner of Public Lands?

15 A Yes, and addressed to me.

16 MR. EATON: We offer Exhibits One through Five.

17 MR. UTZ: Without objection, Exhibits One through
18 Five will be entered into the record of this case.

19 (Whereupon Applicant's Exhibits One through Five
20 were entered in evidence.)

21 MR. EATON: We have no further questions of Mr.
22 Griffin.

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

24 (No response)

25 MR. UTZ: If not, the witness may be excused.

(Witness excused.)

MR. UTZ: Call your next witness.

* * * *

JON T. EDMONSON,

was called as a witness, and after being duly sworn according to law, testified as follows:

DIRECT EXAMINATION

BY MR. EATON:

Q Would you please state your name, by whom you are employed, and in what capacity?

A Jon T. Edmonson, and I'm employed by Skelly Oil Company as a senior geologist.

Q Have you previously testified as a witness before the New Mexico Oil Conservation Commission?

A No, I haven't.

Q Would you please give us a history of your educational and work experience?

A I attended college, and graduated from Texas Christian University in 1961 with a bachelor of science degree in geology. I was employed by Richardson Oil Company from 1956 to 1966 in various capacities ending up as a geologist. From 1966 to the present time, I have been employed by Skelly Oil Company.

Q Have you done work in the Permian Basin in Southeastern New Mexico?

1 A Yes, extensively.

2 Q For how long a period of time?

3 A Approximately twelve years.

4 Q Are you familiar with the application of Skelly Oil
5 Company in this case?

6 A Yes.

7 MR. EATON: Are the witness' qualifications
8 acceptable?

9 MR. UTZ: Yes, they are.

10 Q (By Mr. Eaton) Mr. Edmonson, I direct your attention
11 to what has been marked for identification as Exhibit
12 Six. Will you please explain that exhibit?

13 A The Forty-Niner Ride Area is an area covering
14 approximately twelve sections as outlined in red, and
15 we believe the area has excellent potential for
16 Pennsylvanian gas production from the Strawn and
17 Atoka and Morrow with secondary consideration in the
18 Wolfcamp, Devonian and Delaware. We feel that our
19 expertise has now gotten to a point where we can
20 accurately predict these conditions, and that's the
21 main reason for our being in this area.

22 Exhibit Six is a Saluro-Devonian map which
23 integrates the subsurface and seismic map in the
24 immediate prospect area. My theory of searching for
25 Morrow and Upper Pennsylvanian production is that

1 the Saluro-Devonian structural conditions formed the
2 base over which these sands and carbonates were laid
3 down.

4 In the beginning when Skelly first became
5 interested in this area, in about 1968, we picked up
6 our first leases in here, and our predominant thinking
7 at that time was the Saluro-Devonian potential.

8 It definitely still has a lot of potential, but
9 we don't consider it prime inasmuch as we couldn't
10 find enough structural closure to say it is really
11 a prime economic prospect.

12 Q Mr. Edmonson, for my edification, what are the yellow
13 tracts on the exhibit?

14 A The yellow-colored tracts are Skelly acreage, and
15 outside of the unit area. These are Skelly leases
16 outside of the unit area.

17 Q The yellow outside of the proposed unit area has
18 nothing to do with the exhibit?

19 A No, it's put on because of company policy.

20 Q Now, referring your attention to what has been marked
21 for identification as Exhibit Seven, would you please
22 explain that exhibit?

23 A Exhibit Seven is a cross section which I have
24 constructed to be used in conjunction with Exhibits
25 Eight and Nine, which are so color-coded. Exhibit

1 Eight, I will go into that first, is a subsurface
2 structural map on what I consider to be the top of
3 the Morrow formation.

4 This is marked on the cross section, and the
5 primary way of constructing the map was to use the
6 subsurface datum which had been encountered in
7 surrounding wells. You cannot get out of placing a
8 subsurface high at the top of the Morrow in our unit
9 area, in my opinion, if you honor all the subsurface
10 control in the area.

11 The yellow pieces which wander through from a
12 kind of northerly direction are Morrow sand distributions
13 which are taken off of the cross section. These are
14 colored yellow, and interspersed throughout the Morrow
15 formation. I feel that the Morrow was being deposited
16 in this area coming down from the northwest, and coming
17 into the upper limits of the Delaware Basin. It was
18 losing its velocity, and currents were taking the
19 sediment as it was brought out in the area and stringing
20 it along the upper portion of the Delaware Basin in
21 long shore bars.

22 I feel like I have established by an analysis of
23 the thicknesses of the sands in the area that there
24 is high probability of there being a sand bar completion
25 right through our prospect area as indicated on the map.

1 As you can see, the two wells, Well No. 1 and
2 Well No. 2 which are the eastern-most wells on the
3 cross section, have more predominant accumulations
4 of sand. As we know, these sand dunes have been
5 recently discovered and developed as Upper Pennsylvanian
6 and Morrow producers.

7 Immediately to the west of it-- excuse me, to the
8 east of it, Skelly has recently completed two Morrow
9 wells down in the southwestern portion of the map.
10 Our Skelly Cedar Canyon 1-9 and the Skelly Cedar
11 Canyon 1-10. The sand conditions encountered in those
12 two wells indicated that the sands were trending to
13 the east as indicated by the map which gave me more
14 emphasis to think there is a sand bar running through
15 our area to the northeast of the area.

16 Q Now, Exhibit Number Nine was prepared also in connection
17 with Exhibit Seven, is that correct?

18 A True.

19 Q Would you please explain that exhibit?

20 A Exhibit Nine is a map that I have prepared on the top
21 of the Pennsylvanian in this area. It is marked on
22 the cross section as the uppermost structural marker.

23 Now, I would point out that is a stratigraphic
24 section and not a structural section, because I was
25 trying to show stratigraphic conditions by cross

1 sections instead of structural conditions.

2 As I stated, the contours on the map are on the
3 top of the Pennsylvanian. The colors indicate what
4 I would consider-- or what I have interpreted as the
5 Atoka. In this area, we have what you refer to as
6 algae mound development, and the algae mound development
7 is colored in green on both subsurface maps and the
8 stratigraphic cross section. I feel like I have
9 established by analysis that there is algae mound
10 development in the area which is transgressing with
11 the water encroachment development.

12 Well No. 3 in the cross section is the Belco No.
13 3 Well. When that well was drilled, it had a good
14 flow of gas out of the Strawn out of what looks like
15 beet sand in the Strawn and algae mound development
16 in the Atoka. The well was subsequently completed in
17 the Morrow. Since that time, the Morrow has not
18 performed well, and it has been plugged back, and the
19 Atoka has been perforated and completed in the green
20 interval on the log.

21 The Strawn is producing out of this sand at about
22 six to eight million MCF a day with eighty barrels
23 of condensate.

24 The James Ranch Well No. 1 in Section 36, which
25 is Well No. 2 at the cross section, was completed

1 about thirteen years ago with small ten-foot sand in
2 the Atoka. The well has surprised everybody in its
3 productive capability, and has produced over twelve
4 billion cubic feet of gas. It made 149,000 barrels
5 of condensate. I feel that this sand that is producing
6 in the Atoka will trend into our area, and we have
7 a very good possibility of picking up both of those
8 developments in our area since they were not present
9 in the wells to the north nor in the wells to the south.

10 To give my reasons for proposing this prospect,
11 they are the probability of obtaining production from
12 both the Strawn and the Atoka and Morrow with good
13 secondary potential from the Wolfcamp and Delaware.

14 The Wolfcamp produces in the Texaco No. 1, and it
15 is a very poor producer out of the Wolfcamp, but it
16 is a secondary possibility because it has made 25,000
17 barrels accumulative production. The Delaware produces
18 out of the Cherry Canyon, which is located in Section
19 27, and it also has produced about 20,000 gallons out
20 of the Delaware. These wells are good secondary
21 possibilities.

22 Q Mr. Edmonson, I take it that you do feel and are of
23 the opinion that the proposed unit area is logically
24 subject to exploration and development, and that it
25 has a potential for recovery of oil and gas deposits?

1 A Very definitely.

2 Q Do you know when the proposed well will be commenced?

3 A Probably around the first of July.

4 Q About how long will it take to drill and complete that
5 well?

6 A Approximately 120 days.

7 Q Do you have any information as to the approximate cost
8 of the well?

9 A I do. The approximate cost of the well would be
10 \$914,200.00 to the Devonian. If we elect to top at
11 14,400, it would be \$821,900.00.

12 Q Were Exhibits Six through Nine prepared by you or
13 under your supervision?

14 A They were.

15 MR. EATON: We offer into evidence Applicant's
16 Exhibits Six through Nine.

17 MR. UTZ: Without objection, Exhibits Six through
18 Nine will be entered into the record.

19 (Whereupon Applicant's Exhibits Six through Nine
20 were entered in evidence.)

21 MR. EATON: We have no further questions of Mr.
22 Edmonson.

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

24 (No response)

25 MR. UTZ: He may be excused.

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(Witness excused.)

MR. UTZ: Are there any statements in this case?

(No response)

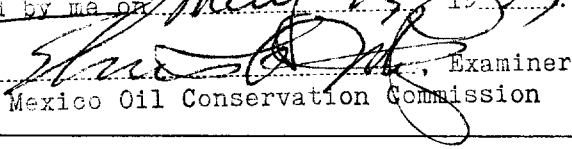
MR. UTZ: Case 4972 will be taken under advisement.

* * * *

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

I, RICHARD E. McCORMICK, a Certified Shorthand Reporter, in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me; and that the same is a true and correct record of the said proceedings to the best of my knowledge, skill and ability.


CERTIFIED SHORTHAND REPORTER

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 4972, heard by me on May 23, 1973.

Examiner
New Mexico Oil Conservation Commission

I N D E XWITNESSPAGE

KENNETH GRIFFIN

Direct Examination by Mr. Eaton

3

JON T. EDMONSON

Direct Examination by Mr. Eaton

8

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Applicant's #1 Plat

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Applicant's #2 Plat

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Applicant's #3 Letter from State

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Applicant's #4 Letter from U.S.G.S.

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Applicant's #5 Unit agreement

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Applicant's #6 Map

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Applicant's #7 cross section

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Applicant's #8 Structural map

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Applicant's #9 Map

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