

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
January 18, 1978

EXAMINER HEARING

IN THE MATTER OF:

Application of King Resources Company for ) CASE  
a unit agreement, Eddy County, New Mexico. ) 6129

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conservation Commission: Lynn Teschendorf, Esq.  
Legal Counsel for the Commission  
State Land Office Building  
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For the Applicant: Jason W. Kellahin, Esq.  
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I N D E XPageMARK LAMBERTSON

Direct Examination by Mr. Kellahin	3
Cross Examination by Mr. Stamets	10
Cross Examination by Ms. Teschendorf	12

EXHIBIT INDEXOfferedAdmitted

Exhibit A, Geological Report	5	10
Exhibit One, Structure	5	10
Exhibit Two, Morrow Structure	5	10
Exhibit Three, Cisco Structure	6	10
Exhibit Four, Morrow-Chester Isopach	6	10
Exhibit Five, Morrow Structure	6	10
Exhibit B (Six), Well logs	7	10
Exhibit C, Unit Agreement	8	10
Exhibit D, Unit Operating Agreement	9	10

1 MR. STAMETS: We will then call next Case 6129.

2 MS. TESCHENDORF: Case 6129, application of King  
3 Resources Company for a unit agreement, Eddy County, New Mexico.

4 MR. KELLAHIN: If the Examiner please, Jason  
5 Kellahin, Kellahin and Fox, appearing for the applicant. We  
6 have one witness to be sworn.

7 (THEREUPON, the witness was duly sworn.)

8  
9 MARK LAMBERTSON

10 called as a witness, having been first duly sworn, was  
11 examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. KELLAHIN:

14 Q Would you state your name, please?

15 A Mark Lambertson.

16 Q By whom are you employed and in what position,  
17 Mr. Lambertson?

18 A King Resources Company as a Landman.

19 Q And where are you located?

20 A In Denver, Colorado.

21 Q How long have you worked as a Landman?

22 A For two years.

23 Q Have you had any experience prior to your work with  
24 King Resources?

25 A Yes, I worked with Exxon.

1 Q Also as a Landman?

2 A As a Landman.

3 Q How long were you with Exxon?

4 A Well, a total of two years with the two companies.

5 Q In connection with your work as a Landman did you  
6 have anything to do with the proposed unit agreement which is  
7 the subject of this hearing?

8 A Yes, I either prepared or directed the preparation  
9 of the application for the unit agreement.

10 Q And did you work on obtaining approvals or seeking  
11 approvals of the unit agreements?

12 A Yes, I have.

13 MR. KELLAHIN: Are the witness' qualifications  
14 acceptable?

15 MR. STAMETS: They are.

16 Q (Mr. Kellahin continuing.) Briefly what does  
17 King Resources Company propose in Case 6129?

18 A Well, the work that we have done in this area,  
19 which includes air and ground magnetics and gravity surveys,  
20 as well as the study of well logs, we have determined that  
21 there is a logical unit based on the structure in the Morrow  
22 sands, as has been indicated on the plat.

23 Q This is an exploratory unit, is it not?

24 A Yes, this would be for a Federal divided type of  
25 exploratory unit.

1 Q Have you had a geological report prepared?

2 A Yes, we have.

3 Q Referring to what has been marked as Exhibit A, is  
4 that the geological report?

5 A Yes, it is.

6 Q Now going through Exhibit A, would you discuss the  
7 individual exhibits that are a portion of that exhibit?

8 A Well, Exhibit One is the structure that is indicated  
9 for the Mississippi limestone and this would be the formation  
10 below the depth of the proposed test well.

11 Q Is the dark line outlining the area the unit  
12 boundary?

13 A I'm not sure how dark the line is.

14 Q It's not very dark.

15 A The faint line is the unit outline.

16 Q That is the unit outline?

17 A Yes, on the plat.

18 Q And now the dotted acreage, what does that indicate?

19 A That's King Resources leases.

20 Q Now referring to Exhibit Two of Exhibit A?

21 A Exhibit Two is the Morrow structure which is the  
22 lowest Pennsylvanian formation and it was based on the  
23 different surveys that we have and the surface geology. It  
24 is our conclusion that there is structure there or there is  
25 the possibility anyhow of structure being there and this is

1 mapped on the top of the Morrow and based on the indicated  
2 twenty-nine hundred foot contour then, we have drawn the unit  
3 outline to include any sections more than half of which fall  
4 inside that contour.

5 Q Now referring to Exhibit Three of Exhibit A would  
6 you identify that exhibit?

7 A This is the Cisco which is one of the other forma-  
8 tions in the Pennsylvanian and which would be one of the  
9 possible objectives and here we are not sure about the indica-  
10 tions of the structure. It is one of the shallower formations  
11 so we have not indicated any structure in this formation.

12 Q Exhibit Four?

13 A Exhibit Four is the Morrow-Chester isopach. I have  
14 to refer back to make sure that I describe this properly.  
15 This is an isopach of the Morrow to Chester limestone so  
16 the thickness between those two formations is indicated by  
17 the contour lines on Exhibit Four.

18 Q And Exhibit Five?

19 A Exhibit Five is the Morrow structure with the sand  
20 porosity and the cutoff point was a five percent porosity  
21 so that these contour lines indicate the thicknesses of the  
22 Morrow sand at any place it is thought that their porosity  
23 is greater than five percent.

24 Q Now does the twenty-nine foot interval have any  
25 bearing on the selection of the area?

1           A     Well, as far as being a logical area for unitization,  
2 this would be about the largest that you would still have  
3 closure in this Morrow structure.

4           Q     Now referring to what is marked Exhibit B which is  
5 as I understand it Exhibit Six of your geological report,  
6 is that correct?

7           A     That is correct.

8           Q     Would you identify that exhibit and discuss the  
9 information shown on it?

10          A     It is the well log from four different wells that  
11 were drilled all to the southwest, I guess to the west and  
12 to the south and there is a line indicated on the plat on the  
13 right side of that exhibit which shows the locations of those  
14 wells in relation to the unit area and then there is an  
15 interpretation of those well logs to show where the different  
16 structures were found in those wells and then based on that  
17 we have made the projection into the unit area.

18          Q     In the right-hand portion of the exhibit it does  
19 show a map of the area with the unit outlined?

20          A     It shows the unit outlined in a dark line and it  
21 shows the wells, their locations, in this case the lighter  
22 lines.

23          Q     Now based on the information presently available  
24 to you, in your opinion will approval of this proposed unit  
25 give you effective control of the possible producing formations

1 underlying it?

2 A Yes, it would.

3 Q Now referring to what has been marked as Exhibit  
4 Number C, would you identify that please?

5 A This is the form of unit agreement that is pre-  
6 scribed by the Federal regulations and also the Land Commission  
7 for the State of New Mexico and that has been submitted to  
8 both of those agencies and has received preliminary approval  
9 of the United States Geological Survey and also preliminary  
10 approval from the State of New Mexico Land Commission and  
11 this has been sent out to all of the working interest and  
12 royalty interest in the proposed unit area requesting their  
13 ratification and joinder of this unit.

14 Q Now what percentage of the unit does King Resources  
15 own?

16 A We control or own the leases which constitute  
17 approximately forty-two percent of the unit area?

18 Q Do you have commitments from any of the other  
19 operators owning working interest in the area?

20 A Yes, all of the other operators that constitute  
21 about another thirty percent have indicated that they will  
22 join the unit and we have then talked to some individuals  
23 who own leases and feel that we have the verbal commitment  
24 of approximately another ten percent so that we have at this  
25 time, we feel, about eighty percent approval and I think that

1 by the first of next week that we should have another five or  
2 ten percent and we will at that point then submit the final  
3 application to the USGS.

4 Q And there is provision in the unit agreement for  
5 subsequent joinders, is there not?

6 A Yes, there is.

7 Q What percentage of this acreage is Federal, State  
8 and fee? Can you give us that information?

9 A It is on the plat that is Exhibit A to the unit  
10 agreement, which is our Exhibit C. Is that correct?

11 Q Exhibit B. Exhibit C, I'm sorry.

12 A The Federal acreage is eighty-six percent and the  
13 State acreage is thirteen percent.

14 Q Is there any fee acreage involved?

15 A No, there is not.

16 Q It is all Federal or State. Now, have you prepared  
17 a unit operating agreement?

18 A Yes, we have.

19 Q And it is submitted as Exhibit D, is it not?

20 A Yes, it is.

21 Q Now does your unit operating agreement make any  
22 commitment on the development of the unit?

23 A It provides that we will drill a well within six  
24 months after the approval of the unit and the unit agreement  
25 provides that this well will be to a depth of seventy-three

1 hundred feet or to sufficiently test the Morrow formations or  
2 if production is received or obtained in paying quantities,  
3 whichever is shallower.

4 Q And then you would have to prepare a further  
5 operating agreement or proposal, would you not, for the  
6 development?

7 A The operating agreement then provides that within  
8 six months we would have to submit to the USGS a development  
9 plan for what we feel are the productive areas within the  
10 unit.

11 Q Were Exhibits A through D prepared by you or under  
12 your supervision?

13 A Yes, they were mostly prepared by me and some under  
14 my supervision.

15 MR. KELLAHIN: At this time we offer into evidence  
16 Exhibits A through D, inclusive.

17 MR. STAMETS: These exhibits will be admitted.

18 (THEREUPON, Applicant's Exhibits A through  
19 D were admitted into evidence.)

20 MR. KELLAHIN: That's all we have, Mr. Stamets.

21 CROSS EXAMINATION

22 BY MR. STAMETS:

23 Q Mr. Lambertson, when you initially started talking  
24 about this I thought I heard you say something about Federal  
25 divided type unit. What is a Federal divided type unit?

1           A     By Federal, this is being approved by the USGS. The  
2 divided type means that the working interest that will partici-  
3 pate in the cost of any well will be determined either before  
4 or after the well is drilled but will be limited to some area  
5 around that well so that you could have a number of different  
6 groups of working interest paying for different wells in the  
7 unit. In an undivided type of unit all of the working interest  
8 in the unit area would pay for any of the wells that were  
9 drilled. I guess this is a very typical method of arranging  
10 exploratory units.

11           Q     Does the unit agreement provide for the Oil  
12 Conservation Commission approval of the plans of development?

13           A     Well, that I'm not sure of.

14           Q     And also does it provide for the State Land Office  
15 approval of the plan of development?

16           A     We incorporated the provisions that are approved  
17 by your State offices and because it was a kind of form I  
18 don't recall. I can find it for you here very quickly.

19           Q     Page eight, I think, Article Ten?

20           A     Yes, just after we make a discovery we have six  
21 months to submit our plan of development and it will be to  
22 the Land Commissioner.

23           Q     I believe it only provides for the supervisor of  
24 the U. S. Geological Survey and the Land Commissioner. I  
25 assume that King Resources would have no objection to also

1 submitting a plan to the Oil Conservation Commission for  
2 approval?

3 A I presume not.

4 MR. STAMETS: Any other questions of the witness?

5 MS. TESCHENDORF: I have one.

6 MR. STAMETS: Ms. Teschendorf.

7 CROSS EXAMINATION

8 BY MS. TESCHENDORF:

9 Q Are you aware that as of January 13th, King  
10 Resources has become Phoenix Resources Company?

11 A I am aware of that.

12 Q And I have a one-well bond where I believe it would  
13 be the initial unit well under the name of Phoenix Resources  
14 so the unit operator should be Phoenix Resources, not King  
15 Resources, is that correct?

16 A Well, it was a reorganization through the bankruptcy  
17 court and the final plan was approved and was effectuated on  
18 January 6 so at the time this was submitted we were King  
19 Resources. We are now Phoenix Resources and we can do it  
20 however you would like.

21 Q Well, if the well name is going to be Phoenix  
22 Resources I think the unit also ought to be Phoenix Resources.

23 A I just discussed this with Mr. Graham and I'm not  
24 sure how we are going to effectuate this as far as the leases  
25 that we hold and whatever. Can we coordinate this with your

1 offices and make sure that we all wind up doing the same  
2 things?

3 MR. STAMETS: The unit agreement does provide  
4 for a change in unit operator, perhaps that may be the route  
5 you wish to take, King Resources named the unit operator and  
6 then follow with a change of operator.

7 A I'm not sure what we are going to do about all  
8 the leases that we own, especially not just these but all of  
9 them. Right now as to what we are going to do to change  
10 these or how we are going to approach this but we are aware  
11 of the problem and I will work with you on that then.

12 MR. STAMETS: If you all will advise us of what  
13 you prefer before we write the order we would appreciate it.  
14 We will hold up writing the order until we see.

15 A Fine, thank you.

16 MR. KELLAHIN: In connection with that, though,  
17 do you have any deadline on getting this well commenced?

18 A Well, we have Federal leases expiring at the end  
19 of next month and we need to be drilling over the expiration  
20 date of these leases and I'm not really sure of when we've  
21 got a rig coming in. We thought maybe we had one last week  
22 but we weren't quite ready for it but as I indicated, we will  
23 be submitting this, hopefully sometime next week for final  
24 approval so we are trying to move ahead with it and we would  
25 appreciate any help that we could receive from your offices

1 in getting it approved.

2 MR. STAMETS: As soon as we know the unit operator  
3 we will be happy to expedite the order.

4 Any other questions of this witness?

5 MR. KELLAHIN: That's all. Thank you, Mr. Stamets.

6 MR. STAMETS: He may be excused.


7 (THEREUPON, the witness was excused.)

8 MR. STAMETS: If there is nothing further the case  
9 will be taken under advisement.

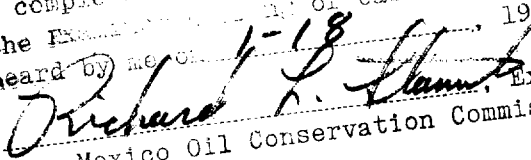
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REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a Certified Shorthand Reporter,  
do hereby certify that the foregoing and attached Transcript  
of Hearing before the New Mexico Oil Conservation Commission  
was reported by me, and the same is a true and correct record  
of the said proceedings to the best of my knowledge, skill and  
ability.

  
 Sidney F. Morrish, C.S.R.

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I do hereby certify that the foregoing is  
 a complete and correct transcript of the proceedings in  
 the Examination of Case No. 6129,  
 heard by me on 1-18, 1978.  
  
 Richard L. Stamm, Examiner  
 New Mexico Oil Conservation Commission