

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION COMMISSION  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO

8 June 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of McKay Oil Corporation      CASE  
for a unit agreement, Chaves County,      9380  
New Mexico.

BEFORE: David R. Catanach, Examiner

A P P E A R A N C E S

For the Division:      Robert G. Stovall  
Attorney at Law  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico

For the Applicant:

MR. CATANACH: Call next Case  
Number 9380.

MR. STOVALL: Case 9380.  
Application of McKay Oil  
Corporation for a unit agreement, Chaves County, New  
Mexico.

MR. CATANACH: This case will  
be readvertised and continued to the Examiner's Hearing  
scheduled for June 22nd, 1988.

(Hearing concluded.)

## C E R T I F I C A T E

I, SALLY W. BOYD, C. S. R. DO HEREBY  
CERTIFY that 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. 9386,  
heard by me on June 8 19 88.

David R. Catamb, Examiner  
Oil Conservation Division

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

25 May 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of McKay Oil Corporation      CASE  
for a unit agreement, Chaves County,      9380  
New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: Charles E. Roybal  
Attorney at Law  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant: Randolph M. Richardson  
Attorney at Law  
Roswell, New Mexico 87201

## I N D E X

## GEORGE REDDY

Direct Examination by Mr. Richardson 4

Cross Examination by Mr. Stogner 14

## ROY McKAY

Direct Examination by Mr. Richardson 15

Cross Examination by Mr. Stogner 16

## E X H I B I T S

McKay Exhibit One, Map 7

McKay Exhibit Two, Log 7

McKay Exhibit Three, Map 7

McKay Exhibit Four, Structure Map 8

McKay Exhibit Five, Isopach 8

McKay Exhibit Six, Isopach 8

McKay Exhibit Seven, Structure Map 8

McKay Exhibit Eight, Map 9

McKay Exhibit Nine, Cross Section 8

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

MR. STOGNER: Call next Case  
Number 9380.

MR. ROYBAL: Case 9380. Appli-  
cation of McKay Oil Corporation for unit agreement, Chaves  
County, New Mexico.

MR. STOGNER: Call for appear-  
ances.

MR. RICHARDSON: Randolph M.  
Richardson, Roswell, New Mexico, on behalf of Applicant.

I have one witness to be sworn.

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

Would the witness please stand  
and be sworn?

(Witness sworn.)

MR. RICHARDSON: I'm handing  
the Examiner the geological report.

Mr. Examiner, this case was  
misadvertised in the Roswell paper and we request that you  
go ahead and have the hearing today and readvertise properly  
and issue your order after the next June the 8th hearing.

MR. STOGNER: Thank you, Mr.

1 Richardson. Since you're ready to continue today, we'll go  
2 ahead and hear the case and, as you stated, this case will  
3 be continued and called again at the June 8th, 1988 hearing,  
4 at which time, hopefully, it will be taken under advisement.

5

6

GEORGE REDDY,

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

9

10

DIRECT EXAMINATION

11

BY MR. RICHARDSON:

12

Q

Mr. Reddy, would you please state your  
13 name, address, and your present occupation?

14

A

My name is George Reddy. I live in Ros-  
15 well, 3408 Dow, and I'm a consulting geologist in Roswell.

16

Q

Could you please state your educational  
17 and professional background which would enable you to tes-  
18 tify as an expert witness in this case?

19

A

I'm a graduate of the University of New  
20 Mexico.

21

22

23

24

I've worked -- I started working in the  
oil industry in 1961 as a petroleum geologist and have wor-  
ked as such since that time; about twelve years for Exxon,  
and since 1975 I've worked as a consultant in Roswell.

25

Q

Are you familiar with the West Fork Unit

1 Area and the matters contained in the application to the Di-  
2 vision for approval?

3 A Yes.

4 Q Have you ever testified as an expert wit-  
5 ness before this Division?

6 A Yes.

7 MR. RICHARDSON: Are the quali-  
8 fications acceptable?

9 MR. STOGNER: Mr. Reddy's  
10 qualifications are acceptable.

11 Q Mr. Reddy, is the form of unit agreement  
12 prescribed by Federal regulations and as recently approved  
13 by the Commissioner of Public Lands?

14 A Yes.

15 Q Has a unit area been designated by the  
16 Federal Bureau of Land Management as an area logically suit-  
17 able for development under a unit plan of development?

18 A Yes, it has.

19 Q Has the Commissioner of Public Lands of  
20 the State of New Mexico approved this unit?

21 A Verbal preliminary approval only.

22 Q Could you please tell the Division the  
23 townships and ranges in which this unit is located and the  
24 approximate location with reference to the nearest town?

25 A Okay, it's located in Townships 4 and 5

1 South, Ranges 21 and 22 East, and it's about 34 miles north  
2 northwest of the City of Roswell.

3 Q Could you please tell the Division the  
4 total number of acres within the unit area and the number  
5 and percentages of acreage of Federal, State, and patented?

6 A The total number of acres is 20,775.02.  
7 Federal acreage is 15,497.31 acres, or  
8 74.60 percent.

9 State lands, 1,920 acres, 9.24 percent of  
10 the unit area.

11 And fee lands, 3,357.71 acres, 16.16  
12 percent of the unit area.

13 Q Mr. Reddy, this is a rather large unit.  
14 Could you tell the Division the number of test wells  
15 required to be drilled under the unit agreement?

16 A Two wells.

17 Q Could you please tell the Division the  
18 approximate location of each of the test wells?

19 A One of them is to be located in the  
20 northwest quarter of Section 32 of Township 4 South, Range  
21 22 East; the second well in the southeast quarter of Section  
22 12 of Township 5 South, Range 21 East.

23 Q Mr. Reddy, could you please refer to the  
24 geological report, which has been marked Exhibits One  
25 through Nine, and was this report prepared by you?

1           A           Yes, it was.

2           Q           Could you please review the report  
3 briefly, referring to the maps by name and number and  
4 indicating the significance of such maps?

5           A           Well, the first, first map is part of the  
6 report and that's Figure 1, or Exhibit One, and it's the  
7 index map showing the location of the West Fork Unit.

8                       MR. RICHARDSON: Inside the  
9 written report, Mr. Examiner.

10                      MR. STOGNER: Please continue.

11           A           It's just an index map to show where the  
12 unit lies with respect to the City of Roswell and some of  
13 the nearby fields in the area.

14                      Exhibit Two is a reference log from a  
15 well that's in the southernmost part of the unit, the McKay  
16 Inexco Federal No. 4, which is located in Section 30 of 5  
17 South, 22 East, and it has marked the tops that are referred  
18 to on the maps that follow, as well as the test data for  
19 this particular well.

20                      Exhibit Three is a -- is the first map in  
21 the pocket and it shows the structure. I'm sorry, it  
22 doesn't, either. It shows the composite map that defines  
23 our basis for the unit boundary.

24                      We have three primary prospective zones  
25 that we're basing the unit on and these are shown in the

1 three colors indicated on this exhibit, along with the unit  
2 boundary, and it's based on the following maps.

3 Figure, or Exhibit Four is a structure  
4 map of the shallowest zone we've mapped, which is the top of  
5 Abo, most of the control lying to the south of the unit,  
6 where we see east dip and east plunging noses, structural  
7 noses, and that style has been carried into the area to the  
8 north where we have a few wells offering control. These are  
9 subsurface maps.

10 The next, Exhibit Five, is an isopach map  
11 of those zones below the Pecos Slope Abo Field pays, which  
12 is referred to here as the Lower Abo A. It's been encoun-  
13 tered in several wells to the south. It hasn't been drilled  
14 to in any of the wells that show up inside the unit. There  
15 is one well to the north of it, of the unit that encountered  
16 this zone, and it's one of the primary objectives.

17 Exhibit Six is another isopach of the  
18 next zone and it's these two, along with the structure map,  
19 figure Seven, that really define the basis for the unit.

20 Each of those two previous isopachs are  
21 shown here in color, or the boundaries of them are shown,  
22 and they more or less make up the west edge of the unit.

23 The eastern edge of the unit is defined  
24 by the occurrence of gas in reservoirs within each of these  
25 two units in the two wells at the southernmost part of the

1 unit. The Inexco Fed 4, which is the reference log is  
2 showed, and the other wells to the southwest of it each car-  
3 ry gas in one or both of these units.

4 And figure or Exhibit Eight shows the --  
5 our interpretation of a zone that was tested in the lower-  
6 most part of the -- of this well that we're using as a  
7 reference log wherein we completed it as a gas well until we  
8 frac treated it and it went to water. It's what we're  
9 calling the Granite Wash. It's a quartzose unit that was  
10 fractured and it did carry gas in the Inexco Fed 4, and  
11 we're postulating that we'll see this again as we go north-  
12 ward in the fractured environment.

13 And then the last exhibit is a cross sec-  
14 tion that depicts these zones. It's a structural cross sec-  
15 tion. Let me correct that, it's a geologic cross section.  
16 It comes from the north end, the Coleman-Fipkin (sic) Well  
17 north of the unit and it climbs obliquely up regional dip to  
18 the Inexco Fed 4, and the back down regional dip to the  
19 south, but it does show where the primary objectives are  
20 with relation to the field pays that occur south of this  
21 unit, the Lower Abo A and B and the Granite Wash being the  
22 primary objectives of our -- of our prospect.

23 Q Mr. Reddy, that was the next question.  
24 You say that the prospective formations likely to be produc-  
25 tive would be the Abo A and the Abo B and the Granite Wash?

1 A That's correct.

2 Q Those are your three, three target  
3 zones.

4 A Those are primary.

5 Q Primary objectives. Could you please  
6 tell the Division the projected depths for the two initial  
7 test wells?

8 A Approximately 4400 feet.

9 Q For each well.

10 A Yes.

11 Q The plat attached to the unit agreement,  
12 as well as some of your geological reports or maps, rather,  
13 show several wells within the unit area that have apparently  
14 already been completed in the Abo formation. Could you  
15 explain how these completed wells will be treated under a  
16 unit agreement?

17 A Well, a provision has been inserted in  
18 the unit agreement to the effect that a well completed  
19 within the West Fork Unit Area prior to the effective date  
20 of this agreement is capable of producing unitized  
21 substances in paying quantities, shall be deferred until an  
22 initial participating area is established as a result of the  
23 completion of the well for production in paying quantities  
24 in accordance with Section 9 of the unit agreement.

25 Q Mr. Reddy, does the unit area cover all,

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

or substantially all, of the geological features considered as possibly productive?

A Yes.

Q Would you please tell the Division the working interest ownership and percentages within the unit area and have these owners been contacted?

A 23 different working interest owners and several unleased mineral interests are in the unit. Different owners can be grouped together and will have the -- some will be referred to as the McKay Group with 18,191.86 acres, or 87.56 percent.

MR. STOGNER: Okay, where are you getting those numbers, Mr. Reddy?

A There's a schedule -- can you help me there with that --

Q Yeah, we'll --

A -- what page it's on?

Q (Unclear).

MR. STOGNER: Is it entitled the Schedule of Ownership, Acreage and Percentage of the Unit?

A Yes.

MR. STOGNER: That's the last page of the unit agreement which was submitted with the ap-

1 plication?

2 MR. RICHARDSON: Right. And  
3 went through Exhibit B and picked out the ones he's grouping  
4 together and is calling the McKay Group, which I think I can  
5 give those to you, if you want, tie down the acreage  
6 amounts.

7 MR. STOGNER: Yes, that might  
8 be helpful.

9 Q George, did I give you one of those?

10 MR. RICHARDSON: The ones we  
11 call the McKay Group, which covers 18,000 plus acres, is the  
12 McKay Oil Corporation, McKay Children's Trust, Tentrack USA,  
13 Limited, Ventana Limited, LOG Partners, Concise Oil & Gas  
14 Partnership, Cumo Resources --

15 MR. STOGNER: That's C-U-M-O.

16 MR. RICHARDSON: C-U-M-O. Oil  
17 Search Corporation, Fuller (sic) Petroleum, George Hilley,  
18 Roberts-Johnson Energy Partnership, Talent Energy, and I  
19 guess that's -- I think that's all of them.

20 Q Mr. Reddy, what was the acreage figure  
21 you totaled for McKay Group?

22 A 18,191.86, for 87.56 percent.

23 Q That 18,000 is what percentage of unit  
24 area?

25 A 87.56.

1 Q About 87.56. And what percentage of com-  
2 mitments do you anticipate or expect to have of the working  
3 interest?

4 A Well, working interest, 90 percent, or  
5 more, and all overriding royalty, and estimate that about 40  
6 percent of fee royalty will be committed.

7 Q In your opinion would the operation of  
8 this area under the proposed unit plan of operation be in  
9 the interest of conservation and prevention of waste?

10 A Yes.

11 Q Will the different institutions of the  
12 state, if any, receive their fair share of production estab-  
13 lished?

14 A Yes.

15 Q And (not clearly understood) of the cor-  
16 relative rights of all parties to the unit agreement be pro-  
17 tected.?

18 A Yes.

19 MR. RICHARDSON: I would like  
20 to enter the geological report in evidence at this time.

21 MR. STOGNER: Pardon?

22 MR. RICHARDSON: I'd like to  
23 enter the geological report in evidence.

24 MR. STOGNER: And that's marked  
25 as Exhibit Number One?

1 MR. RICHARDSON; One through  
2 Nine.

3 MR. STOGNER: Exhibits One  
4 through Nine will be admitted into evidence at this time.

5 MR. RICHARDSON: And I have no  
6 further questions of Mr. Reddy.

7

8 CROSS EXAMINATION

9 BY MR. STOGNER:

10 Q Mr. Richards -- I'm sorry, Mr. Reddy, so  
11 that I'm absolutely sure, you said 90 percent of the working  
12 interest owners have signed, is that correct?

13 A We expect that 90 percent, or more, of  
14 the working interest will be committed.

15 Q Okay, how many do you have signed up now?

16 A I don't know.

17 MR. RICHARDSON: We are in the  
18 process of getting that out.

19 A MR. McKAY: Should be in excess  
20 of 85 percent.

21 MR. STOGNER: I'm sorry, what?

22 MR. McKAY: It should be in ex-  
23 cess of 85 percent 'cause all those entities that were named  
24 are under my jurisdiction.

25 MR. STOGNER: Why don't you

1 stand up and identify yourself and who you are, please?

2 MR. McKAY: I'm Roy McKay, McKay  
3 Oil President.

4 The --

5 MR. ROYBAL: Could we get Mr.  
6 McKay as another witness?

7 MR. RICHARDSON: Yes, I would  
8 like to go ahead and swear him as a witness now.

9

10 (Mr. McKay sworn.)

11

12 ROY McKAY,  
13 being called as a witness and being duly sworn upon his  
14 oath, testified as follows, to-wit:

15

16 DIRECT EXAMINATION

17 BY MR. RICHARDSON:

18 Q Yeah, would you please state your name?

19 A Roy McKay.

20 Q And address?

21 A One McKay Place, Roswell, New Mexico.

22 Q And you say, Mr. McKay, that approxi-  
23 mately 85 percent of the working interest within the unit,  
24 you expect to be committed. They are your partners and in-  
25 vestors, is that correct?

1           A           Yes.

2                       MR. RICHARDSON: Then there will  
3 be some more additional working interests that will be com  
4 mitted and we anticipate about 90 percent.

5

6                       CROSS EXAMINATION

7 BY MR. STOGNER:

8           Q           Mr. McKay, when I look at this schedule  
9 of ownership, maybe I should ask who hasn't agreed yet?

10          A           Probably Mesa and Yates. Is Mesa in-  
11 cluded in this area?

12          Q           I don't have a Mesa there. I have three  
13 Yates listed.

14                       MR. RICHARDSON: There will be  
15 some --

16          A           Stevens Oil, Rio Petrol, MYCO, and the  
17 different Yates, Yates Drilling, Yates Petroleum, Estate of  
18 Martin Yates, would be the ones.

19          Q           And how about the Unleased Mineral Inter-  
20 ests? What -- why don't you further describe that for me,  
21 if you would, please, what you mean by that?

22                       MR. RICHARDSON: Should I do  
23 that, sir, or --

24                       MR. STOGNER: Well, I'd like  
25 for Mr. McKay to do it, Mr. Richardson.

1 MR. RICHARDSON: All right.

2 A Unleased Mineral Interest would be  
3 interests that are basically fee, probably fee ownerships  
4 that no one has actually leased.

5 Q Okay, so that still belongs to the owners

6 --

7 A Owners.

8 Q -- in other words, the rancher or whoever  
9 it is.

10 A Yes.

11 MR. RICHARDSON: Fee mineral  
12 owners.

13 Q Are these unleased mineral interests that  
14 you allude to here, are they identified in your Exhibit B,  
15 which is a portion of your unit agreement?

16 MR. RICHARDSON: Yes.

17 A Yes.

18 Q How were these people notified? I don't  
19 see any notification assignment or -- or such, in this ap-  
20 plication? Mr. Reddy?

21 MR. REDDY: Mr. McKay, can you  
22 answer that?

23 Q Mr. McKay, can you answer that?

24 MR. RICHARDSON: The unleased  
25 mineral interests or the --

1 Q Everybody.

2 MR. RICHARDSON: Everybody has  
3 not been contacted. The notifications are going out and we  
4 did contact most of them verbally. and publication and  
5 notice of the docket.

6 MR. STOGNER: Are you aware of  
7 Rule No. 1207, Subparagraph (9), which is the notification  
8 procedure, in case of applications not listed above, the  
9 outcome of which may affect property interest or other indi-  
10 viduals or entities, actual notice shall be given to such  
11 individuals or entities by certified mail, return receipt  
12 requested, and this should be done twenty days prior to the  
13 hearing?

14 Was this, I assume this was not  
15 done?

16 MR. REDDY: I did not do this.

17 MR. STOGNER: Okay. This re-  
18 quirement will have to be met. I would suggest that we con-  
19 tinue this case not only for the next two weeks but for two  
20 weeks after that so this requirement can be met; then the  
21 order can be issued at that time.

22 MR. RICHARDSON: The -- come in  
23 and talk to you about it. The --

24 MR. STOGNER: I'm sorry, I beg  
25 your pardon?

1 MR. RICHARDSON: I said the  
2 well will be drilling by the end of the month. We have a  
3 great lot of expiring leases on June the 30th and I was  
4 trying to figure in the hearing date.

5 MR. STOGNER: We've got one  
6 scheduled for the 8th and the 22nd. The second hearing in  
7 June is the 22nd.

8 MR. RICHARDSON: When did they  
9 put this rule in?

10 MR. STOGNER: I don't know the  
11 exact date. It's been in effect for about two years now.

12 MR. RICHARDSON: About two  
13 years.

14 MR. STOGNER: Yes, sir.

15 MR. RICHARDSON: That means  
16 that all of the prospective people in the entire unit need  
17 to be contacted by certified mail at least twenty days prior  
18 to the hearing.

19 MR. STOGNER: Yes, sir. I'm  
20 surprised you haven't done that when you tried to get the  
21 unit set up/

22 MR. RICHARDSON: Contacted most  
23 of them verbally, by telephone.

24 MR. STOGNER: Isn't this a re-  
25 quirement for the State Land Office?

1 MR. RICHARDSON: We did make  
2 the application to the State Land Office, yes, but have not  
3 contacted everybody in there.

4 MR. STOGNER: You need to meet  
5 this requirement before we can issue an order. I would sug-  
6 gest we continue it to the Examiners Hearing scheduled for  
7 the 6th -- I mean, sorry, -- for the 22nd of June, 1988, at  
8 which time it will be sufficiently readvertised for the June  
9 8th, 1988 hearing. We'll call it at that time; at such time  
10 we'll continue it on to the 22nd.

11 Do you have anything further in  
12 this case, Mr. Richardson?

13 MR. RICHARDSON: Not in this  
14 case.

15 MR. STOGNER: Mr. McKay?

16 MR. MCKAY: I don't know that  
17 it has any -- any great bearing, the large amount of  
18 percentages other than the Yates people are small, very  
19 small owners, who have actually no rights in the deep  
20 rights, what this is considered.

21 They were individual partner-  
22 ship groups, different groups, that own an interest in the  
23 Upper Abo only.

24 As far as this particular unit  
25 was concerned, they have no real overall ownership other

1 than is of record, but there is a depth limitation under my  
2 contract. As it is, McKay Oil Corporation in itself, and  
3 McKay Children's Trust, owns in excess of 85 percent of the  
4 total unit.

5 MR. STOGNER: Mr. McKay, sorry  
6 to bother you here, but in Paragraph (3) what is the uni-  
7 tized substance and what is the unitized land?

8 It says here all oil and gas in  
9 any and all formations, and what you're telling me is total-  
10 ly different.

11 MR. MCKAY: These people --  
12 well, these people won't be participating in the well. They  
13 own the ownership but not of total depth. They are owners  
14 but they will not be owning anything in the wells that will  
15 be drilled to a deeper depth.

16 MR. RICHARDSON: Will be uni-  
17 tized, though.

18 MR. MCKAY: But they will be  
19 unitized (unclear) will have no material interest into the  
20 deeper wells.

21 MR. STOGNER: They still need  
22 to be notified, Mr. McKay, pursuant to Rule 1207, Part 9.

23 MR. MCKAY: Are these people  
24 (inaudible)?

25 MR. STOGNER: I beg your par-

1 don, Mr. McKay?

2 MR. MCKAY: Well --

3 MR. STOGNER: Would you please  
4 read that back, what Mr. McKay -- I did not hear what he  
5 said.

6 THE REPORTER: Neither did I.

7 MR. MCKAY: I was verifying  
8 with Mr. Reddy if in fact those parties were actually of re-  
9 cord or owned the interest in the wells that were existing  
10 in the shallow depths.

11 MR. RICHARDSON: Mr. Stogner --  
12 Examiner, that Rule 1205-A --

13 MR. STOGNER: 1207. Mr. Rich-  
14 ardson, I'm going to ask that you also bring a witness back  
15 on the 22nd who can verify the notifications and if there's  
16 any other questions, geological or for the unit agreement.  
17 Also, could you get me, prior to the 22nd date an updated  
18 version of your unit agreement?

19 MR. RICHARDSON: Right.

20 MR. STOGNER: Is there anything  
21 further in this case today?

22 This case will be continued to  
23 the Examiner's Hearing scheduled for June 8th, 1988, which  
24 will be readvertised for that time.

25 It will also be continued to

1 the 22nd.

2

3

(Hearing concluded.)

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

## C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY  
CERTIFY that 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. 9380  
heard by me on 25 May 1988.

Michael J. Starn Examiner  
Oil Conservation Division

## NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date JUNE 22, 1988 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
Norbert T. Remy	Takes Petroleum Corp.	Albino, NM
William A. Carr	Campbell and Black, P.A.	Santa Fe
James Bruce	Hinkle Law Firm	Santa Fe
Sharon Hamilton	McKay Oil	Roswell
George Reddy	McKay Oil	Roswell
Larry Murphy	Union Oil Co of Calif.	Midland, TX
John I. Bray	Union Oil Co of Calif.	MIDLAND, TEXAS.
Chad Dickerson	Dickerson, Fish + Vandewer	Certina
A.M. Richardson	McKay Oil Corp	Roswell, NM.
Barbara Williams	BCO, Inc	Santa Fe.
Elizabeth B. Keeshan	BCO Inc	Santa Fe
Arturo L. Jaramillo	BCO Inc	Santa Fe
Henry J. Hansen	Amerada Hess Corporation	Houston, TX
Beel Seltzer	Amerind	Midland TX
Bob Halper	Byram	Santa Fe
Charles A. Coughney	Louisiana Land Expl Co	Houston
Richard D. Rainolt	Louisiana Land Expl. Co.	Roswell

## NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date JUNE 22, 1988 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
W.D. Kelleher	Kelleher, Kelleher & Anderson	Santa Fe
Jack Loring	Gas Company of the West	Alb
J.W. Hawkins	Amoco	Denver
John Warrell	Permian Basin Inv.	Roswell
Stephen Ruhl	ANADARKO Pet-Corp	Midland, TX
Robert C. Leibrock	Amerind Oil Co.	Midland, TX
Jerry Sexton	OCD	10/63

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION COMMISSION  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO

22 June 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of McKay Oil Corporation      CASE  
for a unit agreement, Chaves County,      9380  
New Mexico.

BEFORE: Michael E. Stogner, Examiner

A P P E A R A N C E S

For the Division:      Robert G. Stovall  
Attorney at Law  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico

For the applicant:      Randolph M. Richardson  
Attorney at Law  
Roswell, New Mexico 88201

## I N D E X

STATEMENT BY MR. RICHARDSON

3

SHARON R. HAMILTON

Direct Examination by Mr. Richardson 6

Cross Examination by Mr. Stogner 6

Redirect Examination by Mr. Richardson 8

## E X H I B I T S

McKay Exhibit Ten, Unit Agreement 3

McKay Exhibit Eleven, Letter 4

McKay Exhibit Twelve, Letter 4

McKay Exhibit Thirteen, Affidavit 5

McKay Exhibit Fourteen, Tabulation 8

1 MR. STOGNER: I'll call next  
2 Case Number 9380, which is the application of McKay Oil  
3 Corporation for a unit agreement, Chaves County, New  
4 Mexico.

5 This case was originally heard  
6 on May 25th, 1988, and continued to June 8th, 1988, and is  
7 further continued to this time for additional testimony.

8 Is there any appearances?

9 MR. RICHARDSON Randolph M.  
10 Richardson, Roswell, New Mexico, appearing on behalf of  
11 Applicant, and as you mentioned, this was a continued case.  
12 The previous witness, Mr. George Reddy is present but I  
13 won't call him unless necessary, unless requested.

14 Also, I have Ms. Sharon  
15 Hamilton, who is a Land Manager for McKay in Roswell. She  
16 is present and available but I'll not call her unless re-  
17 requested.

18 And in the previous hearing  
19 Exhibits One through Nine, which is a geological report and  
20 the maps accompanying the geological report were intro-  
21 duced as evidence, and I would now like to submit addition-  
22 al instruments as evidence for the record.

23 And I would like to hand you  
24 and submit Exhibit Number Ten, which is a complete copy of  
25 the finalized unit agreement containing all the added pro-

1 visions, up-to-date exhibits, and also it has been executed  
2 by McKay Oil Corporation.

3 The Division will be fur-  
4 nished a complete copy containing all signatures after it  
5 has been approved by the Federal Bureau of Land Management  
6 and the Commission of Public Lands.

7 And may that be admitted?

8 MR. STOGNER: Mr. Richardson,  
9 which of your witnesses is responsible for this instrument?

10 MR. RICHARDSON: Myself and  
11 Ms. Hamilton.

12 MR. STOGNER: Exhibit Number  
13 Ten will be admitted into evidence at this time.

14 MR. RICHARDSON: I would now  
15 like to hand you Exhibit Number Eleven, which is a letter  
16 from the United States Bureau of Land Management, giving  
17 preliminary approval to the unit area and designating the  
18 unit area and approving the depth of the initial test well.

19 And I would like to move to  
20 admit that exhibit.

21 MR. STOGNER: Exhibit Number  
22 Eleven will be admitted into evidence at this time.

23 MR. RICHARDSON: I would now  
24 like to submit and hand you Exhibit Number Twelve, which is  
25 a copy of a letter from the Commissioner of Public Lands

1 giving preliminary approval to the unit agreement as to  
2 form and execution and I have nothing further on that.

3 MR. STOGNER: Exhibit Number  
4 Twelve will be admitted into evidence at this time.

5 MR. RICHARDSON: And now I  
6 would like to submit and hand you Exhibit Number Thirteen  
7 which is an affidavit signed by myself and Sharon R.  
8 Hamilton as Land Manager for McKay Oil Corporation. This  
9 is an affidavit showing compliance with Division Rule 1207,  
10 as well as attached to the affidavit is a complete list of  
11 names and addresses of all owners of interest in the unit  
12 area, and also attached is a copy of all certified mail  
13 return receipts which have been received back by McKay.

14 MR. STOGNER: I have a few  
15 questions for Ms. Hamilton. Let's call her to the witness  
16 stand at this time, Mr. Richardson.

17  
18 (Witness sworn.)  
19

20 SHARON R. HAMILTON,  
21 being called as a witness and being duly sworn upon her  
22 oath, testified as follows, to-wit:  
23  
24  
25

## 1 DIRECT EXAMINATION

2 BY MR. RICHARDSON:

3 Q Ms. Hamilton, would you please state  
4 your full name and current address?5 A Sharon R. Hamilton. I reside at 204  
6 Three Cross Drive, Roswell, New Mexico.7 Q Would you please tell the Examiner by  
8 whom you are employed and in what capacity?9 A I'm employed by McKay Oil Corporation in  
10 the capacity of Land Manager.11 Q And how long have you been employed in  
12 such a capacity?

13 A Six and a half years.

14 Q Six and a half years.

15 MR. RICHARDSON: Is that  
16 enough qualification?17 MR. STOGNER: Yes, Ms. Hamil-  
18 ton is so qualified as a practical landman.19  
20 CROSS EXAMINATION

21 BY MR. STOGNER:

22 Q Ms. Hamilton, I just would like you to  
23 briefly go over Exhibit Number Thirteen here and discuss  
24 the (unclear) hold of everybody. Did you -- were you able  
25 to obtain addresses from everybody and also did you get any

1 correspondence in return from any parties?

2 A We did have some mail returned that we  
3 have been able to locate new addresses for and have been  
4 remailing everything that has been returned.

5 I did get some correspondence and  
6 several telephone calls.

7 Q Were they -- any of them in the negative  
8 or opposing it?

9 A Some of the fee royalty owners and  
10 un-leased mineral owners were not interested. They would  
11 prefer to lease their interest.

12 We had several small working interest  
13 owners that wanted to also sell their interest.

14 Q At this time how many or what percentage  
15 of parties have agreed to pool their interest -- I mean to  
16 join your unit?

17 A I believe we have over 80 percent of  
18 working interest owners that have committed.

19 Q Is that covered in Exhibit Number Ten  
20 that I was handed today or any of the other exhibits?

21 MR. RICHARDSON: It will be in  
22 Exhibit Number Fourteen.

23 I have not submitted it yet.

24 MR. STOGNER: Okay, well, do  
25 you want to go ahead and do that now?

1 MR. RICHARDSON: Yes. I would  
2 like to submit Exhibit Number Fourteen, which is a tabula-  
3 tion of -- tract by tract tabulation of committed and non-  
4 committed interests in the unit and I ask that Ms. Hamilton  
5 will be testifying from it.

6 MR. STOGNER: Okay, would you  
7 ask -- do you want to ask her some questions concerning  
8 this, Mr. Richardson?

9 MR. RICHARDSON: Yes.

10  
11 REDIRECT EXAMINATION

12 BY MR. RICHARDSON:

13 Q Ms. Hamilton, could you refer to your  
14 exhibit which has been marked Number Fourteen and I notice  
15 that all of the Federal lands, Tracts 17, 18 and 19, show  
16 to be 82.25 percent committed and they are footnoted down  
17 right below the total with four different names as owning  
18 an interest that's not committed.

19 This will be Concise, Cumo, Oil Service  
20 and Fuller, and I wonder if you would explain that to the  
21 Examiner.

22 A These partners were individual companies  
23 that participated in the drilling of three previous Abo  
24 wells with McKay Oil Corporation. They are not interested  
25 in any further activity and would prefer to sell their

1 interest and we are currently negotiating with them to  
2 assume their position.

3 Talent Energy is in a Chapter 11  
4 bankruptcy and we are having to refer to the bankruptcy  
5 court for what they are able to do in this unit.

6 Q Ms. Hamilton, I notice that under the  
7 bottom of the exhibit it shows 1,920 acres of State of New  
8 Mexico land that is fully committed. Is this correct?

9 A Yes, it is.

10 Q The next page two of the Exhibit Number  
11 Fourteen shows a tabulation of the fee or patented land.  
12 Most of that appears to be uncommitted with the exception  
13 of the tracts, and would you please tell the tracts listed  
14 below working interests committed which are 100 percent or  
15 partially committed, of the fee or patented lands?

16 A These are fee leases that the working  
17 interest owners have committed to. There was one unleased  
18 mineral owners that also committed her acreage. The other  
19 unleased mineral owners preferred not to join the unit.  
20 They would prefer to lease their acreage rather than to  
21 join in the unit.

22 Q I notice, Ms. Hamilton, that one fee  
23 tract of 120 acres does show to be fully committed as to  
24 working interest and basic royalty, is this correct?

25 A Yes, it is.

1           Q           The recapitulation, would you please  
2 read that into the record, please, Recapitulation, Unit  
3 Area?

4           A           Okay. We have -- of the Federal land,  
5 15,497.31 acres. Of that 14,858.31 is fully committed and  
6 480 acres is 82.25 committed, which gives 15,338.31 com-  
7 mitted.

8                       State of New Mexico lands, 1,920 acres,  
9 fully committed.

10                      Fee lands, 3,357.71 acres, 120 fully  
11 committed, 940 partially committed, and 1,060 committed.

12                      That comes up to Federal committed,  
13 15,338.31 acres; State committed, 1,920 acres; Fee commit-  
14 ted, 1,060; for a total committed acreage of 18,318.31  
15 acres.

16                      A total unit area of 20,775.02 acres,  
17 for an 88.17 percent committed.

18                               MR. RICHARDSON: I have no  
19 further questions.

20                               MR. STOGNER: I have no fur-  
21 ther questions of Ms. Hamilton.

22                               Is there anything further in  
23 this case?

24                               Ms. Hamilton may step down.  
25 Case Number 9380 will be taken under advisement.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

THE REPORTER: Do you want to  
admit Exhibit Fourteen?

MR. RICHARDSON; Yes, would  
you admit that? I'm sorry.

MR. STOGNER: Exhibit Four-  
teen will also be admitted.

(Hearing concluded.)

## C E R T I F I C A T E

I, SALLY W. BOYD, C. S. R. DO HEREBY  
CERTIFY that 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 copy of the proceedings in  
the Examiner hearing of Case No. 9380,  
heard by me on 22 June 1988.

Michael E. Hagman, Examiner  
Oil Conservation Division

8/4/88