1 2	STATE OF NEW MEXICO ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT OIL CONSERVATION DIVISION STATE LAND OFFICE BUILDING SANTA FE, NEW MEXICO				
3	1 February 1989				
4					
5					
6	EXAMINER HEARING				
7	IN THE MATTER OF:				
8	Application of Murphy Operating Corp- CASE				
9	oration for expansion of unit areas, 9589 Chaves and Roosevelt Counties, New				
10	Mexico.				
11					
12					
13					
14	BEFORE: David R. Catanach, Examiner				
15					
16	TRANSCRIPT OF HEARING				
17					
18	APPEARANCES				
19					
20	For the Division:				
21					
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23					
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Call

this

MR. CATANACH: hearing to order this morning for Docket No. 4-89. We'll call the first case on the docket, Case 9589. Application of Murphy Operating Corporation for expansion of unit area, Chaves and Roose-velt Counties, New Mexico. The applicant has requested this case be continued to February 15th. (Hearing concluded.) 

#### CERTIFICATE

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.

Saeleg les. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7589 heard by me on 1989

Oil Conservation Division, Exam

1 2 3 4	STATE OF NEW MEXICO ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT OIL CONSERVATION DIVISION STATE LAND OFFICE BUILDING SANTA FE, NEW MEXICO  15 February 1989				
5 6	EXAMINER HEARING				
7	IN THE MATTER OF:				
8	In the matter of cases called on this CASES				
9	date and continued or dismissed with- 9589 out testimony presented. 9590				
10	9601 91 <b>4</b> 5				
11	9602 9603				
12					
13	DEFODE. Mighael E Chagner Eveniner				
14	BEFORE: Michael E. Stogner, Examiner				
15					
16	TRANSCRIPT OF HEARING				
17					
18	APPEARANCES				
19	For the Division: Robert G. Stovall				
20	Attorney at Law Legal Counsel to the Division				
21	State Land Office Bldg. Santa Fe, New Mexico				
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2	INDEX	
3		
4	Case No. 9589	3
5	Case No. 9590	4
6	Case No. 9601	5
7	Case No. 9145	6
8	Case No. 9602	7
9	Case No. 9603	8
10		
11		
12		
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MR. STOGNER: The hearing will to order. I'm Michael E. Stogner appointed hearing office for the hearing this morning for Docket No. 5-89. We'll call first Case Number 9580. MR. STOVALL: Application of Murphy Operating Corporation for expansion of unit area, Chaves and Roosevelt Counties, New Mexico. Applicant has requested that this case be continued to March 1st, 1989. MR. STOGNER: Case Number 9589 will be so continued. 

MR. STOGNER: Call next Case Number 9590. Application of Murphy Operating Corporation for area expansion of a waterflood pro-ject, Chaves County, New Mexico. Applicant requests this case be continued to March 1st, 1989. MR. STOGNER: Case Number 9590 will also be so continued. (Hearing concluded.) 

MR. STOGNER: Call next Case Number 9601. MR. STOGNER: Application of Nearburg Producing Company for compulsory pooling, Eddy County, New Mexico. Applicant requests this case be dismissed. MR. STOGNER: Case Number 9601 is hereby dismissed. (Hearing concluded.) 

MR. STOGNER: Call next Case Number 9145. MR. STOVALL: In the matter of Case 9145 being reopened pursuant to provisions of Division Order No. R-8497, which promulgated temporary special pool rules and regulations for the North Knowles Devonian Pool, Lea County, including a provision for 80-acre spacing units. This case is requested to be continued to March 15th, 1989. MR. STOGNER: Case Number 9145 will be so continued. (Hearing concluded.) 

MR. STOGNER: Call next Case Number 9602. MR. STOVALL: Application of BHP Petroleum, Inc., for a special GOR, Eddy County, New Mexico. Applicant requests this case be continued to March 1st, 1989. MR. STOGNER: Case Number 9602 will be so continued. (Hearing concluded.) 

MR. STOGNER: Call next Case Number 9603. STOVALL: Application of MR. BTA Oil Producers for an unorthodox oil well location, Eddy County, New Mexico. Applicant requests this case be dismissed. MR. STOGNER: Case Number 9603 will be dismissed. (Hearing concluded.) 

### CERTIFICATE

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.

Sacry W. Boyd CSR

do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 19

Oil Conservation Division

1 2	STATE OF NEW MEXICO ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT OIL CONSERVATION DIVISION STATE LAND OFFICE BUILDING SANTA FE, NEW MEXICO					
3 4	1 March 1989					
5	EXAMINER HEARING					
6	IN THE MATTER OF:					
7 8	Application of Murphy Operating Corp- CASES oration for expansion of unit area, 9589 Chaves and Roosevelt Counties, New					
9	Mexico, and	O O O				
10	Application of Murphy Operating Corp- 9590 oration for area expansion of a water flood project, Chaves County, New Mexico.					
12 13	BEFORE: Victor T. Lyon, Examiner					
15	TRANSCRIPT OF HEARING					
17	APPEARANCES					
18	For the Division:	Robert G. Stovall Attorney at Law Legal Counsel to the Division State Land Office Bldg.				
20		Santa Fe, New Mexico				
21 22	For Murphy Operating Corporation:	T. Calder Ezzell, Jr. Attorney at Law HINKLE LAW FIRM				
23		P. O. Box 10 Roswell, New Mexico 88201				
24						
25						

1 We'll call next MR. LYON: 2 Case 9589. 3 MR. STOVALL: Application of Murphy Operating Corporation for an expansion of unit area, 5 Chaves and Roosevelt Counties, New Mexico. 6 MR. LYON: Call for appear-7 ances. 8 MR. EZZELL: Yes, Mr. Exam-9 iner, I'm Calder Ezzell with the Hinkle Law Firm of Ros-10 well, and I've move that we consolidate this case and the 11 case that next follows on the docket and I have one witness 12 to swear. 13 MR. LYON: All right, we'll 14 call Case 9590. 15 MR. EZZELL: 9590, yes, sir. 16 MR. STOVALL: Application of 17 Murphy Operating Corporation for an area expansion of a 18 waterflood project, Chaves County, New Mexico. 19 MR. LYON: Same appearances? 20 MR. EZZELL: Yes, sir. 21 MR. LYON: Are there other ap-22 pearances? 23 This is your witness? 24 MR. LYON: Will you stand and 25 raise your right hand?

Proceed,

Mr.

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(Witness sworn.)

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MR. LYON:

5 Ezzell.

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ANN MURPHY EZZELL,

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

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### DIRECT EXAMINATION

12 BY MR. EZZELL:

> Would you state your name and residence, Q please?

My name is Ann Murphy Ezzell and Α Yes. my residence is Roswell, New Mexico.

By whom are you employed and in what O capacity?

I'm employed by Murphy Operating Corporation in the capacity of Chairman and CEO of the company. function in the capacity of attorney and petroleum engineer.

Have you previously testified before the Q Commission and had your qualifications as an expert in the field of law and petroleum engineering accepted as a matter

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1 of record? 2 Yes, I have. Α 3 Are you familiar with Murphy Operating Q Corporation's applications in the consolidated Cases Number 5 9589 and 9590? 6 Α I am. 7 Q What does Murphy Operating Corporation 8 seek by its applications in these cases? 9 Α It seeks to expand a previously approved 10 Haley Chaveroo San Andres Unit and the waterflood project 11 associated with it to include two additional 40-acre tracts 12 located in Section 3 of Township 8 South, Range 33 East. 13 Q How did you become familiar with the 14 facts concerning these applications? 15 Α Chairman of Murphy Operating Corpor-16 ation and operator of the Haley Unit, I initiated the pro-17 posal to expand the unit to include the southwest of the 18 southwest and the northeast of the southeast of Section 3. 19 I've had direct involvement in the con-20 trol of the effort to include these tracts since approval 21 of our unit upon our original application. 22 MR. EZZELL: Mr. Examiner, are 23 the witness' qualifications acceptable? 24 MR. LYON: Yes, the witness is 25 qualified.

MR. EZZELL: Mr. Examiner, we have packaged our exhibits in file folders compatible with the way we did the original exhibits and what I have done is just marked each file folder as Exhibit One and then we'll refer to Exhibit One-A through One-K, and they are all packaged in the (unclear).

Q Mrs. Ezzell, I direct your attention to what has been marked as Applicant's Exhibit One-A and ask you to identify that, please.

A Exhibit A is Exhibit A to the unit agreement, which has been revised as of 1-27-89. This map shows the original unit outline in a solid black line and the proposed expanded unit outline in a broken line.

Q Your original unit was 1,840.7 acres, which was all State of New Mexico leases and divided into tracts formed according to common ownership with the tract number and operator shown.

You have proposed the expansion of the original unit to include Tract 5. Would you describe this proposed expansion?

A Yes. Our proposed Tract 5 consists of the State of New Mexico oil and gas Lease K-2019 and it covers the southwest quarter of the southwest quarter and the northeast quarter of the southeast quarter of Section 3, Township 8 South, Range 33 East; therefore, our expanded

unit would consist of 1920.7 acres, all State of New Mexico oil and gas leases.

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Q Why does the applicant wish to expand

the unit area?

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Α These two 40-acre tracts are logically

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and properly included in the unit.

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Q Why were these two 40-acre tracts omit-

ted from the original unit area?

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Α When we made our original application

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for unit approval, I believe this was then owned by Union

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Pacific Resources Company, formerly Champlin Petroleum Com-

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approached Champlin about partici-We

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pating in the unit and were informed that the tract was

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part of a bid package with a great many other Champlin pro-

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perties.

pany.

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Dallas and get the tract split out of the bid package so

attempted to contact the broker in

We

posed unit at that time.

18 19

that we could acquire it and include it in the unit, but

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they declined and asked us to deal with the seller at the

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time the package was sold, so that there was no one that we

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could deal with to include the unit and we did not want to

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delay our development effort in the other parts of our pro-

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Q What has transpired since that time to

make these tracts available for inclusion in your unit?

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The parcels in the bid package were purchased by Bristol Resources' 1987-1 acquisition program out of Tulsa, Oklahoma, and when they closed their deal they agreed to commit the tract to the unit. So we -- we scheduled the expansion hearing and we met with them several times and subsequently, just several days prior to the -- our scheduled hearing, they changed their mind and told us that their financial institutions did not want to pay for the development and asked us to buy the tract from them.

So we entered into a purchase agreement and acquired the tract effective February 1st.

I might add that we own the tract now along with our partner, American Energy Capital Corporation, and they are a current working interest owner in the unit.

Q How did you confirm ownership of the new tract?

A We had a title opinion prepared by Hinkle, Cox, Eaton, Coffield and Hensley of Roswell, New Mexico.

Q Does your unit agreement provide a procedure for expansion of the unit?

A Yes, it does. Section 4 of the unit

agreement outlined the procedure and requires that the unit operator circulate a notice of the proposed expansion to each of the working interest owners and if a certain number of working interest owners concur that the expansion is proper, then a formal notice is prepared and furnished to all of the working interest owners, the Commissioner, and the Oil Conservation Division. Thirty days, there's a period of 30 days for response or any objections and then after the 30 day period the operator proceeds to the expansion process either through an administrative approval or a hearing at the OCD.

Q Does Commission Order R-8750, which approved your original unit, contemplate expansion?

A Yes, it does. Expansion is authorized with Commission approval.

Q What percentage of working interest owners and royalty owners have approved the proposed expansion?

A 100 percent are supporting the expansion effort.

Q You testified as to an expansion procedure in your unit agreement. Was this procedure followed?

A Yes, it was. The expansion was proposed by Murphy Operating Corporation as operator and working interest owner, and American Energy Capital Corporation as

working interest owner in the proposed tract to be included.

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The only remaining working interest owner is PHAW Corporation of Washington, D. C., and they have given us written -- their written support and approval for the expansion.

Q Okay, I refer you in your folder to Exhibit B and C and ask you to identify them.

A Exhibits B and C consist of identical letters dated January 30th, 1989, which were sent by Telefax and then hard copies by Federal Express to PHAW Corporation and American Energy Capital Corporation.

This letter outlines the basis for the expansion of unit boundary, provides formal notice of the unit expansion, and provides an agreement at the bottom of the letter, whereby these working interest owners accept and agree to the expansion.

Q So these executed agreements from American Energy Capital Corporation and PHAW Corporation, combined with your application for unit expansion, represent notice to and the approval by 100 percent of the working interest owners to the original unit?

A Yes, they do.

Q Who is the record title owner of State of New Mexico Oil & Gas Lease K-2019, Assignment Number 4?

A My company, Murphy Operating Corporation acquired record title by assignment dated effective February 1st,1989, and by assignment dated the same day we conveyed an undivided 7/8ths of the operating rights under the lease to our partner, American Energy Capital Corporation.

Q Okay. I refer you to what has been marked Exhibits D, E, F and G, and ask you to quickly identify them.

A Exhibits D, E, F and G are various ratifications required to validate the support of various interests in the unit.

Exhibit D is a ratification entitled Ratification of Agreement of the unit agreement and this is Murphy Operating Corporation's ratification for record title under the proposed tract.

Q As record title owner of the (unclear) tract.

A Exhibit E if the ratification of both the unit agreement and unit operating agreement by Murphy Operating Corporation as unit operator and working interest owner in the proposed tract.

Exhibit F is the ratification of both agreements by American Energy Capital Corporation as working interest owner under the proposed tract.

And Exhibit G is the ratification of the agreement by Murphy Operating Corporation as overriding royalty interest owner.

Q And Murphy Operating Corporation is the only overriding royalty interest owner in the -- in the unit?

A That's correct.

Q Either the original unit or as expanded.

A Yes.

Q You testified that the mineral estate relative to all of the lands under the original unit and the proposed expansion tract are owned by the State of New Mexico.

Have you received preliminary approval from the State Land Office as to the proposed expansion, and I refer you to what has been marked Exhibit H.

This is a copy of a letter from the Commission -- Commissioner of Public Lands, dated January 9th, 1989, whereby the Commissioner grants preliminary approval for the unit and asks us to apply for final approval by submitting what is Exhibit D through G and the approval of the OCD.

Q What effect will your proposed expansion have on the waterflood project as originally proposed and as approved by Order R-8760 of the Division?

1 Α None other than to increase the unit 2 size by 80 acres. Both of the 40-acre tracts which will be 3 included, will be designated producing locations as opposed to injection locations and therefore the proposed injection 5 plan that was previously approved by the OCD would not be 6 changed at all. 7 So since these are not injection loca-Q 8 tions there is no additional area of review wells for which 9 you would be required to submit C-108 data to the Commis-10 sion? 11 No, all of the data required has already Α 12 been submitted at the time of our original hearing. 13 Q Are there any wells located on the lands 14 to be added to the unit? 15 Α Yes. 16 Are they properly classified as stripper Q 17 wells? 18 Yes. One of the wells is a stripper 19 well. It's producing. The other well is plugged and aban-20 doned. 21 Does your unit agreement use a formula Q 22 for the allocation of unit production and cost to the 23 various tracts? 24 Yes, it does. Α 25 Q What is that formula?

The formula is the formula that was Α originally approved by the OCD and it's based on 80 percent primary production and a weighted 20 percent factor for a usable well.

Do you feel that this formula represents a fair and equitable division of production among the royalty owners and working interest owners of the various tracts?

> Yes, I do. Α

Has this formula been accepted and approved by all of the working interest owners?

> Yes, it has. Α

Based on this formula what is the tract 0 participation factor for the proposed Tract 5, and I refer you and the Examiner to Exhibit I.

Α Exhibit I shows the new tract participafactors for the original unit tract adjusted by the addition of the Tract 5 land.

Tract 5 has one usable well and 171,757 barrels of allocable primary production, so based on a participation factor of 20 percent usable wells, plus 80 percent primary recovery, proposed Tract 5 would have a 4.696542 percent tract participation factor.

I now refer you to Exhibit J and ask you Q to identify it.

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Exhibit J is the revisions to Exhibit B the unit agreement and it gives the legal descriptions leases, all the relevant data, such as serial lease dates, the name of the lessee of record, basic royalty percentages, overriding royalty information, working interest owners and their relative working interest percentage, and unit participation factors.

And this is all adjusted to show the inclusion of Tract 5 under your proposed expansion?

That's correct.

To whom was notice of your application for expansion furnished?

As I previously testified, the proposed expansion was provided by notice to each of the working interest owners and to the Commissioner and the OCD.

In each case was the notice received by person to whom it was sent at least 20 days -- 20 days prior to the date of this hearing?

Did you submit notices to any surface owners or offset operators with respect to Tract 5?

Rule 701-B required notice to surface and offset operators only as to land upon which an injection or disposal well is to be located.

I have testified, under the approved

waterflood project new Tract 5 would be a producing location rather than an injection location. In any event all the offset operators received notice of the original unitization effort and the surface of Tract 5 lands are owned by the State of New Mexico, and as I've testified, notice was sent to the State Land Office in a timely fashion.

Q Okay, I refer you to Exhibit K and ask you to identify and explain it.

Exhibit C to the unit operating agreement. It sets forth the names of the unit interest owners and the percentage unit participation as revised to include Tract 5.

Q What is the effective date that you seek for your proposed expansion?

A We seek to have the effective date February 1st, 1989, which is the effective date of our acquisition of Tract 5, of the Tract 5 lease.

Q Do you seek a project allowable for the unit as expanded?

A Yes. We would ask the OCD that any producing wells located on the new Tract 5 be included within the project allowable as originally granted by the Commission.

Q In your opinion does your proposed expansion have a reasonable expectation of increasing recov-

1 ery from the field? 2 Yes, we believe it will. Α 3 In your opinion will the approval of the Q 4 application in these cases promote conservation of oil or 5 gas and the better utilization of energy reserves? 6 Α Yes. 7 Would you -- in your opinion would you Q 8 say that the expansion is in the best interest of the State 9 and will the State and each beneficiary of the lands invol-10 ved receive its fair share of the recoverable oil or gas in 11 place under the lands affected? 12 Α Yes. 13 Would the granting of the applications Q 14 prevent waste and protect the correlative rights of all 15 parties? 16 Yes, it would. Α 17 Were the exhibits that we've submitted 18 prepared by you or under your direct supervision? 19 They were, except for Exhibit H, which Α 20 was provided to us by the State Land Commissioner's office. 21 Q And you received Exhibit H through the 22 mail? 23 Α Yes. 24 MR. EZZELL: I'll now offer 25 what we've marked Exhibits One-A through K into evidence.

MR. LYON: Exhibits One-A

have no

through K will be admitted into evidence.

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MR. EZZELL: And I

further questions of this witness.

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CROSS EXAMINATION

BY MR. LYON:

Mrs. Ezzell, the -- I was trying to find Q the exhibit here -- apparently the four original tracts, the working interest ownership was common to all those tracts, is that correct?

> That's correct. Α

And apparently American Energy Capital Q Corporation now owns the percentage of interest that American -- or that PHAW --

Α I'd like to explain that. When we proposed the original unit we had three partners and normally PHAW liked to own about a third of these projects but because of certain budgetary limitation they declined to participate in this additional tract at this time and I think from the letter that they have included, I believe it's Exhibit B or C, you'll see that they have been well informed and we offered their percentage in this but they felt they couldn't do it at this time and they may at some point later acquire part of that by contract.

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1 So that the interest in the unit will Q 2 vary from the original only to the extent that PHAW does 3 not participate in Tract 5. 4 Α That's correct, sir. 5 MR. EZZELL: And they have 6 contractual rights to do so and couldn't exercise those at 7 this time. 8 MR. LYON: Sure. I don't 9 think I have any other questions. 10 MR. EZZELL: Well, then in 11 summary, I'd like to move that the Commission act favorably 12 on these applications and grant the applicant's expansion. 13 MR. LYON: We will take the 14 case under advisement and the witness may be excused. 15 16 (Hearing concluded.) 17 18 19 20 21 22 23 24 25

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## CERTIFICATE

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.

Souly W. Boyd CSZ

Oil Conservation Division

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# NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING			
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SANTA FE	,	NEW	MEXI CO

Hearing Date MARCH 1, 1989 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
of CALDER EZZEU, JA	HINKLE LAW FIRM	ROSIVELL
And Murphy Engl	musphy Operating Corp.	Roswell
n T Kellerlin	Xelle L. Xelle Q - auk	ey State
W. T. Duncan	ExxOII	Midland
William Clare	Blackwood : Nichols	Burero Co
silliant Jan	Jany sell + Black	Quita Fe
a Di a Dilan	Curry and Donten	Rosnell
J. Privce	Hinlel Can Firm	Albuguerg
Mike During	Petr Carp & Dol	Dallas
Sim Mashear	Petr Corp of Jel	DALLACI
Boa Halin	Byran	Sautate
Man W. Lohlmig	Cheron	Hobbs
Nicky Warlich	Chevron	Holds
in Even	Cheuron	Hobbs

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	NEW MEXICO OI	L CONSERVATION	COMMISSION	
	EXA	MINER HEARING	<del></del>	
	····	SANTA FE ,	NEW MEXICO	
Hearing Date		MARCH	1, 1989	Time: 8:15 A.M.
NAME		REPRESENTING		LOCATION
Jim Berr	. 7	Pennzoil		Houston
Jonnie Whitfen	ed	1/		11
Jennis White Dan Wellfur	in san	to FE Expla	institute,	Roswell
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