

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICOHearing Date AUGUST 8, 1991 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
Sealy Gavin	Seay Exploration	Albuquerque
N. Kellin	Kellin Kellin Aubrey	Santa Fe
PERRY L. HUGHES	AVON ENERGY CORP.	MIDLAND, TX
Bill Seitzer	COLLINS & WARE.	Midland, TX
CHARLES KNIGHT	" "	" "
HERB WARE	" "	" "
Maurice Trimmer	Byram & Co.	Santa Fe
A. M. E. L. L. L.	McKay Oil Corp.	Roswell
Jim Schmitt	McKay Oil Corp.	Roswell
Bob Bell	HEICO	Roswell
Danil Peary	HEICO	Roswell
ROBERT SETZLER	AVON ENERGY	LOCO HILLS, NM
KEN PETERS	" "	DENVER, CO
George Reddy	McKay Oil	Roswell, NM
James Bruce	Hinkle Law Firm	Albuquerque

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date AUGUST 8, 1991 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
Jerry T. Long E.R. Manning Bill Mount William L. Day	BHP PETR. El Paso Natural Gas. BHP Petroleum Campbell and Black, P.A.	1205 WELLS El Paso, TX Houston, TX Santa Fe

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

IN THE MATTER OF:)
THE HEARING CALLED BY THE)
OIL CONSERVATION DIVISION)
TO CONSIDER:)

Case No. 10321

APPLICATION OF MCKAY OIL)
CORPORATION FOR A UNIT AGREEMENT,)
CHAVES COUNTY, NEW MEXICO.)
-----)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

DIVISION HEARING

BEFORE: DAVID R. CATANACH, Examiner

August 8, 1991

8:20 a.m.

Santa Fe, New Mexico

This matter came on for hearing before the Oil
Conservation Division on August 8, 1991, at 8:20 a.m.
at the conference room, State Land Office Building, 310 Old
Santa Fe Trail, Santa Fe, New Mexico, before Susan G.
Ptacek, Certified Court Reporter for the State of New
Mexico.

FOR: OIL CONSERVATION
DIVISION

BY: SUSAN G. PTACEK
Certified Court Reporter
CSR No. 124

I N D E X

PAGE

August 8, 1991
 Examiner Hearing
 Case No. 10321

APPEARANCES

3

McKAY WITNESSES

GEORGE REDDY

Direct Examination by Mr. Richardson
 Examination by Mr. Catanach

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8

JIM SCHULTZ

Direct Examination by Mr. Richardson
 Examination by Mr. Catanach

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Reporter's Certificate

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* * *

E X H I B I T S

ADMTD

McKay Oil Exhibit

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A P P E A R A N C E S

FOR THE DIVISION: ROBERT G. STOVALL, ESQ.
General Counsel
Oil Conservation Commission
State Land Office Building
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

FOR MCKAY OIL RANDOLPH M. RICHARDSON, III, ESQ.
Attorney at Law
Post Office Box 2423
Roswell, New Mexico 88202

* * *

1 MR. CATANACH: At this time we will call case 10321.

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

4 MR. CATANACH: Are there appearances in this case?

5 MR. RICHARDSON: Randolph M. Richardson, Roswell, New
6 Mexico, on behalf of applicant. I have two witnesses to be
7 sworn.

8 MR. CATANACH: Are there any other appearances? Will
9 the two witnesses please stand and be sworn?

10 (The witnesses were duly sworn.)

11 MR. RICHARDSON: I'd like to call Mr. George Reddy,
12 first.

13 GEORGE REDDY,
14 the Witness herein, having been first duly sworn, was
15 examined and testified as follows:

16 EXAMINATION

17 BY MR. RICHARDSON:

18 Q. Mr. Reddy, would you please state your name,
19 address and present occupation?

20 A. My name is George Reddy. My address is 3408
21 Dial Street in Roswell. I'm a consulting geologist in the
22 city of Roswell.

23 Q. Could you please state your educational and
24 professional background which would enable you to testify
25 as an expert in this case?

1 A. I majored in geology at the University of New
2 Mexico, received my bachelor of science and master of
3 science degrees there; and since 1961 have worked in the
4 petroleum industry. Since 1975 I've worked as a consulting
5 geologist in Roswell.

6 Q. Are you familiar with the Charolette State Unit
7 area and the matters contained in the application to the
8 division for approval a unit agreement?

9 A. Yes.

10 Q. Have you ever testified before this division as
11 an expert?

12 A. Yes.

13 MR. RICHARDSON: Are Mr. Reddy's qualifications
14 acceptable?

15 MR. CATANACH: They are.

16 Q. (By Mr. Richardson) And you have the geological
17 report. Mr. Reddy, please refer to the geological report,
18 which has been given to the examiner. Was this report
19 prepared by you?

20 A. Yes, it was.

21 Q. Your report has been marked Exhibits 1 through
22 4. Could you please review the report, referring to each
23 exhibit by name and number, and please state what the
24 exhibit shows and the significance of such exhibit?

25 A. Exhibit 1 is the body of the text of the report

1 that describes the geology of the Charolette Unit.

2 Exhibit 2 is an index map that shows the location of the
3 Charolette State Unit with respect to Roswell. It's about
4 37 miles northwest of the city, and also shows the
5 relationship to the nearest production in the Pecos Slope
6 Abo West gas field. In addition, it shows some of the
7 regional structural features that cross the nearby fields,
8 and are believed to come into the Charolette State Unit.

9 Exhibit 3 is in a pocket at the back of the
10 report, and it's a geological map of the area that shows
11 two different aspects of the geology, the structure and the
12 isopach of the Pecos Slope Abo facies, which is the primary
13 objective. The two different parameters can be
14 differentiated by the color. The isopach is shown by the
15 color patterns on the map, and the structure contours are
16 at a 50-foot interval, and they cross kind of on a
17 northeast strike through the area. The structure dips
18 southeastward at a rate of about 60 feet per mile through
19 the Charolette State Unit, which is outlined on the map.

20 And Exhibit 4 is a log of the type well, which is
21 north, about four miles north, of the proposed unit; and
22 the log itself has been marked to show the different
23 formations anticipated, to show the prospective interval,
24 which is the Pecos Slope pay interval, and show the deeper
25 secondary objectives to basement. On this particular well

1 gas was -- the well was completed in the Pecos Slope
2 facies, and it made a gas well, and this is the type log
3 for the area.

4 Q. Could you please repeat, or tell the division,
5 Mr. Reddy, your conclusion as to formations likely to be
6 encountered and considered productive or considered
7 prospective as productive?

8 A. Well, again, be the same reservoirs that produce
9 in the West Pecos Slope field to the southeast of the
10 proposed unit, and the deeper zones beneath that, which
11 would be the Granite Wash section, is called by local
12 geologists, which have produced gas in some of the wells
13 that have been drilled to basement to the east.

14 Q. Would you please tell the division the location
15 and projected depth of the first well to be drilled on the
16 unit?

17 A. The northwest quarter of Section 23 of
18 Township 5 South, Range 20 East would be the first
19 location, and approximately 3800 feet will be required to
20 test to basement there.

21 Q. In your opinion, Mr. Reddy, does a unit area
22 cover substantially all the geology features involved?

23 A. Yes. Inasmuch as the unit is bounded on the
24 south by another State Unit and on the north by one, it
25 covers the bulk of that remaining that is prospective.

1 Q. Mr. Reddy, in your opinion, will the operation
2 of this area under the proposed unit plan of operation be
3 in the interest of conservation and prevention of waste?

4 A. Yes.

5 MR. RICHARDSON: I'd like to move to enter geological
6 report marked Exhibits 1 through 4, and I have no further
7 questions of this witness.

8 MR. CATANACH: Exhibits 1 through 4 will be admitted
9 as evidence.

10 (McKay Oil Exhibits 1 through 4 were
11 received in evidence.)

12 EXAMINATION

13 BY MR. CATANACH:

14 Q. Mr. Reddy, what bounds the unit on the east and
15 west as far as geological?

16 A. Well, on the west side we have, as you can see,
17 very little control, but northwest of the unit area there
18 is no sand indicated of reservoir quality in that well in
19 Section 27, 4, 19. There are no wells due west of it
20 within the mapped area, but it's my interpretation that the
21 sand is playing out in that direction; and that as you get
22 out toward the edge of the proposed unit, it's shown to be
23 very thin. And on the east side the well in Section 30 at
24 5 South, 21 East, only had three feet of sand. That is
25 better than 10 percent porosity, and, again, we have that

1 same problem; we tend to be losing sand -- or
2 reservoir-quality sand in that direction.

3 Q. There have been no wells drilled in the proposed
4 unit area; is that correct?

5 A. That's correct.

6 Q. What is the closest well that you've got to
7 that?

8 A. I guess it would be that one I just referred to,
9 to the unit itself, that one in 30 of 5 South, 21 East.

10 Q. Mr. Reddy, what information was utilized to
11 construct the geologic map?

12 A. It's all based on well data. Surface structures
13 is what we're looking at in terms of structure, as well as
14 what's indicated at the surface in regard to these faults
15 or buckles that come through the fields. As far as the
16 sand quality portion of the map is concerned, it's that --
17 those sands within the Pecos Slope interval that produces
18 to the west, which had better than 10 percent porosity
19 indicated by log, and the typical gas affect cross-over on
20 this -- on the C&L density neutron logs. All of these are
21 relatively modern logs.

22 Q. Do you have an opinion as to how much sand is
23 needed in the Abo formation to make a commercial well in
24 this area?

25 A. It's very questionable in this area. This well

1 that is the type well has -- has excellent indications on
2 the porosity log and yet the -- or the resistivity log
3 suggests that it is not very permeable and it had 45 feet
4 of sand and yet, I guess, it's -- it would probably be
5 considered by everyone not to be commercial.

6 What we feel like, if we can get the axes, or
7 near the axes, of this these channels that are pretty well
8 documented to the south where we have more control, that we
9 will find better permeability. We know we have the gas in
10 place. The big question is permeability.

11 MR. CATANACH: I have no further questions of the
12 witness. He may be excused.

13 MR. RICHARDSON: I'd like to call Mr. James L.
14 Schultz as a second witness.

15 JIM SCHULTZ,
16 the Witness herein, having been first duly sworn, was
17 examined and testified as follows:

18 EXAMINATION

19 BY MR. RICHARDSON:

20 Q. Mr. Schultz, would you please state your name
21 and address and occupation?

22 A. Jim Schultz, 809 Twin Diamond, Roswell, New
23 Mexico. I'm presently vice president of land and legal for
24 McKay Oil Corporation.

25 Q. Could you please state your educational and

1 professional background which would enable you to testify
2 as an expert witness in this case?

3 A. I have a college B.A. degree; been a landman for
4 12 years, two years as an independent and 10 years at McKay
5 Oil Corporation.

6 Q. Are you familiar with the Charolette State Unit
7 and the matters contained in the application to the
8 division?

9 A. Yes.

10 Q. Have you ever testified as an expert witness
11 before this division?

12 A. Yes.

13 MR. RICHARDSON: Are Mr. Schultz's qualifications
14 acceptable?

15 MR. CATANACH: They are.

16 Q. (By Mr. Richardson) Mr. Schultz, would you
17 please tell the division townships and ranges in which this
18 unit is located and approximate location with reference to
19 the nearest town?

20 A. All the acreage is located in Township 5 South,
21 Range 20 East, and it's approximately 30 miles north of
22 Roswell, New Mexico.

23 Q. Mr. Schultz, I notice that the initial draft of
24 the unit agreement which was filed last May, along with the
25 application, shows a total of 12,655 acres, whereas the

1 unit agreement now before the division contains 13,946
2 acres. Would you please tell the division the reason for
3 this increase in number of total acres within the unit
4 area?

5 A. The original outline was amended to form four
6 160 proration units and square boundaries with the existing
7 unit to the south, which is the Yates Salt Creek Unit.

8 Q. With reference to the edge of the unit or center
9 of the unit, please tell the division the location of the
10 additional acreage which was included in the unit area.

11 A. It's along the west boundary and the south
12 boundary of the unit.

13 Q. Was this additional acreage that was included
14 state, federal or fee?

15 A. It was fee and federal acreage.

16 Q. Would you please now state the total number of
17 acres within the unit area; numbers of acres of state land,
18 federal land and fee land, what the percentage is of the
19 total of each type represented?

20 A. The total acreage is 13,946.3 acres, of which
21 13,040.07 is state; 360 acres is federal, and approximately
22 445.83 is fee.

23 Q. It's my understanding that the fee and the
24 federal land, both which are included, are not under oil
25 and gas lease; is this correct?

1 A. Yes.

2 Q. Were all of the fee mineral owners asked to join
3 and commit to the unit as working interest owners?

4 A. Yes.

5 Q. With respect to the federal tract, was the BLM
6 contacted and is there any necessity for processing a unit
7 agreement through the BLM at this time?

8 A. No, there's not.

9 Q. Could you please refer to the unit agreement as
10 revised, marked Exhibit 5, is this revised and corrected to
11 form a unit agreement and been approved by the Commissioner
12 of Public Lands?

13 A. Yes, it has.

14 Q. That is as to form and content?

15 A. Yes.

16 Q. Could you please refer to the affidavit marked
17 Exhibit 6? This affidavit is subscribed and sworn to by
18 you, also attached, as a part therefore, are copies of
19 certified mail return receipts. Also attached to the
20 affidavit is a list of all owners and by each name and
21 notation as to what interest is committed. Expressed in
22 percentages within the unit area, could you please state
23 the percentage of working interest committed to the unit at
24 this time?

25 A. Presently it is 13,040.07 acres committed, which

1 is 93.499 percent of the total unit area.

2 Q. What percentage of royalty and overriding
3 royalty is committed?

4 A. A hundred percent of the committed tracts.

5 Q. That's a hundred percent of the overriding
6 royalty --

7 A. Yes.

8 Q. -- on the tracts? Were all parties having an
9 interest in the unit area given notice of this hearing?

10 A. Yes.

11 Q. In the event of production, Mr. Schultz, will
12 the correlative rights of all parties to the unit agreement
13 be protected?

14 A. Yes.

15 Q. In your opinion will the operation of this unit
16 under a unit plan of operation be in the interest of
17 conservation and prevention of waste?

18 A. Yes.

19 Q. Will the different institutions of the state, if
20 any, receive their fair share of production if established?

21 A. Yes.

22 MR. RICHARDSON: I'd like to move to enter Exhibits 5
23 and 6.

24 MR. CATANACH: Exhibits 5 and 6 will be admitted as
25 evidence.

1 (McKay Oil Exhibits 5 and 6 were
2 received in evidence.)

3 MR. RICHARDSON: I have no further questions.

4 EXAMINATION

5 BY MR. CATANACH:

6 Q. Mr. Schultz, the numbers on Exhibit A, are those
7 the correct numbers as far as --

8 A. Yes, I'm sorry. I misstated the fee acres
9 involved. It is the 1,011.66 acres of fee.

10 MR. STOVALL: 1,011.66?

11 THE WITNESS: Yes.

12 MR. STOVALL: State acres?

13 THE WITNESS: There's 12.075.07.

14 Q. (By Mr. Catanach) Did you state what BLM
15 approval of the unit was not required?

16 A. That's correct.

17 Q. You got that from them; that's what they told
18 you?

19 A. Yes.

20 Q. You do have state approval for the unit as far
21 as --

22 A. Yes.

23 Q. -- Commissioner of Public Lands?

24 A. Yes.

25 MR. RICHARDSON: Form and content of the unit

1 agreement.

2 MR. STOVALL: Is there a unit operating agreement for
3 this unit?

4 THE WITNESS: Yes, there is.

5 MR. STOVALL: Does that appear in evidence, or is
6 there a reason you haven't submitted it?

7 MR. RICHARDSON: We didn't feel it was necessary at
8 this time.

9 MR. STOVALL: It may not be. It often happens it is.

10 Q. (By Mr. Catanach) Mr. Schultz, have you
11 received any kind of letter from the Commissioner of Public
12 Lands?

13 A. Yes.

14 MR. CATANACH: If we can also submit that as evidence.

15 MR. RICHARDSON: Submit that as Exhibit 7 then.

16 MR. CATANACH: Okay.

17 (McKay Oil Exhibit 7 was received
18 in evidence.)

19 Q. (By Mr. Catanach) Mr. Schultz, do you
20 anticipate obtaining the joinder of the remaining working
21 interest?

22 A. No.

23 Q. Are those several individuals or --

24 A. It's several individuals.

25 MR. RICHARDSON: All unleased fee land, they can come

1 as working interest owners, if they would commit, since it
2 is open and unleased acreage.

3 MR. STOVALL: As indicated in your Exhibit A to your
4 certificate, as you call it, which is Exhibit No. 6?

5 THE WITNESS: Yes.

6 MR. STOVALL: Where it shows unleased or not
7 committed, that status is the same as this?

8 THE WITNESS: That will remain the same.

9 MR. CATANACH: I have no further questions. Your
10 witness may be excused. Is there anything further in this
11 case? If not, Case 10321 will be taken under advisement.

12 (Whereupon, the hearing was concluded at the
13 approximate hour of 8:40 a.m.)

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1 STATE OF NEW MEXICO)
) ss.
 2 COUNTY OF SANTA FE)

3 REPORTER'S CERTIFICATE

4
 5 I, SUSAN G. PTACEK, a Certified Court Reporter of the
 6 State of New Mexico, do hereby certify that I reported in
 7 shorthand the proceedings had at the hearing aforesaid, and
 8 that the foregoing is a true, complete and correct
 9 transcript of the proceedings of said hearing as appears
 10 from my stenographic notes so taken and transcribed by me.

11 DATED at Santa Fe, New Mexico, this 18th day of
 12 October, 1991.

13
 14
 15 My Commission Expires:
 16 December 10, 1993

Susan G. Ptacek
 SUSAN G. PTACEK
 Certified Court Reporter
 Notary Public

17
 18
 19 I do hereby certify that the foregoing is
 20 a complete record of the proceedings in
 the Examiner hearing of Case No. 10321
 21 heard by me on August 8 1991.

David R. Catamb, Examiner
 Oil Conservation Division