

STATE OIL & GAS BOARD OF ALABAMA

Tuscaloosa, Alabama

24 June 1960

Testimony and proceedings before the State Oil and Gas Board of Alabama, in Building No. 5, Smith Woods, University Campus, Tuscaloosa, Alabama, pursuant to adjournment, on this the 24th day of June, 1960.

BEFORE:

BOARD MEMBERS

Mr. Lindsey C. Boney.....Chairman
Mr. Rankin Fite.....Board Member
Mr. Hugh L. Britton.....Board Member

BOARD PERSONNEL

Dr. Walter B. Jones.....Secretary & Supervisor
Mr. Robert MacElvain.....Assistant Supervisor
Mr. Gene White.....Petroleum Engineer
Mr. Gus Harris.....Legal Advisor

(Reported by Lou M. Chambers)

A P P E A R A N C E S

<u>NAME</u>	<u>REPRESENTING</u>
1. James D. Heldt.....	Seneca Development Co.
2. Dewitt Reams.....	M. C. Stallworth, Jr.
3. Thomas P. Dyer.....	Sonat, Incorporated
4. A. N. Scott.....	Self (land owner)
5. W. E. Tucker.....	O & G Bd Field Agent
6. R. C. Wood.....	O & G Bd Field Agent
7. E. C. Herbert.....	O & G Bd Field Agent

P R O C E E D I N G S

(The hearing was convened at 9:50 A.M., 24 June 1960)

CHMN. BONEY: Gentlemen, we'll come to order, please.

DR. JONES: Mr. Chairman, this meeting has been advertised as required by law.

CHMN. BONEY: We will start with Item No. 1:

"Petition by Seneca Development Company, Dallas, Texas, as follows: ..."

Gentlemen, all of you have a copy of those things and I don't see particularly that we should go into them, because we know the gist of them. Mr. Heldt, I believe you represent Seneca Development Company?

MR. HELDT: That is correct.

CHMN. BONEY: All right, sir. First, I'd like to ask you this: are any of you gentlemen opposed to this order?

MR. REAMS: I do, in a modified form. My name is Dewitt Reams, representing Mr. M. C. Stallworth, Jr.

CHMN. BONEY: Well, we had rather have you at the last after Mr. Heldt, after you hear Mr. Heldt, because then you might not oppose it.

MR. REAMS: All right.

CHMN. BONEY: All right, sir.

MR. HELDT: With the permission of the Board, I

should like to make this rather abbreviated, in view of the fact that there doesn't appear to be any real opposition to it.

First, I assume that the application which we filed on May 16, 1960, which was amended by a letter dated May 26, 1960, and was further amended by a letter dated June 14, 1960, will be incorporated in the record by reference, and I should also like to incorporate by reference as our Exhibit A the list of the oil, gas, and mineral leases which are set forth in the application as Exhibit A, and also the amendment listed leases in the amendment dated May 26, 1960, and a list of leases attached to the letter dated June 14, 1960. All of those leases are our Exhibit A.

As Exhibit B... incidentally, there were three corrections on the lease list as originally filed, and they have been made on the ~~official~~ copy here. The corrections were simply in recording data. I should like to introduce as our Exhibit B the map showing the location of the leases which we own in this area.

I should like to introduce as our Exhibit C the list of agreements authorizing the lessee under these leases to create and establish drilling units of 160 acres for oil wells in excess of 10,000 feet. Those lists of agreements are set forth in the original application as

Exhibit C, and in the letter amending our application dated May 26, 1960, and in the further amendment made June 14, 1960. Incidentally, the June 14th application did not increase the area involved, so that the published notice covered everything that was covered by our June 14th letter. We simply added certain agreements to the original application.

I should like to point out to the Board that the leases that we have are on the standard producers 80-acre form. The later leases have been slightly amended to incorporate the right to create drilling units of 160 acres for oil in excess of 10,000 feet. They authorized us to prove our acreage covered by the lease with other acreage created with drilling units. The lease form also authorized the lessee to create 640-acre drilling units for the production of gas.

I'd like to introduce as Exhibits D and E, a form of those leases. There are certain minor revisions on some of the leases, but substantially they are all just like the others.

I should like to introduce...

DR. JONES: What are these exhibits?

MR. HELDT: I've marked them Exhibit D and E. This A is incorporated by reference to the list of leases. This is D. C is a list that is incorporated by reference.

D and E are those two forms there.

DR. JONES: All right, okay.

MR. HELDT: I would like to introduce as Exhibit F a copy of the authorization agreement signed by Glenn Harold Dees and Ethel Smallworth Dees.

All of our authorization agreements are on the same form. We picked this one simply because the Dees are first alphabetically.

I have certified copies of all these authorization agreements here for examination by the Board if they so desire.

Pursuant to the authorizations, we have created and established 160-acre drilling units for oil wells greater than 10,000 feet below the ground. There are 45 of these units created voluntarily. They're shown on the map outlined in red. The 45 units cover some 7,840 acres. We think these units are reasonable and should be approved.

In addition, we have created as Section 12 a gas unit, Section 12, Section 3 Northwest, a 640-acre gas unit which we also think is reasonable.

Now, we haven't made more gas units for the simple reason that the statute requires that all persons interested in the oil or entitled to share in the oil must agree to these voluntary unitization agreements, and as you can see, there's not another section in there that we

don't have a little bit out of, largely because of the railroad right-of-way. The G M & O, however, does join in this application, but we don't have voluntary agreements on the 640-acre units.

I might say, parenthetically, that when I speak of 40-acre drilling units or 160-acre drilling units or 640's, I use that as a matter of nomenclature. What we really mean are quarter to quarter sections, quarter sections, and sections, because the little sections are a little odd-shaped, and if you say 40's, you might have 39.8 or 639.2 or something like that. We really mean governmental quarter quarters, governmental quarters, or full sections.

We also are requesting, in addition to the gas units and the Dee oil units, 40-acre spacing for everything above 10,000 feet, because we don't want a hiatus. After all, this is a wildcat area.

While we do not expect anything above 10,000 feet, we think it's desirable to cover it in the order. So far as the drilling units are concerned, we don't believe that we have much chance of finding anything in this particular area until we get to at least 12,000 feet. We hope to induce somebody to join us in drilling the well to go at least 16,500, which is going to be very expensive -- probably some place in the neighborhood of \$350,000 to \$450,000 for a dry hole; \$400,000 to \$600,000 for a pro-

ducer. So unless we encounter some sands of reasonable development, good porosity and permeability, we don't have a chance of making commercial wells. We'll have to abandon the area.

Assuming they're the type of sands that will give us commercial wells, we think it's clear, we are of the opinion, that one well, oil well, below 10,000 feet would adequately and efficiently and effectively drain 160 acres. We feel one gas well would adequately and efficiently and effectively drain 640 acres. As a matter of fact, there is a good deal of technical opinion and belief that even in tight sands, one well, oil well, would drain 160, and one gas well, 640. We also ascribe to that view.

We also feel that more wells than that would be unnecessary and wasteful, that it would result in the accumulation of risks that could be avoided, and we think that this spacing pattern that we are requesting is eminently satisfied with this field or what we hope to be a field.

There is one other point that I would like to make very briefly. As you know from attending the Interstate Oil Compact Commission, that a lot of oil is serious, and I have a little quotation here which I would like to read, because to me it makes the critical arguments very well. I know I'm repeating some of the points that you gentlemen are familiar with.

This is a report out of the Oil and Gas Journal of the Interstate Oil Compact Commission Meeting. The report reads as follows:

"A friendly, veiled warning was voiced by Chairman Ray C. Jones of the Oklahoma Corporation Commission:

'I don't mind telling you that down in Oklahoma, the Indians are getting restless. They are about to get off the Reservation. They cannot understand why five or six states should bear the brunt of keeping production within the market demand, and I don't mind telling you that I have about run out of answers.

'Oklahoma is now prorated down to where it is unprofitable to explore for new reserves. The payout is too long, and bankers won't lend money. Tax dollars are gradually becoming a thing of the past.

'Texas is in the same shape, if not worse. I am of the firm opinion that without a strong market demand statute, you have no conservation program.

'We have been coming to these meetings for 10 these many years and preaching conservation and yelling 'hooray-hooray' but I am beginning to wonder just how much we have accomplished.'"

That's the end of the quotation by Mr. Jones. The article

goes on:

"The other side, a quite opposite view, was presented by Chairman C. R. Henderson of the Utah Oil and Gas Conservation Commission. He explained that his state has a law expressly prohibiting proration to market demand saying:

'The people of Utah would stand up and rebel against any group that came into the state and suggested that for conservation reasons we must close down our wells or even restrict them to the level of production of these states that are still drilling unnecessary wells for allowable or those which are drilling over half of their wells on less than 20-acre spacing.'"

It seems to me that that is the nub of the problem. On these deep wells, if you drill on a dense spacing pattern, you must do one of two things: either hold down the allowable, which makes them economically unattractive and prevents the development, or you've got to boost the allowable and then have a tight spacing pattern that tends to flood the market with oil.

Either one of these is placed in its simplest form, and we adamantly hope that this Board will grant us this wider spacing to help us avoid waste.

So far as protecting the correlative rights, we ask

the uniform spacing pattern so they are protected. So far as the shallow zones are concerned, we think that it's clear from evidence that's in this commission's file that one well would adequately and effectively drain 40 acres.

We are also asking that the order fix the spacing of wells within the drilling units established. On 40's, we ask 150 feet out of the center, which is what you have in the Citronelle, with authority of the supervisor to give an extension of the 300 feet in cases of necessity. On 160's, we're asking that the order require that the well be located not closer than 660 feet from every external boundary. That gives you a little square in the middle that you can move around in.

There, again, there may be certain conditions -- rivers or bayous or something like that -- which would make the location within that restricted area a burden. We ask that the supervisor be given authority to move it not closer than 40 feet from every external boundary.

CHMN. BONEY: That's on 160 acres?

MR. HELDT: On 160, just like Citronelle, 160 out of the center. In case of emergency or necessity, 300 feet, not more than 300 feet out of the center.

CHMN. BONEY: That gives the supervisor the right to do that without getting it from the Board?

MR. HELDT: Yes, and on 160's, give them a little latitude, and then on 640-acre section drilling units, we ask that the well be located not closer than 1320 feet from each boundary. That means that it has to be in the four 40's in the center of the section.

We're giving no right for any exception there because we think that's a big enough area that almost any place, you can find a location some place within that vicinity.

We're also asking on the casing requirements that they be set not less than 900 feet. This will protect all the fresh water sands. It gives us a little latitude as to where to set...

DR. JONES: You're sure about the fresh water?

MR. HELDT: Yes, Dr. Jones. When we filed our application on the Cadle (phon.) and the Blake order, we checked that very carefully and there is some evidence in the commission's records that the shallowest... the deepest fresh water sand is above 900 feet, and it does protect it.

DR. JONES: Well, we would have to check that ourselves.

MR. HELDT: If you find that 900 feet is not adequate, of course, we would expect you to extend it to the depth necessary to protect the fresh water sands, and we would so state.

CHMN. BONEY: What is the Citronelle Field, do you remember?

MR. MacELVAIN: No.

DR. JONES: Right now, I don't remember.

MR. TUCKER: Isn't it set at 1500 feet?

CHMN. BONEY: You set the casing at 1500 feet, but what's the...

MR. FITE: As deep as this fresh water...

CHMN. BONEY: I believe we thrashed that out on what was known as the...fly sands...it's about 1300 or...

DR. JONES: What it is in Washington, I don't know. It's 60 feet in the South Carlton Field.

CHMN. BONEY: But anyway, he means that to the point if it's not, that...

DR. JONES: That we will have to settle that with our ground water. We cannot pollute the ground water.

MR. HELDT: No, we certainly wouldn't want to be involved in that. That would raise too much liability.

I might explain, parenthetically, here that we couldn't drill a well this depth with only 900 feet of surface casing. We will have to either run as a surface casing in a string which will be bottomed in the midway chart or we will have to run an intermediate string, and I don't know which we'll do. We'll probably run a bottomed one in the midway chart, but we'll have to have

several thousand feet of casing in the coal to enable us to carry them this deep, and the only reason for putting in the surface requirements is that if somebody wants to send an intermediate string deeper, say, seven or eight thousand feet, they would have the surface string there for protection, but we will protect the surface waters, fresh water sands.

We also request that the order give us the right to make multiple completions. Of course, that makes the well much more attractive. We ask that the order attract the Citronelle order in this regard.

I would like to say just a little bit about what our plans are. We hope, if we get this 160-acre spacing, to be able to interest somebody in joining us to drill a deep well. We have reason to believe that we probably can. We have no commitments, however, and it's entirely possible that we'll fall flat on our faces and fail completely. The market is congested and you have to have a very attractive package to interest anybody in drilling a well that depth.

We also hope that we'll perhaps have some gas sands in this area. We think that adds to the attraction and we have high hopes, with all these things put together, that we can get it done.

If we do not get the 160-acre spacing, then I'm afraid

that the effort will be wasted. I don't think we'll interest anybody in this 40-acre spacing. They'll just turn us down.

I believe that's the sum and substance of the testimony I'd like to put in the record.

I might say one other point: the question has been raised about "closer than five miles to the Citronelle Field." It is our interpretation of the statute that separate reservoirs are not covered by the 40-acre limitation within the producing pools.

We feel that it's essential that we have a separate reservoir here because this well is going to be considerably... the formation is going to be considerably deeper than the formation at Citronelle, and if there is no separation, whatever oil is in this area will have drained off the Citronelle. I don't think there is much question about that.

We do have some geological evidence, some shooting evidence, which indicates there is a saddle between this area and Citronelle which will be an effective separation, and we think it's clear that a separation is there.

Gentlemen, that's our case. I'll be glad to answer any questions that anybody might have in this regard.

I might say one point: the application did cover Section 23, 34, on the gas units, and we would like to

have that section included in the application.

CHMN. BONEY: Any questions, gentlemen?

(No response)

CHMN. BONEY: I'd like to ask one question -- I don't think it has anything to do with it -- if we were to grant this order and you failed to drill or anything and the lease expired, what would become of our order, would it be void?

MR. HELDT: I think the order would be on the books, as far as the area is concerned. I think the Board would probably want to...

CHMN. BONEY: Repeal it.

MR. HELDT: Repeal it, yes. We have several years to go on our leases. None of them expire... I think the earliest is in 1965.

We feel that it's essential that we get something done this year, because time is running, and if we were lucky enough to find production, we'd need at least five years to develop our leases, and I think we'd have to move with a certain amount of expedition or we'd lose some of them.

We would be awfully lucky also, I might say, if we encountered the field, if there is one there, on the first shot. This is, after all, a wildcat well, and you can get lucky like they did in Citronelle and hit it on the first deep blow.

Our work that we have done in this area, we've drilled a number of wells and done a good deal of size-mograph, too, and the formation has a tendency to slide around, and we would anticipate that probably at least two or three wells would have to be drilled in this area to fully condemn the prospect.

The first well is going to be hard enough and each well after that is going to grow in geometric proportions. Whether we can keep it going in order to really test it or not is just going to be...

MR. HARRIS: Mr. Chairman, could I ask him a question on the lease -- is that a request in writing?

MR. HELDT: I thought we'd make it a part of this record. No, it's not a request in writing. We have one, that section, this deletion, as relates only to the gas. The east half of that section would be covered by...

CHMN. BONEY: What section is that?

MR. HELDT: 23 -- the east half of 23. It's out here on the edge (indicating on the map). We do not own a lease on the west half of Section 23, and we do own some leases in the east half of 23, and we're asking that the east half be maintained at 160-acre spacing and quarter section spacing, but we'll be perfectly willing to dilute it on the gas unit.

DR. JONES: Mr. Chairman, may I ask a question?

CHMN. BONEY: Go right ahead, Dr. Jones.

DR. JONES: Two or three years ago, you asked for approval of 160-acre spacing...

MR. HELDT: Yes.

DR. JONES: ...in Washington County, and that was approved. At that time, you were asked whether or not the Board would be setting a precedent and you thought the Board would be setting a precedent.

MR. HELDT: That is correct.

DR. JONES: And the Board still went along and approved that. So I was just wondering, that was never drilled, so we have your \$25.00.

MR. HELDT: Yes.

DR. JONES: And didn't have to work for it.

MR. HELDT: I might point out, Dr. Jones... I think that's a very good point, and I might point out that this area covers that same area as that earlier order. This Odom lease down there on the south, that is one of the ones that was covered.

CHMN. BONEY: This one here covers the earlier order completely?

MR. HELDT: Yes, but I want to point out to you that in that connection, under that earlier order, our authorizations were limited in that we had to drill the well within six months or the rights expired, and of course,

we went back to these same people and established these 160-acre drilling units here which we're asking to be approved.

CHMN. BONEY: If you had some particular part in that order, I'd like to make a motion that we repeal that order, but if the order is embraced in this particular order now, it wouldn't do any good to do that.

MR. HELDT: Mr. Boney, I don't think...

DR. JONES: The other one is already automatically repealed because the six months...

MR. HELDT: With the authorization limited to six months...

MR. FITE: It's not necessary to repeal that earlier order.

MR. HELDT: I don't really believe it's necessary. I agree with Mr. Fite. I don't believe it's necessary to repeal that earlier order. I would like to point out that you have previously approved exactly what we're asking for here.

CHMN. BONEY: All right, is that all, Mr. Heldt?

MR. HELDT: Yes.

CHMN. BONEY: All right, Mr. Reams --

MR. REAMS: Could I ask Mr. Heldt a couple of questions?

CHMN. BONEY: Yes sir. Do you want it on record?

MR. REAMS: Yes. Mr. Heldt, do I understand correctly that you do not know exactly where your structure is?

MR. HELDT: Well, we think we do, now, I'll put it that way. We have a good deal of sub-surface control. A number of wells have been drilled in there and we have a good deal of shooting information. We think we know where it is, but after all, this is a wildcat well and these things have a way of moving. Now, I couldn't swear that we know where it is. We think we do.

MR. REAMS: Do you think that it is limited to the area which you have petitioned for here, the area that's described in your petition now, or do you think it would encompass other... the structure would encompass other lands?

MR. HELDT: I would say this, Mr. Reams: of course, nobody knows how far down the structure is going to go. We would hope that it would extend beyond what we have here. However, if it did, it would be a gigantic thing. Now, if it's oil, I would be surprised if it went beyond the limits of what we are currently talking about. If it is gas, I would be surprised if it did not go beyond, because normally your gas fields are large and your oil fields are fairly restricted. I think that it's very likely. We're hoping for some gas sands. If we encounter gas sands, it'll probably be extended beyond, and it's

entirely possible that the oil will be extended beyond, too.

MR. REAMS: Now, another question: do you agree that the area that could be effectively drained by one well insofar as oil is concerned is governed by the porosity and the permeability of the sand and perhaps other factors?

MR. HELDT: Yes, there's no question but that has to be taken into account. As I said earlier, I think you can get a sand so tight that it simply won't drain a big area, but in this immediate vicinity, if we ran into a sand like that, it would be non-commercial. The well is too expensive and if it didn't drain at least 160 acres, I doubt if we could develop it.

MR. REAMS: Well, does that mean, for instance, if the sand were the same as it is at Citronelle that you feel it would effectively drain 160 acres?

MR. HELDT: Well, we have always felt that the wells at Citronelle would drain 160, but we have never pressed for 160-acre spacing there. The land owners have a fixed notion about 40's. We did at one time try to press for 80's, but were unsuccessful in that.

MR. REAMS: There is no way that you can know or that the Board can know what the porosity and the permeability of the sands might be until the well is drilled, is that right?

MR. HELDT: That is correct, although I would say this in response to that, Mr. Reams: of course, in working up a wildcat well like this, you have to try to determine whether or not it's going to be a profitable venture.

What you do and what we did is that we studied all of the Hosston and Cotton Valley sands and wells in a radius of I'd say 100 miles. We checked the porosities and the permeabilities, the sand conditions and characteristics in all those wells.

On the basis of that study, we came to the conclusion that we probably would not have any massive sands in here. We expect multiple sands but we do not expect any massive sands, very thick, thick sands.

We do feel that barring some very bad luck, we should encounter some sands with good porosity and permeability.

Having encountered those sands, the question is: is there a trap there to accumulate the oil, and of course, nobody knows for certain the porosity and the permeability until the well is actually drilled and the cores are cut and analyzed.

We do think we have a reasonable basis to expect and project what we might find, but I can't tell you positively.

MR. REAMS: Thank you . Those are all the questions I have of him.

CHMN. BONEY: Any other testimony?

MR. REAMS: Yes, I would like to...

MR. HARRIS: Mr. Chairman, may I ask one more question?

CHMN. BONEY: Certainly, Gus. Go right ahead.

MR. HARRIS: Mr. Heldt, in the units there that you have on your map which you say are voluntary units, are they all 100 percent voluntary?

MR. HELDT: Yes. Everything shown with a red box around it there (indicating on map), all of the persons involved have agreed.

Now, I'm glad you raised that point, because I want to mention that we have not had all of these titles examined. However, I have talked to our attorneys and they have advised me that those titles are all in pretty good shape, and he does not anticipate that we will have any kind of problem. All of the people involved have agreed to these 160's in all 45 different tracts in there.

MR. HARRIS: And on title insurance, you expect...

MR. HELDT: We'll go without title insurance until the examination. In this situation, we don't examine titles. We have a policy of not examining titles until we have discovered, and then we examine titles, because it's very expensive to do.

MR. HARRIS: Now, I might add, Mr. Chairman, I was the one that brought up the five-mile deal. I wanted it

on the... I raised it on the fact that you said it was a separate pool and you told why you thought it was a separate pool, and I wanted that on the record.

DR. JONES: I don't think there's any question about that.

MR. HARRIS: I simply raised the question. Thank you.

CHMN. BONEY: Is there any other... Gus, is that all?

MR. HARRIS: That's all. Thank you.

CHMN. BONEY: All right, Mr. Reams, you may proceed.

MR. REAMS: Primarily, I have a statement of a position rather than testimony to offer in connection with this.

As I stated earlier, I'm representing Mr. M. C. Stallworth, Jr., at this hearing. Mr. Stallworth does not have any land that is included within the area that is described for the 160-acre units for oil wells. He does have several partials that are off-sets to that land that is described in the 160-acre units. He has several sections of land that are included in the petition insofar as the gas unitization request is concerned.

The first problem that Mr. Stallworth is interested in insofar as an order by the Board is concerned is the one of off-set obligations on the part of the person drilling the wells.

If the petition is granted in the form that has been

requested by Mr. Heldt, the question comes: if a well is located off-center on 160 acres so that there is a full 40 between that well and the well in the land that is owned by Mr. Stallworth adjoining this property, is he in a position to force any development of his land, or does he sit there and is drained as a result of it?

The Supreme Court of Alabama has not ruled on the question of the implied off-set obligations that go with an oil and gas lease.

We assume that they will follow most of the other states in the Texas and Mississippi and so forth group, and they, for the most part, have said that the 40 acres... if you aren't off-set by a producer well, then you are not in a position to complain, and in many of the instances, they have taken 40 acres as the off-setting area in which they are interested.

We don't know what the Supreme Court of Alabama would do under those circumstances, and we would like to request that the order of the Board be so worded that the off-set rights of an off-setting owner would be protected -- not put any undue burden on the operator, but at the same time, protect the owner's off-set rights there and the implied obligations that go in the lease.

It occurs to us that that perhaps could be done by stating that a well located at any place on this 160-acre

spacing should be treated, insofar as drainage off-set lands are concerned, the same as a well that is located in a 40-acre unit is treated for those same off-set obligations under the present 40-acre spacing rules.

I don't know whether I'm clear on that or not, and I'll hesitate a moment to see if there's any questions to clear that before I move to my next point.

CHMN. BONEY: I'm no attorney. Mr. Harris and Mr. Fite is and Mr. Heldt, but it looks to me like that's strictly a position that the courts would have to decide. This Board can't make them an off-set, it makes no difference what happens, and I think it's purely the Supreme Court's jurisdiction on that and not this Board's. Mr. Fite might elaborate on that some, I mean...

MR. FITE: I don't think it could impose an off-set drilling obligation.

MR. REAMS: No, I'm not requesting...

DR. JONES: But you could impose a restriction on production in adjoining wells so as to protect the correlative rights of owners of off-set property. I'm sure you could do that.

CHMN. BONEY: Well, sure. I think we already have a statute to do that. I think if you're going to drill a well there, if Mr. Heldt were to drill a well there and it were to come to our knowledge, as it eventually would,

I think we could prorate at that time. In every off-center location we've ever made, we reserved the right to prorate, and I think that would apply here as well as anywhere else, but as far as the statute is concerned on drilling, I don't think that would...

MR. REAMS: No, I'm sorry, I didn't make myself clear. We were not requesting that you put in your order any obligation that they drill at a particular time. The only thing that we wanted in the order was that the off-set obligations on the 160 acres would be the same as the off-set obligations on the 40 acres under previous unitization.

CHMN. BONEY: What's that ruling on the 40's? I don't remember, off-hand. Do you, Gus? Do any of you remember?

(All indicated negatively)

MR. REAMS: I don't think you had any rules.

CHMN. BONEY: I was fixing to say, I don't think it would stand up, but we have a right to protect the correlative rights, regardless.

DR. JONES: Yes sir.

CHMN. BONEY: If it comes before this Board that they were actually taking your oil from you and the courts wouldn't protect you in no way, shape, form, or fashion, I think if we had issued a permit too closely to that boundary, we reserve the right to prorate, which we have done in one particular case, and they didn't like our proration

and they'd gotten back off with drilling the well in the center and let the thing go.

MR. REAMS: We are more concerned actually if we are further away from the well than we are if we are on the side that the well has been moved to. In other words, you've got your 160 acres over 1320 feet between, theoretically between, the lands and...

DR. JONES: Mr. Chairman, may I ask a question, please? Is that Dees further away, I mean, their land, is that leased to someone now?

MR. REAMS: It's leased to Mr. Heldt.

CHMN. BONEY: It's leased to Mr. Heldt. He didn't drop his lease, but he didn't put it in, because I see no red line around it, but he does have other areas by it, isn't that right?

DR. JONES: It seems to me if Mr. Heldt owns the leases for those things that he certainly isn't going to let any opportunity to produce oil or gas fall by the way-side. He'll get in there and drill the thing out just as fast as he can.

MR. HARRIS: It's the matter of off-set; I think that's what he's worried about.

MR. REAMS: Well, it depends on who has the off-set more than anything else on that, I believe. If the same lessee has the off-set well that is doing the draining

from under the land owner's land that has no well on it, he's not going to have the same interest in getting in there and putting in an off-set as he would if someone else held that lease, because he's losing nothing if it's draining by the well on the adjoining property. He still gets his seven-eighths.

DR. JONES: I don't think this Board is ever going to permit any counter-drainage. I don't... they never have.

MR. HARRIS: I don't think, so far as what the Supreme Court may do, it doesn't matter what order this Board would put out. It would still have to comply with the Supreme Court as the law of Alabama.

CHMN. BONEY: I don't think we'd better tamper with that, Mr. Reams. We've gotten along very successfully with this in the past, and we'd better not... we're getting into... it might be something adjudicating.

MR. REAMS: May we take that to mean that the Board intends to take a completely neutral position insofar as drainage rights are concerned?

CHMN. BONEY: As of now, we would, until we actually know what's happening. In other words, you can rest assured this Board is not going to let Mr. Jim Heldt drain from your property and us not know anything about it. I don't think a member of this Board is cut that way. Now,

if we were in a proven field, it's a little bit different. This Board has always taken the position to bend over backwards to come into a wildcat area there, and I think... of course, I can understand your position -- when the water has gone over the dam, you can't get it back on top of it -- I understand that, but I think, Mr. Reams, that we'd better not go into that. That's my opinion, now.

MR. FITE: I think the Board could give the land owner whatever protection it could in the event there was some drainage. We'll be glad to do that.

CHMN. BONEY: I think we will.

MR. FITE: But I think we'd make a mistake to try and set up any rule on it.

DR. JONES: See, we have a Petroleum Engineer. We don't depend on the companies altogether. We have our Petroleum Engineer and his sole duty is to protect the interests of the land owners and royalty owners in this state, to see that these things are maintained on an even keel, and I just don't believe... this Board never has ignored their wishes.

CHMN. BONEY: We'd have to get more evidence before we'd go along with...

DR. JONES: I just hope that we do produce it so we can get together and iron all these things out.

MR. FITE: It would be much easier.

MR. HELDT: I'll certainly agree with that.

MR. REAMS: Well, that brings me to my second point, then, which I wish to make for the purpose of protecting my client, if the question arises later on this land that is not included in this pool.

We hope that any order that is made, in connection with the land that is within the petition for the 160-acre spacing, would not prejudice or be a precedent insofar as future 160-acre spacing is concerned for additional adjoining land to the extent that the matter could not be fully and completely decided on its own merits at the time the question comes up on the petition for the extending of the area subject to the 160 acres.

Do I make myself clear on that?

MR. HELDT: I have to say this, Mr. Boney, in that regard, that we would consider the spacing pattern being established here would be a precedent for the pool or pools that we discover.

I don't see how that we could conscientiously ask people to take 160's and establish 160's and then go in a neighbor land and do something less. It would be... if it's a different pool, a different area...

CHMN. BONEY: The thing developed, Jim, when you drill this well, you might not want 160-acre spacing, you might want 40, and I certainly don't think it would affect the

outlying areas because this over here might be happy to have it on 40-acre spacing, might want it on 80 or 160. I don't think...

MR. REAMS: Might want it on 320 or 640.

CHMN. BONEY: That's right. I think you ought to penalize this idea -- this is 160 and go back over here to ~~a~~new order -- that just wouldn't make sense. The 40 and 80-acre spacing, if it's completely the same...

MR. REAMS: All we want is for the matter to be considered on its own merits, if it comes up with a petition for...

CHMN. BONEY: Well, of course, that's premature. I certainly would treat it fairly when I heard it. I don't think this would have any bearing on it, I mean...

MR. REAMS: Also, in that same connection, we take the position actually of questioning the propriety of the petition at this time when there has been no pool, as such, discovered.

We believe that the law as set out in Title 26, Section 179, Sub 35 through 38, contemplates actually that the pool be discovered and that the factors of porosity and permeability and producing ability and draining ability be known before the size of the units be determined.

That's why we have no objection to this being granted as it's set up here today, because these people have con-

sented to it who are there.

We do feel that we are entitled to complete legal protection if the question comes later, and we don't think that we should be precluded at a later hearing in any way by any weight being given to the fact that we do have adjoining 160-acre spacings that have been consented to, because we feel that if the order is attempting to set the spacing for the whole pool when the perimeter of the pool isn't known...

CHMN. BONEY: Are these outlying areas under lease?

MR. HELDT: Yes, Mr. Boney, we have the leases, most of the leases.

CHMN. BONEY: And these outlying that D has reference to?

MR. HELDT: We do not own the acreage to the east. That's owned by I believe the Texas Company.

CHMN. BONEY: But the party that Mr. Reams is representing here, you do have leases on him?

MR. HELDT: We do have leases from Mr. Stallworth.

MR. REAMS: You have several thousand acres, as a matter of fact.

CHMN. BONEY: Well, if he would consent to embracing in this order, he would already be protected.

MR. REAMS: With a couple of the concessions on their part in the protection of the points that we're talking about, he would.

There have been considerable negotiations between them and they were not able to arrive... I think each respects the other's position and sees the other's point, and they agree that if they were in the other man's position, they would be taking opposite sides of the question, perhaps.

CHMNL BONEY: Do you have anything else on that?

MR. REAMS: No sir, that's it.

CHMN. BONEY: Any other matter pertaining to this -- the staff or anybody?

DR. JONES: The staff, sir, has studied this, had time enough to study it, and we have this feeling: that in order to discover new oil and gas fields in the state, that we're going to have to consider the economics in the situation and we believe that this thing is fair and reasonable and we recommend it.

MR. FITE: I move that it be granted as amended by Mr. Heldt.

MR. BRITTON: I second that motion.

CHMN. BONEY: It's moved and seconded that it be granted as proposed by Mr. Heldt. All in favor, let me know by saying "aye" -- any opposed, "no."

(The vote was unanimous that Item No. 1, as amended by Mr. Heldt, be granted)

(At this point in the proceedings, there was an off-the-record discussion between the Board members and the staff)

CHMN. BONEY: Gentlemen, let's get back on the record. We have another item here. Item No. 2:

"Petition by Sonat, Inc., and Geochemical Surveys for emergency approval to drill the following well as an 80-acre pooled unit:

"No. 1 J. J. Hagerman located in center of NE $\frac{1}{4}$ of SW $\frac{1}{4}$ of Section 9, T23N, R3W, Sumter County, Alabama.

"100% voluntary agreement already in effect for 80-acre spacing between lessor and lessee."

MR. DYER: I'm Mr. Thomas P. Dyer, Jr. I'm representing Sonat, Incorporated, a subsidiary of Southern Natural Gas, and also Geochemical Surveys. It's owned in part by Eugene McDermis, Texas Instruments.

We have a copy of our lease form here. We have 100 percent voluntary agreement for Section 14 of our lease on 80-acre spacing, 10 percent over the 80-acre agreement for a large section, and 704-acre spacing on gas covering a 10 percent overage in connection with large sections.

CHMN. BONEY: 704 acres?

MR. DYER: Yes. That would be the maximum number, of course. Again, we're going to government sections only to be drilled geographically, and in some cases you will have sections on the Alabama State Line that are only 200 acres, 300 acres, 400 acres, and again you'll run into

some that are 690. You'll have that in any state where you have state lines that run like we have here. It's our intention to drill them on 80's and 640's.

CHMN. BONEY: What's your potential?

MR. DYER: 80 acres and...

CHMN. BONEY: I mean potential depth.

MR. DYER: Our potential depth, we filed for 10,000. We will go deeper, perhaps. We haven't had any indication, but we'll go the minimum depth of 10,000. However, our lease doesn't require any depth. We just have 80-acre and 640.

CHMN. BONEY: You have 100 percent voluntary agreement?

MR. DYER: Yes, and about 32,000 acres leased in this particular area.

CHMN. BONEY: What does the staff think?

DR. JONES: Yes sir, that's a very interesting area. The geology in there, that can be actually determined in no other way than a hole. It's going to be a beautiful geological venture. We hope it'll be a success for oil and gas, and/or gas venture, but it's a section of the state that we have very little sub-surface information on geology, and this is one way that we're going to get it. It's a reasonable thing, too, because when you get to a depth like that, much of it is going to be in hard rock.

It's going to be...

MR. DYER: I might add that we're against something different here than you are in the Citronelle Field. For instance, we're going 10,000 feet. We've studied very closely, we've worked this area for 30 months at a cost of a million and a half dollars. Geophysically, your closest wells are situated way on the other side of Mississippi. They went 11,003 feet and it took 127 days and \$407,000, so we know roughly what we're going against. So while we're not drilling it as deep as you might think for 80-acre spacing, we're going against a much tougher drilling.

I know that Citronelle has quite a snowbank for an area. I understand drilling... it's very simple to drill.

Aware of complicated trouble... some say 1400 feet, some say 2800 feet. We're setting 2600 feet of surface pipe because we know we're going to be in tremendous hardness all the way.

CHMN. BONEY: How much acreage do you embrace in...

MR. DYER: We have it in all of our acreage. We'd like it in all of our leases.

CHMN. BONEY: But how much...

MR. DYER: Roughly, in Sumter and Pickens County, about 30,000 acres.

CHMN. BONEY: In other words, in this order that

we're approving, is there only a certain amount of acreage or just any way that you want to... in Sumter County, any leases you have...

MR. DYER: Well, all of our leases in Sumter, Pickens, and Greene County have the same agreement. I don't know..

DR. JONES: Of the same challenge.

MR. DYER: I don't know whether at this time...

CHMN. BONEY: In other words, any way that you drill, you want it on 80-acre spacing?

MR. DYER: Well, since we have it already agreed, we don't see why anybody would object to it, do you?

CHMN. BONEY: Well, it's in Sumter County there, that's all we know. It would be in Sumter County?

MR. DYER: Yes. However, half of this acreage that we're drilling here is half in Pickens County.

CHMN. BONEY: Well, just letting him have a blanket, letting him have 80-acre spacing... it suits me all right, I don't care.

DR. JONES: It can be changed later.

MR. FITE: He's just asked for emergency approval to drill in an 80-acre pooled unit. That's all he's asking.

CHMN. BONEY: For one.

MR. DYER: Well, it should be units. That's the only thing that's different. We have talked about this before at a meeting. We asked for units, not unit, but we have

it in all of our leases, we don't... and if what we're going to encounter again...

MR. MacELVAIN: We should see the agreed unit before we specify area and then embrace this thing one way, which is what I was waiting for. I wanted to see how the acreage... how this would affect...

MR. DYER: Well, we could give our name and file a map covering the acreage.

CHMN. BONEY: Well, I'd like to...

MR. MacELVAIN: Mr. Dyer, I have a question, too: which two 40's are going to be embraced in this particular 80-acre unit?

MR. DYER: Which two 40's?

MR. MacELVAIN: Right.

MR. DYER: We haven't decided. Actually, it's hard to decide at this time. It's too far... probably have to drill two wells when it's owned by one man to tell.

CHMN. BONEY: Well, wouldn't you, like Mr. Heldt has here...

MR. DYER: Well, we wrote a letter, but we'll be glad to make an exhibit with the map showing what we'd like in here. It would be very simple.

DR. JONES: Let's set that up for the next meeting.

MR. DYER: Well, we'll have it ready for you anytime. It'll just take a couple of days.

CHMN. BONEY: Well, suppose you do that when you're ready... when are you...

MR. DYER: We'll spud today, if possible. We have the rigs on it.

CHMN. BONEY: Well, giving you an emergency on it, that's just like giving you... signing a check to have a good time.

MR. DYER: Well, we're actually signing the check to put the money in the bank, aren't we?

CHMN. BONEY: As far as drilling the wells is concerned, I'm certainly in favor of that, I'm in favor of what you want, but...

MR. DYER: We'll be glad to furnish you an Exhibit A showing the acreage. Like I say, it's about 30,000 acres.

MR. HARRIS: Mr. Chairman, you might have the order read that it would be approved as soon as...

CHMN. BONEY: Who will be in that territory, Bob or Bill? I want to see the map. I don't know who'd shut them down, Bill or Bob. I imagine Ford'll shut them down if they go in there without a permit, but that won't happen. But we certainly do want to see the map, I mean...

MR. MacELVAIN: Let's make the permit pending approval by the Board.

CHMN. BONEY: All right, final approval, yes. Well, you just go ahead with your drilling, act like you... it's

all right with me to do that, but definitely we want to get a map.

MR. DYER: Well, we weren't informed that when you had 80-acre spacing... we didn't know... that's our first well in this area, in this state. We didn't know that we had to have an approval for 80's even though we had a voluntary agreement.

CHMN. BONEY: You check with Mr. White or Mr. MacElvain as to exactly what our requirements are, and submit it.

MR. DYER: Well, we can go right ahead and spud today. We've got the permit. I've got a photostat of that.

CHMN. BONEY: All right, is there anything else to come up? Let's see, what's this? That's just a report of what's happened on the plugged wells.

DR. JONES: Well, that's working out very nicely.

CHMN. BONEY: I mean, that's just a report, that's all this is, isn't it?

DR. JONES: Yes.

CHMN. BONEY: Is there anything else that you gentlemen would like to bring before the Board at this time?

(No response)

CHMN. BONEY: That brings us down to the approval of the minutes. I'll make a motion to approve them, and when I get home, I'll read them, and if I don't like them, I'll

unapprove them.

MR. FITE: I second it.

CHMN. BONEY: Next, is the executive session. Anything...

DR. JONES: Nothing but the demand on these folks of either working over their wells or plugging them, it's going along very nicely and we've not had any kick-back at all on that.

CHMN. BONEY: Gentlemen, is there anything else to come before this Board?


(No response)

CHMN. BONEY: If there's not, we stand adjourned.

(Whereupon, at 11:25 A.M., 24 June 1960, hearing in the above entitled matter was closed)

* * *

THIS IS TO CERTIFY THAT THE FOREGOING TRANSCRIPT
IS A TRUE AND ACCURATE ACCOUNT OF THE PROCEEDINGS
BEFORE THE STATE OIL AND GAS BOARD OF ALABAMA, ON
24 JUNE 1960, IN TUSCALOOSA, ALABAMA, TO THE BEST
OF MY KNOWLEDGE AND BELIEF.


LOU M. CHAMBERS
Hearings Reporter
State of Alabama

5 July 1960