

STATE OF NEW MEXICO
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
 OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
 THE OIL CONSERVATION DIVISION FOR THE)
 PURPOSE OF CONSIDERING:)

CASE NO. 13,273

APPLICATION OF MERIT ENERGY COMPANY)
 FOR AN EXCEPTION TO DIVISION RULE)
 104.C.(2).(B), EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

May 27th, 2004

Santa Fe, New Mexico

2004 JUN 10 PM 3 28

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, May 27th, 2004, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

May 27th, 2004
 Examiner Hearing
 CASE NO. 13,273

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<u>JOHN W. QUALLS</u> (Landman, Geologist)	
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A P P E A R A N C E S

FOR THE APPLICANT:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

FOR DEVON ENERGY PRODUCTION, L.P.:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

FOR HANAGAN PETROLEUM:

MICHAEL G. HANAGAN
Geologist, President and Owner
Hanagan Petroleum Corporation
Roswell, New Mexico 88202

* * *

1 WHEREUPON, the following proceedings were had at
2 10:01 a.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 13,273. This is the Application of Merit Energy
5 Company for an exception to Division Rule 104.C.(2).(b),
6 Eddy County, New Mexico. Essentially, that's the well-
7 density rules for deep gas wells in southeast New Mexico.

8 Call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
10 representing the Applicant. I have one witness to be
11 sworn.

12 MR. CARR: May it please the Examiner, my name is
13 William F. Carr with the Santa Fe office of Holland and
14 Hart. We represent Devon Energy Production, L.P., in this
15 matter. I do not have a witness.

16 MR. HANAGAN: Mike Hanagan with Hanagan
17 Petroleum, offset operator and a working interest owner,
18 and I just wanted to go on the record for appearance. I
19 won't be making any --

20 EXAMINER STOGNER: Would you care to make a
21 statement at the end?

22 MR. HANAGAN: If I could leave that open.

23 EXAMINER STOGNER: Okay, I'll let you leave that
24 open.

25 Any other appearances.

1 So let me get this straight. Mr. Carr, you're
2 representing Merit --

3 MR. CARR: I'm representing Devon in this
4 matter --

5 EXAMINER STOGNER: Okay.

6 MR. CARR: -- simply to maintain their status as
7 a party and receive the exhibits.

8 EXAMINER STOGNER: Okay.

9 MR. CARR: And off the record --

10 (Off the record)

11 EXAMINER STOGNER: Okay, will the witness please
12 stand to be sworn?

13 (Thereupon, the witness was sworn.)

14 EXAMINER STOGNER: Mr. Hanagan, if you'd like to
15 come forward and sit here, maybe it would be a little
16 easier for you to hear.

17 MR. HANAGAN: Oh, I can hear fine. Thank you,
18 though.

19 EXAMINER STOGNER: Okay. Mr. Bruce?

20 JOHN W. QUALLS,
21 the witness herein, after having been first duly sworn upon
22 his oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Would you please state your name for the record?

1 A. John Qualls.

2 Q. Where do you reside?

3 A. Midland, Texas.

4 Q. Who do you work for?

5 A. I work for Chi Energy, Inc.

6 Q. What is the relationship of Chi Energy to Merit
7 in this case?

8 A. We are their contract operator in this particular
9 case.

10 Q. Okay, so Chi Energy does have a working interest
11 in this particular well?

12 A. Yes, sir.

13 Q. And as we will get to shortly, there is an
14 existing well in this unit, and that is operated by Merit,
15 is it not?

16 A. Yes.

17 Q. And Merit does consent to Chi drilling this well
18 and to Chi representing it in this matter, does it not?

19 A. Yes, sir.

20 Q. Okay. Have you previously testified before the
21 Division?

22 A. Yes.

23 Q. And were you qualified as an expert both as a
24 landman and as a geologist?

25 A. Yes.

1 Q. And are you familiar with the land and geology
2 involved in this matter?

3 A. Yes, sir.

4 MR. BRUCE: Mr. Examiner, I'd tender Mr. Qualls
5 as both an expert petroleum landman and an expert
6 geologist.

7 EXAMINER STOGNER: So qualified.

8 Q. (By Mr. Bruce) Okay, Mr. Qualls, let's start
9 with Exhibit 1. First of all, just briefly, what is
10 Exhibit 1?

11 A. It's a land plat depicting the west half of
12 Section 34, showing the location of the proposed well.

13 Q. Okay. Now, in looking at this, there is an
14 existing well, the Merit well I just mentioned. That is
15 the well I just mentioned in the northwest of the
16 southwest, is it not?

17 A. Yes.

18 Q. And then the proposed well is in the southeast of
19 the southwest; is that correct?

20 A. Yes.

21 Q. And now the well -- Let's make sure I've got the
22 data. And there's some offset information on this, and we
23 will get to that later, Mr. Qualls, but is Exhibit 2 a copy
24 of the C-102 for the existing Merit well?

25 A. Yes.

1 Q. Okay, and it is a west-half unit.

2 A. Yes, sir.

3 Q. And then Exhibit 3 is simply a copy of the
4 completion report in the Strawn formation?

5 A. Yes, sir.

6 Q. This well, this first well, was originally
7 drilled to the Morrow, was it not?

8 A. Yes, sir.

9 Q. Okay, and it produced from the Morrow for some
10 time?

11 A. Yes.

12 Q. And then it was subsequently completed in the
13 Strawn?

14 A. Yes, sir.

15 Q. Approximately what amounts of gas has it produced
16 from the Morrow and from the Strawn?

17 A. It's approximately 1.1 BCF from the Strawn and
18 just a little under 1 BCF from the Morrow.

19 Q. Okay. And it is currently producing from the
20 Strawn; is that correct?

21 A. Yes.

22 Q. Are there plans to downhole commingle that and
23 recomplete that in the Morrow also?

24 A. Yes, sir, a C-107A has been submitted to the OCD
25 with that purpose in mind.

1 Q. Okay. Approximately what is its current
2 producing rate in the Strawn?

3 A. 237 MCF per day.

4 Q. Okay. And in the proposed Number 2 well, are
5 both the Strawn and the Morrow objectives in that well?

6 A. Yes.

7 Q. Okay. Now, let's get to the reason for -- or
8 reasons for drilling a second well on this quarter section.
9 Can you physically locate a well in the northwest quarter
10 of Section 34?

11 A. No.

12 Q. And what is the reason for that?

13 A. The topographic reason, mainly. The east half of
14 the northwest quarter is under a -- part of the Living
15 Desert State Park, I believe, and you cannot locate there.
16 There are some drainage problems and some topographic
17 problems in the west half of the northwest quarter.

18 Q. Okay. In looking at Exhibit 4, you've
19 highlighted the west half of Section 34 on that map, have
20 you not?

21 A. Yes, sir.

22 Q. And spotted your well location. It looks like
23 there's a fair amount of relief in the northwest quarter?

24 A. Yes, sir.

25 Q. And so you would prefer to drill -- or place your

1 -- just from a topographic standpoint, you would prefer to
2 place your drill site on a flatter location, would you not?

3 A. Yes, sir.

4 Q. Now -- and we'll get into the geology in a
5 minute. Would you still need a location somewhere in the
6 southwest quarter to directionally drill to the northwest
7 quarter?

8 A. Yes.

9 Q. And do you have an estimate of the extra cost
10 involved in drilling that?

11 A. That fluctuates daily. It will be between
12 \$250,000 to \$300,000 extra.

13 Q. To directionally drill the well?

14 A. Yes, sir.

15 Q. Okay. Now -- And Exhibit 6 is your AFE, is it
16 not, Mr. Qualls?

17 A. Yes.

18 Q. What is the approximate completed well cost?

19 A. \$1,582,934.

20 Q. So with the directional drilling you'd be
21 approaching \$1.9 million?

22 A. Yes, sir.

23 Q. Okay. And so there is an economic reason for
24 doing this?

25 A. Yes.

1 MR. BRUCE: Mr. Examiner, we've included Exhibit
2 5, which is just a public land order, BLM public land
3 order, and this really has to do with certain of the offset
4 operators dealing later -- well, this -- there is federal
5 acreage in the area, it is open to oil and gas leasing, but
6 there would be stipulations for the protection of the
7 surface, which again limits surface use in this area

8 Q. (By Mr. Bruce) Now, Mr. Qualls, in placing --
9 Take a step back. The Number 1 well was drilled under the
10 old Morrow well-location rules in existence, you know,
11 what, 10 or 12 years ago?

12 A. Yes, sir.

13 Q. So it is -- What is the footage of that well
14 again?

15 A. It is 2235 from the south line, 660 from the west
16 line.

17 Q. Okay. So it is pretty close to the quarter-
18 section line between the two quarter sections?

19 A. Yes, sir.

20 Q. And it already has produced a fair amount of gas
21 from both zones, so there could be pressure depletion
22 effects if you locate too near that well; is that correct?

23 A. Yes, sir.

24 Q. And so you would like to maximize the distance
25 from that well, am I correct?

1 A. Yes, sir.

2 Q. Could you move on to Exhibit 7, and perhaps just
3 discuss a little of the geology, the Morrow geology in this
4 area for the Examiner?

5 A. This is an isopach map of the middle Morrow sand
6 that we call the Blue Sand, with a greater than 7-percent.
7 The contour interval is five feet.

8 Q. Now, this map -- Chi has drilled other wells in
9 this area, has it not?

10 A. Yes, sir.

11 Q. You have a well down in the southwest quarter of
12 Section 3. Is that a Chi well?

13 A. Yes, sir.

14 Q. And that is producing. A recent well?

15 A. Yes, that's a recent --

16 Q. And it's producing from the Morrow?

17 A. Yes.

18 Q. From what you've seen out here, is there a
19 certain amount of sand that you would like to see, what you
20 think might be necessary, or at least advisable, in order
21 to get a commercial well?

22 A. Yes, sir.

23 Q. And what is that?

24 A. We'd like to have at least 10 feet of sand, which
25 would help make us get a commercial well.

1 Q. Okay. Now, the way you've depicted the geology,
2 your proposed location is prospective in the Morrow?

3 A. Yes.

4 Q. But also -- It would also be prospective in the
5 northwest quarter, would it not?

6 A. Yes.

7 Q. So both areas are prospective, but due to the
8 surface restrictions in the northwest quarter, you would
9 like to avoid the cost of directional drilling?

10 A. Yes, sir.

11 Q. Now, as part of this Application, the offsets
12 needed to be notified. Mr. Qualls, if you'd refer back to
13 your Exhibit 1, let me run through this, and this --
14 There's some handwritten notations on there, Mr. Qualls.
15 Let's start to the north in Section 27. What you have
16 there is federal -- unleased federal acreage?

17 A. Yes, sir.

18 Q. Over in Section 28 that is -- and then the
19 northeast quarter of Section 33, that is Federal Lease
20 NM-0265356, I believe?

21 A. Yes.

22 Q. Over in the east half of the northwest quarter,
23 that is a Devon Energy federal lease, is it not?

24 A. Yes.

25 Q. And then just to the west of that, the west half,

1 northwest, that is also -- and the -- excuse me, and the
2 southeast of the northwest, that is unleased federal
3 acreage also?

4 A. Yes.

5 Q. In the south half of 33 you have unleased state
6 and fee acreage; is that correct?

7 A. Yes.

8 Q. In Section 4 -- you've highlighted the east half
9 of 4. Does Chi have plans to drill a well, a Morrow well,
10 in that half section?

11 A. Possibly. We're considering that right now.

12 Q. Okay. But Chi is the lessee in that area?

13 A. Yes.

14 Q. And then in the north half of 3 -- There is
15 already a south half of Section 3 well unit?

16 A. Yes, sir, that's correct.

17 Q. And then in the north half of 3, the interest --
18 the lessees are Chi and Nearburg?

19 A. Yes.

20 Q. And then you move up into the east half of
21 Section 34, the southeast quarter is Devon Energy and BP
22 America?

23 A. Yes, sir.

24 Q. And then again in the northeast quarter of
25 Section 34, that is unleased federal acreage?

1 A. Yes.

2 Q. Okay. Were all of those interest owners notified
3 of this hearing?

4 A. Yes, to my knowledge.

5 MR. BRUCE: Mr. Examiner, if you could look at
6 Exhibit 8 and go to the third page of that, I would just
7 point out, the Bureau of Land Management has been notified.
8 The Commissioner of Public Lands, also as an unleased
9 owner, has been notified. I did receive a call from Mr.
10 Albers at the Commissioner of Public Lands, and he had no
11 objection to the Application.

12 BP America and Devon own interests, as I said, in
13 the -- or as Mr. Qualls said, in the southeast quarter of
14 Section 34. Nearburg has been notified.

15 The rest of the people on this page are lessees
16 in the federal lease in the east half of 28 and the
17 northeast of 33.

18 And then on the final page, those were the
19 unleased fee owners in the south half of 33, or in that 160
20 acres, the southeast of 33.

21 Q. (By Mr. Bruce) And Mr. Qualls, has notice to all
22 those people been given of this Application?

23 A. Yes.

24 Q. Were Exhibits 1 through 8 prepared by you or
25 under your supervision or compiled from company business

1 records?

2 A. Yes.

3 Q. And in your opinion, is the granting of this
4 Application in the interests of conservation and the
5 prevention of waste?

6 A. Yes, sir.

7 MR. BRUCE: Mr. Examiner, I'd move the admission
8 of Exhibits 1 through 8.

9 EXAMINER STOGNER: Exhibits 1 through 8 will be
10 admitted into evidence at this time.

11 EXAMINATION

12 BY EXAMINER STOGNER:

13 Q. Okay, the Number 1 well, that's the Morrow and
14 the Atoka -- well, it never produced from the Atoka, but
15 the Morrow was plugged out; is that correct?

16 A. Yes, sir.

17 Q. Okay. So it's just the Strawn interval now.
18 What -- Can you describe that Strawn reservoir in this
19 well? What's it made of? Is it sand, dolomite, what has
20 to be done to get it producing? What kind of -- Was it
21 fractured, acidized or what?

22 A. I don't have the stimulation information in front
23 of me. It's the Strawn sand, is what we're looking for.
24 Sometimes we run into a carbonate also. It's making 237
25 MCF a day right now. I know they put some acid on it. I

1 don't have the exact stimulation procedures that they do,
2 but I can get those.

3 Q. But that would be a part of the record as far as
4 our well files; is that correct?

5 A. Yes, sir. Yes, sir.

6 Q. Do you know when the Morrow was plugged out, how
7 long this well has been producing in the Strawn?

8 A. I'm not sure of the exact date. I know they
9 submitted the -- The Strawn, I believe, was in April of
10 1994, was when they actually started producing the Strawn.

11 Q. Is there an estimated life, or do you have any
12 documentation or know what the Strawn life on these wells
13 in the Carlsbad area are?

14 A. To my knowledge they produce, I would say,
15 anywhere between 15 to 20 years, depending on how much. I
16 don't know. This one is depleted quite a bit and it's down
17 to 237 MCF a day, but I don't have any exact numbers as to
18 how long these wells will produce.

19 Q. What's the minimum commercial rate out in this
20 area for a Strawn well?

21 A. We like to see around somewhere close to a BCF
22 made out of a well, in order to make it commercial for us.

23 Q. Okay, so it's definitely commercial but --

24 A. That's a commercial well, but it's right on the
25 edge.

1 Q. Now, will your proposed well be within that same
2 interval of the Strawn? It's not a lenticular type of a
3 reservoir, is it?

4 A. No, not to my knowledge. It should be.
5 Hopefully we'll find it.

6 MR. BRUCE: Mr. Examiner, one thing to make
7 clear. They are re-opening the Morrow in that Number 1
8 well also.

9 EXAMINER STOGNER: Oh, okay. I guess I did miss
10 that one.

11 MR. BRUCE: Yeah, Mr. Qualls said, I believe,
12 that they do plan on downhole commingling in the Number 1
13 well?

14 THE WITNESS: Yes, we've submitted a downhole
15 commingling application to the OCD to try to add the Morrow
16 back to it.

17 EXAMINER STOGNER: Okay.

18 THE WITNESS: It was tested at 70 MCF a day.

19 Q. (By Examiner Stogner) I'm sorry, I missed that.
20 My fault. And then the proposed well will also be a
21 downhole commingle or a dual?

22 A. It depends on what we find, but we'll drill it to
23 the Morrow and hopefully we'll find some Morrow and then
24 come up the hole into the Strawn once the Morrow is
25 depleted. I'm not sure if we'll commingle it or not.

1 EXAMINER STOGNER: Anything further?

2 MR. BRUCE: Nothing further at this time, Mr.
3 Examiner.

4 Q. (By Examiner Stogner) You said that Living
5 Desert State Park. Does that take in all of that northwest
6 quarter?

7 A. Not to my knowledge. I believe the line runs
8 generally right along the east half, takes in all the east
9 half of the northwest quarter.

10 Q. In fact, I'm looking at a map a little closer
11 now. There shows to be a sort of a dotted-dashed line.

12 A. Yeah, exactly.

13 EXAMINER STOGNER: Anything further for this
14 witness?

15 MR. BRUCE: No, sir.

16 EXAMINER STOGNER: You may be excused.

17 Do you have anything further?

18 MR. BRUCE: (Shakes head)

19 EXAMINER STOGNER: Mr. Hanagan, would you like to
20 make a statement at this time?

21 MR. HANAGAN: No.

22 EXAMINER STOGNER: Either in support or in
23 objection to it?

24 MR. HANAGAN: Neither at this time.

25 EXAMINER STOGNER: Okay, neither at this time.

1 Good answer.

2 Okay, with that, Case Number 13,273 will be taken
3 under advisement.

4 (Thereupon, these proceedings were concluded at
5 10:21 a.m.)

6 * * *

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10
11 I do hereby certify that the foregoing is
12 a complete record of the proceedings in
13 the Examiner hearing of Case No. _____
14 heard by me on _____

15 _____, Examiner
16 Oil Conservation Division
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CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL June 1st, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006