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:

APPLICATION OF PRIMERO OPERATING, INC., FOR AN EXCEPTION TO DIVISION RULE 104.D~~(3)~~ 1a4.C(3), CHAVES COUNTY, NEW MEXICO

CASE NO. 13,411

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

2005 FEB 17 AM 9 01

February 3rd, 2005

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, February 3rd, 2005, 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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Examiner Hearing
CASE NO. 13,411

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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* * *

WHEREUPON, the following proceedings were had at 9:14 a.m.:

EXAMINER JONES: And since the next case got continued, we'll call Case 13,411, Application of Primero Operating, Incorporated, for an exception to Division Rule 104.D.(3), Chaves County, New Mexico.

Call for appearances.

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

EXAMINER JONES: Will the witness please stand to be sworn?

(Thereupon, the witness was sworn.)

MR. BRUCE: Mr. Examiner, before we do begin, I would note, if you look at the advertisement in this matter -- I just noticed this last night -- it's going to have to be re-advertised. When you look at the ad, the first well mentioned, it states it's the O'Brien Well Number 19, and that should be the Well Number 1.

EXAMINER JONES: I thought it was Well Number -- Oh, it is Well Number 19.

MR. BRUCE: And it should be Well Number 1.

EXAMINER JONES: Is the API number right?

MR. BRUCE: Yes, I did check that, and the API number is correct.

And then there's one other error, which is, the second well, the Number 2 well, states that it's 1980 from the north and east lines, and it's 1980 from the north and 660 from the east.

EXAMINER JONES: Like the Application says.

MR. BRUCE: And actually, I can say that those aren't my mistakes.

EXAMINER JONES: Okay.

MR. BRUCE: This case was originally applied for administratively, and --

EXAMINER JONES: I saw that.

MR. BRUCE: -- it was set for hearing by the appropriate Division Engineer, so I...

EXAMINER JONES: Okay, we can go ahead and hear the case and re-advertise it after we hear it.

J. PHELPS WHITE, IV,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name and city of residence for the record?

A. My name is Phelps White. I live in Roswell, New Mexico.

Q. Who do you work for?

A. Primero Operating.

Q. What's your position with Primero?

A. Owner.

Q. And the owner and president of the company?

A. That's correct.

Q. Do you have a technical background?

A. I've got a degree in geology.

Q. And have you previously testified before the Division?

A. Yes, I have.

Q. As a geologist?

A. Yes.

Q. And were your credentials as an expert petroleum geologist accepted as a matter of record?

A. Yes, they were.

Q. And are you familiar with the technical matters involved in this Application?

A. Yes.

MR. BRUCE: Mr. Examiner, I'd tender Mr. White as an expert petroleum geologist.

EXAMINER JONES: Mr. White is qualified as an expert petroleum geologist.

MR. BRUCE: Mr. Examiner, Mr. White informed me that he knew you in college. I didn't know you were that old.

(Laughter)

EXAMINER JONES: Well, I wasn't going to tell Gail that.

THE WITNESS: Too late.

EXAMINER JONES: Well, you can have me or you can have Stogner next time, it's your choice.

THE WITNESS: You.

Q. (By Mr. Bruce) Mr. White, could you identify Exhibit 1 and just briefly go through what wells -- the well units and the outline, the boundaries of the pool and the wells depicted on this particular exhibit?

A. Okay, well, Exhibit 1 is a land plat showing the wells that we're talking about today. What's noted in yellow is acreage dedicated to the C.L. O'Brien Number 1 well. This is the West Cato-San Andres Gas field. The orange line shows the designation of that field.

The blue squares are around wells which are completed and have at one time or are now producing from the same zone that we're talking about today, which would be the P2 and P3 of the San Andres.

Q. Okay, and on this plat, looking at Section 5, the southwest quarter, the well designated there, is that operated by Primero?

A. Yes, it is.

Q. And then in the southeast corner of Section 6, is

that well operated by Primero?

A. Yes.

Q. When you go over into the northwest quarter of Section 8, who is the operator of that well?

A. Energen.

Q. And then to the east are two wells designated in blue. I don't know if you know who operates them, but those wells are not in the West Cato-San Andres Gas Pool, are they?

A. They are not; however, they are producing only gas. They're gas wells, but they're over in the oil leg of what was designated the oil field.

Q. They are in the Cato-San Andres Pool?

A. That's right.

Q. Which is spaced on 40 acres?

A. That's correct.

Q. Okay. And today, what do you seek from the Division in your Application today?

A. We are currently producing the C.L. O'Brien Number 1, which is the northernmost well on the yellow acreage. The C.L. O'Brien Number 2 has been shut in since 2001 when we completed the Number 1, and we would like to put it back on production, as opposed to T-and-A.

Q. Okay. One other thing on this map, it shows Primero over in the southwest quarter of 8 as being the

operator of Section 8. Has Primero attempted to drill a San Andres well on that acreage?

A. Yes, we drilled a well there in the northwest quarter of that quarter -- or northeast quarter of that quarter --

Q. Northeast quarter?

A. -- and we drilled a dryhole that came in way low and wet.

Q. So that acreage is not productive in the San Andres?

A. That's correct.

Q. Let's move on to your Exhibits 2 and 3. Could you just discuss briefly the history of the C.L. O'Brien Well Number 1 and the Well Number 2?

A. Okay, the C.L. O'Brien Number 1 well was drilled in the 1950s by Mobil Oil and produced from the Devonian formation up until the early 1990s. Then it was shut in, and Stevens Oil bought this property and went in.

And the Number 2 well, was drilled by Mobil in the early 1980s. And after several attempts, they could never produce the Devonian. They abandoned it. Stevens Oil came in, perforated the San Andres gas in the Number 2 and made a gas well there.

Q. Okay, so the Number 2 well, the well we're here for today --

A. Right.

Q. -- originally did produce from the San Andres?

A. That's right, it has produced out of one of the zones that -- right.

Q. Okay. And then the well was shut in, and the Number 1 well was --

A. The well was shut in. The OCD wanted the C.L. O'Brien Number 1 to be plugged. The operator at that time contacted me on a consulting basis to go plug the well for him, and I recommended that maybe he try to test the San Andres gas in there.

Eventually Primero ended up buying the whole property. We tested -- In the process of plugging the Number 1, we tested the San Andres, made a well, so we had to shut in the Number 2 because of the 160-acre proration. And so anyway that's the status now, is, the Number 1 is producing and the Number 2 is sitting there.

Q. And you would like to produce both wells concurrently?

A. That's correct. We'd like to add some perforations in the P3 in the Number 2, and clean up the existing perforations and put it on production.

Q. Okay. Could you identify Exhibit 4 and discuss the basic geology in this area?

A. Exhibit 4 is the structure map on the Cato-San

Andres field that's in the Roswell Geologic Society Symposium. It shows the structure on top of the San Andres and basically shows that the lease in question here today is the highest structural position on the field and presumed to be the gas cap for the field.

That field -- I'm not sure what the exact number was, but it seems like it has produced about 15 million barrels of oil since the early 1960s.

Q. And so it is depleted?

A. Yes, what is producing is very marginal.

Q. Okay.

A. And in fact, just east of us UHC and several other operators have tried to put a waterflood in, and it's never been very successful.

Q. So those wells -- you're looking at the wells like in the east half of 8, or the --

A. Right.

Q. -- the west half of 9 are very marginal?

A. That's right.

Q. So even though you mention a gas cap, those wells have been depleted, so there's not much more you can get even though you might be producing the gas out of the top of the reservoir?

A. Right. Like we said when we were looking at Exhibit 1, two of those wells have been perforated up in

the gas section and are producing gas now, only.

Q. Now, you're looking at producing from the P2 and the P3 zones. Are there any other productive zones in the San Andres?

A. Well, out there the P4 also produces in the oil leg.

Q. Okay.

A. But for this gas so far, we've got the P2 and P3. P1 may be some day perforated, but not at this point.

Q. Okay. And again, everything to the east of the northwest quarter of Section 8 has been developed on 40-acre spacing; is that correct?

A. That's right.

Q. Could you move on to your Exhibit 5 and discuss that for the Examiner?

A. This is a cross-section. Going basically backwards from the way it looks, we've got the Energen well, the Sanders well there to the east of where we are, on the left; the C.L. O'Brien 2, the well we would like to put back on production, in the middle; C.L. O'Brien 1, the producing well in the north end of the acreage is on the right side of the cross-section.

It shows the perforations that are marked in black, solid black, are the existing perforations that are now or have produced, and there's a dashed line of where we

propose to add some perforations in the Number 2 if we get permission.

Q. What are the pressures in the reservoir?

A. The last pressure that we have was July of 2001 when we re-entered the Jennings well. Pressure then was 280 pounds, and we've taken quite a bit of gas out of there since then, and I expect it to be less than that now.

Q. Okay, so it's pretty low pressure at this point?

A. Yes.

Q. Is this a low-permeability reservoir?

A. Typically, the San Andres is a low-permeability reservoir. We don't have any measurements.

Q. Now, because of the low permeability, is it your opinion that an additional well will be necessary to produce reserves under your well unit?

A. Yes.

Q. Let's look at the production from the three wells in the pool. Can you identify Exhibit 6 and just go through that a little bit?

A. Exhibit 6 is a well to the north and east of the acreage. Primero re-entered it. This well was plugged in the 1950s -- dry Devonian well -- and we re-entered it in the summer of '01, and it's been producing. It looks like so far we've got a cum of almost .3 BCF of gas out of it.

The next curve shows the O'Brien lease, the lease

we're talking about now. The production from January, 1990, to the middle of January, 2000, was the C.L. O'Brien Number 2 well, the one we want to put back on line. You can see it pretty much had depleted out, it looks like, from that zone.

In January, '01, we put on the C.L. O'Brien Number 1 well, the well that's now producing, and it has produced very well.

Q. Producing at a pretty flat rate?

A. That's right. So far, looking at the cross-section, it's made 280,000 MCF, just a little bit more than what the C.L. O'Brien Number 1 did before it was shut in.

Q. Okay, so the C.L. O'Brien Number 1, before it was shut in, made about 200,000?

A. That's right.

Q. Okay. And what is the third well on the plat?

A. Third curve is the Sanders well, which is the Energen well, there to the east of us. And you can see it has made about -- almost 1.5 BCF of gas.

Q. Is it still producing?

A. Yes, it is.

Q. Okay. One other well. We don't have a production plat for it, but the well in the southeast quarter of Section 6, which you said was fairly recently completed in the San Andres, has that produced much?

A. No, it didn't turn out too good. It's been producing about 60 MCF a day since we completed it.

Q. So a very poor producer?

A. That's correct.

Q. Okay. Do these wells need to be on pump?

A. Yes, they make a minute amount of water, but with the pressure that we've got they won't flow.

Q. If you could refer to your Exhibit 9, Mr. White, what is the quality of the gas in this reservoir?

A. It's poor quality. We've got 16 percent CO_2, 10 percent nitrogen, BTU of 934. It's also got quite a bit of H_2S in it, and we get dinged pretty bad on the compression charges, so it's pretty low-priced gas.

Q. So pricing is a key issue in this field --

A. Yes, it is.

Q. -- is it not?

What prices are you receiving now, as compared to a year or a couple years ago?

A. Last price we got was right around three dollars. Two years ago, when we put these wells on, we were getting about 50 cents. The average price has been about $1.50 over the last year.

Q. Which is substantially lower than other operators have been getting in other --

A. That's right.

Q. -- pools in southeast New Mexico?

At these prices, would you rather produce now, rather than -- the alternative is to not produce the well until the Number 1 well depletes; is that correct?

A. That's right.

Q. In your opinion, is it better to get the better prices now, while you can?

A. Yes, it is.

Q. If you had to -- if you are allowed to put the well back on production, what is the approximate cost?

A. I'm estimating $50,000 of which about half of that would be tangible equipment.

Q. If you have to plug the well or come back later, place it on production, would that cost an additional amount?

A. Well, if we could temporarily abandon it, according to NMOCD Rules, it would be about $20,000 by the time we set a plug and then drilled it back out when we wanted to put it on production. Or, if we put a retrieval plug in there, it would be approximately the same.

Q. In your opinion, is it better to place the well on production than abandon it?

A. Yes.

Q. Are the wellbores in good shape? Is there any mechanical risk involved in putting it back on production?

A. The Number 2 well should be in very good shape. It's a fairly recent wellbore.

Q. Okay. And was Energen, the offset operator, notified of this Application?

A. Yes, they were.

Q. And that's shown on Exhibit 7?

A. Yes.

MR. BRUCE: Mr. Examiner, Exhibit 8 is simply a copy of the notice published in the Roswell newspaper regarding this Application.

Q. (By Mr. Bruce) Mr. White, were Exhibits 1 through 9 prepared by you, under your supervision, or compiled from company business records?

A. Yes, they were.

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

A. Yes, it is.

MR. BRUCE: Mr. Examiner, I'd move the admission of Primero Exhibits 1 through 9.

EXAMINER JONES: Exhibits 1 through 9 will be admitted into evidence.

EXAMINATION

BY EXAMINER JONES:

Q. Phelps, can I ask you about the Devonian again?

A. Yes.

Q. That's -- Which well produced from the Devonian?

A. The C.L. O'Brien Number 1 produced for -- since the 1950s, produced probably 150,000 barrels. The Number 2, the well in question, is -- they produced -- that well came on real good, and they stimulated it and broke into water, and I don't know what the production was, but it was minimal.

Q. What year was that?

A. That was probably 1982.

Q. Okay.

A. Mobil did that. And then they plugged back the well up to the San Andres.

Q. So the oil prices in 1982 were --

A. -- pretty good.

Q. -- going down?

A. Well, they were coming down, but they were still pretty good.

Q. Still pretty good, yeah. But now they're a lot better --

A. Yeah.

Q. -- so you still don't think there's any possibility in the Devonian?

A. Well, I just -- I think the Devonian, once they stimulate into water, it's pretty hard to get it back. And

then to re-enter that wellbore, I think, would be -- they've got some cut-off casing down there --

Q. Oh.

A. -- and whatnot, so --

Q. Oh.

A. -- I don't think I'd ever be interested in trying to do that.

Q. Which wellbore? Number 1?

A. The Number 2.

Q. Number 2. So the Number 1 --

A. No, and the Number 1 is just -- that wellbore is trashed down there.

Q. Oh.

A. I plugged it back to the San Andres, and we pulled some casing out of it, and it's a mess.

Q. There's nothing between the Devonian and the San Andres?

A. Yeah, there was a Wolfcamp gas pay in the -- that produced in the O'Brien 1, about a half a BCF, depleted out. Stevens tried that in the light cap well, and it was unsuccessful. But it's all plugged back now.

Q. Okay. And in the San Andres, this cross-section -- it shows -- would you say it's pretty continuous, then?

A. It seems to be, seems to be pretty continuous. Some of those porosity fingers, you know, change around a

little bit.

Q. But it's --

A. Basically, it's pretty continuous pay through there.

Q. And it's a lime, or --

A. It's a dolomite.

Q. Dolomite. And it --

A. And that Jennings well, we perforated some of those lower pay of the P3, and we had a little bit too much water there. We had to plug it back, so...

Q. Okay. It looks like --

MR. BRUCE: That's the southwest quarter of Section 8.

THE WITNESS: Right.

Q. (By Examiner Jones) Okay. It actually looks all right on the log. I guess --

A. It looks what?

Q. Looks okay on the log. I guess it was wet. If you already tried it, you already tried it.

And Energen -- did you have any conversations with Energen about this?

A. No.

Q. But they didn't -- they were noticed and they didn't --

A. That's correct.

Q. So when you go out to perforate the San Andres out there, do you have to have a safety crew on hand? Or in other words, you have to --

A. No, we have a blowout preventer on there, and -- well, we have an H_2S safety package there, you know.

Q. Okay.

A. But we haven't had any troubles with it, it's so low-pressure.

Q. Okay. But you're going to have to frac it?

A. No, just about 5000-gallon acid job.

Q. Okay.

A. Right now in that O'Brien 2 well there's a whole bunch of iron sulfide in there, when we went in there and cleaned it out. In fact, the tubing was completely ate up. So we got a new string of tubing in there when we first started working, and we circulated a lot of just gunk out of there, so we would like to clean it up, acidize the new perfs and the old perfs, try to get it back on.

Q. Do you have to use tubing and tubulars that don't -- are not --

A. Well, no, we've been pretty lucky, but, you know, we've just got jag grade tubing in there.

Q. But you just -- Do you have to treat for scale or corrosion?

A. We're not treating for anything. We've been real

lucky so far. But like I said, the tubing we pulled out of the Number 2 when we first got the lease was like Swiss cheese.

Q. Okay. And their application to -- or they tried to do a waterflood, you said, in the northeast of 8 and the northwest of 9. Was that in the exact same zone that you're in here?

A. It was in some of the lower, the P- --

Q. -- -3?

A. Probably this P3 and the P4 and even the P5 there, I think, from what I've read, produced. They've been working on that project since the early 1980s and just never have had much luck.

Q. What do you do with your water? Do you have to truck it?

A. I've got a -- the whole lease, all those wells probably make a barrel and a half or two barrels a day. And we've got it all into a central water tank, and we haven't even had to haul a load off yet; it's -- evaporation is keeping up with it.

Q. Are you worried about Number 2 affecting the Number 1 well much when you perforate it?

A. Well, a little bit, could be. But I'm more worried about spending $20,000 for nothing to put a plug there, you know, and then have to drill it back out.

Q. Yeah. So if you could get a waiver from the Division to put off your temporary abandonment, would that change your mind about doing the work right now?

A. I'd rather just go ahead and get it on production.

Q. Yeah.

A. I don't know if it would affect that well or not, but I will take a little hit there, you know, to get them both producing.

EXAMINER JONES: Gail, do you have any questions?

MS. MacQUESTEN: No questions.

EXAMINER JONES: Okay, well, thanks very much.

THE WITNESS: By the way, in answer to your question on the order, we have not been ordered to T-and-A it yet. However, about every fourth month we get notice from the people we are reporting production to, and they go, Well, how come that well isn't producing? Why isn't it T-and-A'd?

EXAMINER JONES: Yeah.

THE WITNESS: So we expect one anytime now.

EXAMINER JONES: Yeah, okay.

THE WITNESS: But we'd really -- what we'd really like to do is get --

EXAMINER JONES: Okay. Okay, with that, we'll continue Case 13,411 to -- I guess it's to the 17th of

February.

MR. BRUCE: Yes.

EXAMINER JONES: Thanks very much.

(Thereupon, these proceedings were concluded at 9:40 a.m.)

* * *

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

_____, Examiner
Oil Conservation Division

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 February 4th, 2005.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006