

1 STATE OF NEW MEXICO
2 ENERGY AND MINERALS DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BLDG.
5 SANTA FE, NEW MEXICO
6 12 OCTOBER 1983

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Santa Fe Exploration CASE
10 Company for compulsory pooling, Lea 7973
11 County, New Mexico.

12 BEFORE: Richard L. Stamets, Examiner

13 TRANSCRIPT OF HEARING

14 A P P E A R A N C E S

15 For the Oil Conservation
16 Division:

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21 For the Applicant:

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A P P E A R A N C E S

For Marathon Oil: William F. Carr, Esq.
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3 MR. STAMETS: We'll move on
4 then to Case 7973.

5 MR. PEARCE: That case is on
6 the application of Santa Fe Exploration for compulsory
7 pooling, Lea County, New Mexico.

8 MR. PADILLA: Mr. Examiner,
9 Ernest L. Padilla, on behalf of the applicant in this case.

10 I have two witnesses to be
11 sworn.

12 MR. PEARCE: Are there other
13 appearances?

14 MR. CARR: May it please the
15 Examiner, my name is William F. Carr, Campbell, Byrd, and
16 Black, P. A., of Santa Fe, appearing on behalf of Marathon
17 Oil Company.

18 MR. PEARCE: Do you have any
19 witnesses, Mr. Carr?

20 MR. CARR: No, I don't.

21 (Witnesses sworn.)

22 WILLIAM A. McALPINE,
23 being called as a witness and being duly sworn upon his
24 oath, testified as follows, to-wit:
25

DIRECT EXAMINATION

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3 BY MR. PADILLA:

4 Q Mr. McAlpine, for the record would you
5 please state your name and by whom you are employed?

6 A William A. McAlpine, Junior, Santa Fe Ex-
7 ploration Company.

8 Q And what is your position with Santa Fe
9 Exploration Company?

10 A I'm the president.

11 Q You are the applicant in this case?

12 A Yes, sir.

13 Q Have you previously testified before the
14 Oil Conservation Division?

15 A No, sir.

16 MR. PADILLA: Mr. Examiner, we
17 request that Mr. McAlpine, being president of Santa Fe Ex-
18 ploration, be allowed to testify on behalf of his company in
19 this case.

20 MR. STAMETS: Well, we certainly
21 allow that, and I'm astonished, I was certain Mr. McAl-
22 pine testified in an earlier case before me.

23 MR. PADILLA: Mr. Examiner,
24 initially let me make a statement here.

25 We've asked for a compulsory
pooling from the surface to the base of the Morrow forma-
tion.

Marathon, apparently, has been

1
2 confused by our application. We don't intend to force pool
3 any proration unit where only -- by virtue of the spacing,
4 if we have 320 acres, obviously our testimony will show, for
5 example, that below the Wolfcamp we would obviously be force
6 pooling 320 acres.

7 Marathon's concern, apparently, is that
8 if we had, for example, 80-acre spacing and our exhibits and
9 testimony will show that they own an 80-acre tract. We
10 don't intend to force pool that unless it's by virtue of
11 spacing --

12 MR. STAMETS: Are we talking
13 about an amended application, then, to include only the
14 Wolfcamp Pennsylvanian formations?

15 MR. PADILLA: I believe that
16 would essentially be the case, because the Bone Springs or
17 any other potential producing horizons would obviously take
18 less smaller spacing.

19 MR. STAMETS: Okay, I think
20 that's an appropriate amendment. If you hadn't done it, we
21 would have had to have done it.

22 MR. PADILLA: Also, I would
23 like to at this time, this came up this morning, Santa Fe
24 Exploration may decide when they're drilling their well, to
25 go to the Devonian. In the event that a Devonian test would
show -- turn out to be a gas well, we would also like for
that to be included as 320-acre spacing.

So in that regard we would

1
2 amend our application to include the Devonian as well. We
3 realize we have to readvertise the case for that purpose,
4 but we would put on testimony sufficient to show compulsory
5 pooling in the Devonian.

6 MR. STAMETS: And so you're not
7 in a big enough hurry that you couldn't wait for a month.

8 MR. PADILLA: We are with res-
9 spect to the Morrow zone, and so if I could ask that the ap-
10 plication be severed, or to include the Morrow only at this
11 point.

12 MR. STAMETS: Let's stay off
13 the record for a moment, Sally.

14 (There followed a discussion off
15 the record.)

16 Q Mr. McAlpine, can you tell us generally
17 what the purpose of the application is today?

18 A Yes, sir. This is a forced pooling of
19 the east half of Section 18, a standard location well site,
20 660 from the east line and 1980 from the north line, east
21 half of Section 18, 18, 34, Lea County, New Mexico.

22 Q Let me show you what we have marked as
23 Exhibit Number One and ask you to tell us what that is.

24 A It is outlined the east half of Section
25 18 that is the proration unit and it denotes the 80 acres
that Marathon has in that 320.

Q And that would be the 80 acres depicted
in yellow, is that Marathon's acreage?

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A Yes, sir.

Q Let me show you what we have marked as Exhibit Number Two and tell us what it is.

A This is a revised permit. Our original permit on this well was Bone Springs test and it has been approved for a 14,000 foot Morrow in this location.

Q And that indicates a location of the well in accordance with your testimony.

A Yes, sir, it does.

Q And that is at a standard location?

A Yes, sir.

Q And Santa Fe Exploration is shown as the operator of -- under the C-101 and desires to be the operator under a compulsory pooling order.

A Yes, sir.

Q Let me show you what we have marked as Exhibit Number Three, and it's a -- and tell us what those are.

A These are copies of our correspondence with Marathon Oil.

Our first contact with Marathon on this particular question arose on March the 30th, 1983, and since that time we've had continuous letters back and forth, letters written to Marathon and from Marathon to us, as well as we've had at least five meetings with personnel of Marathon and enumerable telephone calls, and the last correspondence in regard to this question is dated from Marathon September

1
2 28th.

3 Q What is the nature of that
4 correspondence?

5 A That last correspondence is a letter from
6 John Duddleston, a District Landman for Marathon, proposing
7 a 250 percent payout or 150 percent risk penalty on the pro-
8 ration unit.

9 Q In short, they've invited you to force
10 pool them, is that correct?

11 A Yes, sir.

12 Q And you have caused that and that's why
13 we're here today.

14 A That's correct.

15 Q Has there been any other communication
16 between yourselves or any partners with regard to trying to
17 get Marathon to voluntarily join in this prospect?

18 A Yes, sir, there has been. Union Texas
19 Petroleum is -- will have a working interest in this well
20 and after we came to an impasse between Marathon and Santa
21 Fe Exploration, certain numbers of personnel from Union
22 Texas met with Marathon.

23 Q Let me show you what we have marked as
24 Exhibit Number Four today and have you identify that for us.

25 A It's an AFE of a Morrow well at this lo-
cation and it indicates a dry hole cost of \$945,000 and a
completed cost of \$1,448,000.

Q Mr. McAlpine, does that --

1
2 MR. STAMETS: Ernie, we didn't
3 get any of those.

4 MR. PADILLA: I'm sorry.

5 Q Do those, do the well costs reflected in
6 that AFE, are they reasonable and in your opinion are they
7 characteristic of costs for drilling wells in the same
8 general area to the same horizon?

9 A Yes, sir, particularly in view of the the
10 farmout stipulations from Amoco and Superior in this
11 acreage, the testing of formations prior to encountering the
12 Morrow, I do think they are reasonable.

13 Q Assuming that you go to the Devonian for-
14 mation, that would obviously increase the costs for drilling
15 this. That would --

16 A That's correct.

17 Q -- amend the AFE and that would increase
18 the costs?

19 A Yes, sir.

20 Q By what percentage would you estimate
21 that the costs would be increased?

22 A Probably around 20 to 25 percent.

23 Q For both the dry cost -- the dry hole
24 costs and the completed costs?

25 A Yes, sir.

Q Can you give us a suggestion as to what
the producing rates are for wells drilled in -- or overhead
charges for wells that are producing, and a drilling rate?

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2 A I have in hand a current memorandum from
3 Union Texas Petroleum and I believe it would be appropriate
4 for this particular well in that area.

5 Their charges to 12,000 feet, the
6 drilling rate is \$4,945 a day and their producing rate is
7 \$495.

8 Below 12,000 feet they have \$5,495 and a
9 producing rate of \$550 per month.

10 Q Would that -- does that cover a Devonian
11 test, as well?

12 A Yes, sir, it would.

13 Q Below 12,000-foot rate?

14 A Yes, sir.

15 Q Are those costs characteristic for wells
16 drilled to that depth in that vicinity in Lea County?

17 A I believe they are.

18 MR. PADILLA: Mr. Examiner, I
19 believe that's all the questions that I have for this wit-
20 ness and I pass the witness at this time.

21 MR. STAMETS: Are there
22 questions of the witness?

23 CROSS EXAMINATION

24 BY MR. STAMETS:

25 Q Mr. McAlpine, have you ever mentioned to
Marathon that you might drill this well to the Devonian?

A I'm not positive that we have, and the

1
2 only reason that we would drill it to the Devonian is if
3 we're running high at the Morrow and dry in the Morrow.

4 Q I would think before you made an applica-
5 tion to include the Devonian you'd need to make them --

6 A We'd be happy to do so.

7 Q -- that offer.

8 Now, are there -- I would gather from
9 looking at Exhibit Three that there are other interest
10 owners who have voluntarily agreed to join in the drilling
11 of this well, Stumhoffer and Superior.

12 A There are farmouts involved, Stumhoffer
13 and Carr, independents, Amoco and Superior, will have
14 ultimate working interest after payout.

15 Q So you're at this stage the only active
16 working interest owner.

17 A Santa Fe Exploration and Union of Texas
18 Petroleum will be the only active working interest.

19 Q Do you have a communitization -- not com-
20 munitization -- a working interest agreement with them?

21 A We have one in preparation that is being
22 formalized.

23 Q And what are the charges for overhead
24 going to be in that agreement?

25 A As set forth in this memorandum from
Union Texas Petroleum that I've previously testified to.

It's included in this packet that they

1
2 have in their hands, I believe, Mr. Padilla.

3 MR. PADILLA: Okay.

4 Q Okay, and these are the rates that you
5 would like to have, then, \$4945 below 12,000 --

6 A Yes, sir.

7 Q -- and so on.

8 MR. PADILLA: I believe it's in
9 that exhibit that you have.

10 MR. STAMETS: Yeah, it is.

11 Q Mr. McAlpine, do three 60-foot cores cost
12 \$50,000?

13 A The engineer that did this estimate felt
14 like they did. We did not, Santa Fe Exploration did not
15 make that estimate. It was a request of Superior Oil
16 Company that cores be made in there and that estimate was
17 given to us by Union of Texas.

18 MR. STAMETS: Any other ques-
19 tions of the witness? He may be excused.

20 A Thank you.

21 RICK BELL,

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

24 DIRECT EXAMINATION

25 BY MR. PADILLA:

Q Mr. Bell, would you please state your

1
2 name for the record and tell us where you're employed?

3 A Rick Bell, Union Texas Petroleum, Mid-
4 land, Texas.

5 Q What is your connection with the appli-
6 cant in this case?

7 A Union Texas proposes to be a working in-
8 terest partner in this exploratory well.

9 Q Can you tell us what your educational
10 background is and your work experience?

11 A I have a BS in geology from Eastern New
12 Mexico University and an MS in geology from the University
13 of Texas at El Paso.

14 I've been employed in the petroleum busi-
15 ness for six and a half years, previously with Gulf Oil Cor-
16 poration, and Jake L. Hamon, independent operator out of
17 Dallas, and am currently, of course, employed with Union
18 Texas as Geologic Manager for West Texas and Southeastern
19 New Mexico.

20 Q You're familiar with the area of the ap-
21 plication and the geology as to the Morrow formations and
22 for the formations that are sought to be force pooled today?

23 A Yes, sir.

24 Q How about the Devonian formation?

25 A Yes, sir.

MR. PADILLA: Mr. Examiner, we
tender Mr. Bell as an expert geologist.

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2 MR. STAMETS: He is considered
3 qualified.

4 Q Mr. Bell, referring to what we have
5 marked as Exhibit Number Five, can you tell us what it is
6 and what it contains?

7 A We're looking at a geologic montage in
8 the prospect area. This was prepared by -- not by Union
9 Texas, but by a geologist under the employment of Santa Fe
10 Exploration, Thomas R. Smith, but of which Union Texas is in
11 agreement with the basic exploration concept as portrayed.

12 Q You've reviewed this work before and are
13 familiar with -- with the geology as depicted by that
14 exhibit?

15 A Yes, sir.

16 Q All right, and you're prepared to testify
17 from it?

18 A Yes, sir.

19 Q Can you proceed now and tell us about the
20 Isopach that's depicted at the bottom of the chart?

21 A Basically what the prospect proposes, to
22 extend the Lower Morrow producing Pipeline Sand, as depicted
23 in yellow on the Isopach map, which is the center map at the
24 bottom, which produces from the Eureka Field, approximately
25 four miles to the south of the prospect area.

We propose in the prospect area that we
will encounter approximately 50 feet of this Lower Pipeline
Sand.

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2 The orientation of the channels, as de-
3 picted by the map, is basically north/south, which is con-
4 sistent with these point bar channel deposition coming off
5 the regional dip in the area on the Morrow; basically being
6 from the north to south into the Delaware Basin.

7 For hydrocarbon entrapment we feel that,
8 referring to the structure map on top of the Morrow struc-
9 ture, it is very critical that we encounter critical dip
10 back to the north which will entrap the hydrocarbon. We
11 feel this will be a large portion of the high risk nature of
12 the prospect is the critical dip back to the north.

13 And that is representing, again, we feel
14 that we will get a small structural closure at about, approx-
15 imately -8900 foot datum in the prospect area.

16 Q Mr. Bell, what's the closest producing
17 Morrow well in the vicinity of the proposed location?

18 A Approximately four miles to the south in
19 the Eureka Morrow Field.

20 Q What does your cross section depict, Mr.
21 Bell?

22 A The cross section A-A' is basically a
23 north/south cross section, starting to the north in Section
24 9, which would indicate an area where the Amoco State Well
25 drilled in Section 9 recovered no lower sands in what we
call the Pipeline zone of the Morrow, coming across into the
prospect area where we hypothesize again that we will
encounter approximately 50 feet of net sand coming down on

1
2 to the south and tying to the Eureka Field.

3 It shows the relationships of the various
4 producing sands in the area.

5 Q Mr. Bell, does this exhibit indicate any
6 Devonian production?

7 A No, sir, it does not.

8 Q Are you aware of any Devonian production
9 in the vicinity of the prospect?

10 A There's no established production within
11 the immediate vicinity of the prospect.

12 Q So the Devonian would be considered a
13 wildcat, as well as the Morrow?

14 A Yes, very high risk.

15 Q Okay.

16 A Possibility.

17 Q Which is the producing well in the area?

18 A The nearest Morrow producer?

19 Q Yes.

20 A It would be in Section 4, and that would
21 be 19 South, 34 East.

22 Q Do you know what the production charact-
23 istics are for that well?

24 A I know that the average production for
25 the Morrow for the entire area is approximately 4 Bcf per
well and about 70,000 barrels of condensate.

There are some wells in Eureka that have
produced as high as 25 Bcf and 3-or-400 barrels of conden-
sate.

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2 Q Based upon your testimony and the presen-
3 tation you've given here today, would you -- what would you
4 consider the risk factor penalty to be for a Morrow pros-
5 pect?

6 A Well, we consider it to be a very high
7 risk prospect.

8 Q How about a Devonian test?

9 A Also very high risk.

10 Q What kind of a penalty would you recom-
11 mend?

12 A We would recommend the maximum penalty of
13 complete recovery of our well cost plus the 200 percent.

14 Q Mr. Bell, do you have anything further to
15 add to your testimony?

16 A No, sir.

17 MR. PADILLA: Nothing further,
18 Mr. Examiner.

19 We tender Exhibit Number Five.

20 MR. STAMETS: Exhibit Number
21 Five will be admitted.

22 Are there any questions of the
23 witness? He may be excused.

24 Anything further in this case?

25 MR. PADILLA: Also tender Exhi-
bits One through Four.

MR. STAMETS: All the exhibits
are admitted, and the case is taken under advisement.

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7973 heard by me on 10/2 1983.
Richard P. [Signature] Examiner
Oil Conservation Division