

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 KERR-McGEE)
 CORPORATION)
)

CASE NO. 11,376

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING**ORIGINAL**

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

September 7th, 1995

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, September 7th, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

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 Examiner Hearing
 CASE NO. 11,376

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A P P E A R A N C E S

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* * *

1 WHEREUPON, the following proceedings were had at
2 8:30 a.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 11,376.

5 MR. CARROLL: Application of Kerr-McGee
6 Corporation for an unorthodox infill gas well location,
7 Eddy County, New Mexico.

8 EXAMINER STOGNER: At this time I'll call for
9 appearances.

10 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
11 the Santa Fe law firm of Kellahin and Kellahin, appearing
12 on behalf of the Applicant, and I have three witnesses to
13 be sworn.

14 EXAMINER STOGNER: Any other appearances?

15 MR. BRUCE: Mr. Examiner, Jim Bruce from the
16 Hinkle law firm in Santa Fe, representing Santa Fe Energy
17 Resources, Inc. I have no witnesses.

18 EXAMINER STOGNER: Will the witnesses please
19 stand to be sworn at this time?

20 (Thereupon, the witnesses were sworn.)

21 MR. KELLAHIN: Mr. Examiner, our first witness is
22 Aaron Reyna. He spells his last name R-e-y-n-a. He holds
23 a degree in geology and he is by practical experience a
24 reservoir engineer and is providing reservoir engineering
25 information for you in this case.

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AARON REYNA,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. For the record, sir, would you please state your name and occupation?

A. My name is Aaron Reyna. I'm a reservoir engineer for Kerr-McGee Corporation.

Q. Mr. Reyna, summarize for us your education.

A. I have a BS in geology from West Texas State University, 1982.

Q. What are your particular duties for Kerr-McGee?

A. I'm currently responsible for exploitation, development, rate reserve forecasts for the onshore division.

Q. Do you provide those services to your company with regards to their production in what the Division knows as the Indian Basin-Morrow Gas Pool?

A. Yes.

Q. And those aspects of your duty fall within the disciplines of a reservoir engineer, do they not?

A. Yes.

Q. Summarize for us your practical experience within that profession.

1 A. I've worked -- I've been with Kerr-McGee 13
2 years. I've worked approximately four years as a
3 production/completion engineer, approximately four years as
4 a partnership operations engineer, the remaining time of my
5 career at Kerr-McGee as a reservoir engineer.

6 Q. As part of your duties, do you analyze the
7 production and reservoir engineering characteristics with
8 regards to pool?

9 A. Yes.

10 Q. And does that include the conventional
11 engineering calculations, the identification of the various
12 parameters used in those calculations in reaching
13 conclusions and opinions about that data?

14 A. Yes.

15 MR. KELLAHIN: We tender Mr. Reyna as a practical
16 reservoir engineer.

17 EXAMINER STOGNER: Mr. Reyna is so qualified.

18 Q. (By Mr. Kellahin) Let me have you turn your
19 attention, sir, to what we have marked as Exhibit Number 1.
20 Let's take a moment and identify the display to the
21 Examiner.

22 A. It's a locator map, a 12-section area in the
23 Indian Basin area of Eddy County, New Mexico.

24 Q. On that display, what type of wells have been
25 identified?

1 A. We have identified Morrow producers within that
2 12-section area and Morrow penetrations that were dry.

3 Q. This map would, then, not reflect the Indian
4 Basin-Upper Penn Gas Pool wells, would it?

5 A. No, sir, that's right.

6 Q. The section of concern to you is Section 31 on
7 this display?

8 A. Yes.

9 Q. Within that section is there an existing
10 currently producing gas well dedicated to the Indian Basin-
11 Morrow Gas Pool?

12 A. Yes.

13 Q. And where is that well and how is it identified?

14 A. The well is identified as the Kerr-McGee-operated
15 Winston Gas Com Number 1, located in the southwest quarter
16 of Section 31.

17 Q. The pool rules for this pool provide for what
18 type of acreage dedication for wells?

19 A. 640 acres.

20 Q. And this is a prorated gas pool, is it not?

21 A. Yes, sir.

22 Q. A standard well location in the pool would be
23 what, sir?

24 A. 1650 standoffs.

25 Q. On this exhibit within Section 31, have you

1 approximated the location of the Winston Gas Com Number 2
2 well, which is the subject of this Application?

3 A. Yes.

4 Q. Specifically where is it located?

5 A. The well is located 697 feet from the north line
6 and 2146 feet from the east line of Section 31.

7 Q. And that would be an unorthodox location because
8 it encroaches to the north side of the spacing unit?

9 A. Yes.

10 Q. Give us a summary of why you're seeking an
11 additional well in Section 31.

12 A. The existing well in Section 31 is at or near its
13 economic limit with some mechanical concerns and
14 considerations with the well that we feel the well has
15 about two years of life left.

16 Q. Are the mechanical conditions in this well such
17 that you can economically repair this well?

18 A. No.

19 Q. In addition to the mechanical difficulties with
20 this well, are there any other problems in prolonging the
21 life of this well?

22 A. Yes, there's fluid-loading problems that the
23 wells experience in this particular part of the field.

24 Q. Is it possible to overcome those liquid-loading
25 problems by reconfiguring or working over this wellbore?

1 A. It's possible.

2 Q. Is it practical to do so, considering the
3 remaining productive life of the well?

4 A. No.

5 Q. What's the purpose, then, of the second well?

6 A. We've identified within this section a well
7 location that we feel will develop incremental gas
8 reserves.

9 Q. Can you give us a summary of the basis upon which
10 you have placed this second well, as you propose to locate
11 it?

12 A. Yes, the well location -- The location of the
13 well as proposed was picked due to the fact that south and
14 east of the Winston Gas Com Number 1 is significant
15 geologic -- Morrow geologic risk.

16 Q. That risk is identified on this display by the
17 Morrow penetrations indicated in triangles, which are
18 dryhole symbols?

19 A. That's correct.

20 Q. And the choice, then, is not to move south or
21 east because of moving towards dryhole wells?

22 A. That's correct.

23 Q. What forms the basis of seeking an unorthodox
24 location, as opposed to the closest standard location?

25 A. Topographical concerns.

1 Q. Have you obtained the approval of the Bureau of
2 Land Management for the proposed unorthodox location?

3 A. Yes, we have.

4 Q. And have some of the issues about locating that
5 well been in response to the BLM's request to have you
6 place this at a certain point on the surface?

7 A. Yes, it has.

8 Q. Within this area, has Kerr-McGee experienced the
9 situation where a second well in a section has been drilled
10 and completed?

11 A. Yes, we have.

12 Q. And where would we find that?

13 A. Immediately north, in Section 30.

14 Q. Describe for us what's happened in Section 30.

15 A. Two wells in the section. The Martha Creek Gas
16 Com Number 1, originally drilled and completed by Kerr-
17 McGee in the mid-Sixties, produced for approximately 20
18 years before it started experiencing some mechanical
19 problems. We in turn shut the well in, subsequently
20 drilled the Martha Creek Number 2 well at a location
21 approximately 2000 feet north-northeast. That well found
22 near virgin reservoir pressure.

23 Q. What did that tell you about the first well's
24 ability in this reservoir to fully deplete its spacing
25 unit?

1 A. We found that there's significantly more
2 compartmentalization than what was earlier led to believe.

3 Q. Does any of that information and results form a
4 basis of your decisions for what to do in Section 31?

5 A. Yes.

6 Q. Describe for us what the significance is of the
7 green line that has a footage indicated, as we move from
8 point to point on the green line. What does that
9 represent?

10 A. The green line represents -- The open green
11 circles represent potential target locations that we are
12 seeking to drill in this area. The footage between wells
13 is basically just physically the physical location,
14 physical footage location, between wells along that trend.

15 Q. Is there reservoir data currently available by
16 which you can more specifically identify where to put these
17 wells?

18 A. No, not available at the present time.

19 Q. So in the absence of that information, what have
20 you done in terms of trying to pick a location for the
21 Winston Number 2 well?

22 A. We have tried to stay along a trend of proven
23 producing wells.

24 Q. Let's turn now to Exhibit Number 2. Would you
25 identify that display for us?

1 A. Exhibit Number 2 is simply a historical rate-time
2 profile for the Winston Federal Gas Com Number 1, showing
3 gas, oil and water on daily rates.

4 Q. Its current cumulative production is noted on
5 that display?

6 A. That's correct.

7 Q. And what are those numbers?

8 A. 3.8 BCF and 26.8 MBO.

9 MR. KELLAHIN: Did we give you an Exhibit Number
10 2, Mr. Examiner?

11 EXAMINER STOGNER: Yes, I do have it here.

12 Q. (By Mr. Kellahin) Identify for us the color code
13 used to track the different production volumes.

14 A. The red is for the gas, the blue is for the
15 water, and the green is for the oil.

16 Q. Can you use this display to illustrate for us
17 your conclusion that this well experiences a liquid-loading
18 problem, a fluid problem?

19 A. Yes, this well in later life, approximately 1990
20 on, has experienced a steeper decline than in the preceding
21 approximately 10 to 15 years.

22 Q. Let's turn now to Exhibit Number 3. Would you
23 identify that display for us?

24 A. That is simply the same plot as previously in
25 Exhibit 2, only gas is plotted here, and I have projected

1 the remaining reserves based on decline analysis for that
2 well.

3 Q. Based upon that decline analysis, what do you
4 conclude is the remaining recoverable gas reserves to be
5 attributed to the Winston 1?

6 A. 150 million.

7 Q. You mentioned in your opening statements that
8 there was pressure information or indications in this area
9 that justified, in your opinion, the fact that a second
10 well was necessary in Section 30 and that you expect that
11 analogy to be applicable to Section 31.

12 Do you have a plot of production information or
13 bottomhole pressure information?

14 A. Yes, we do, we have Exhibit Number 4.

15 Q. Let's turn to that exhibit and first of all
16 identify the wells for us that are color-coded. And if you
17 might keep out Exhibit 1 that will help us find the wells
18 as you describe their performance, or their pressure
19 history.

20 A. Looking at your locator map, going from south to
21 north, on the pressure map the Winston Fed Gas Com is
22 denoted in a black line. Going north, the Martha Creek Gas
23 Com Number 1 is denoted with a yellow line, the Martha
24 Creek Gas Com Number 2 is denoted with a blue line, and the
25 final well to the north of 19, the Indian Federal 1-19, is

1 denoted as a red line.

2 Q. Let's look at the two wells in Section 30, which
3 would be the Martha Creek 1, which is the yellow line, and
4 then show what happens in the later life of that well in
5 relation to the new well, which is the Martha Creek Number
6 2, and that's the blue line.

7 A. When the well which was shut in in 1985, the
8 Martha Creek Number 1, it had an approximate bottomhole
9 pressure of approximately 1450 pounds.

10 We drilled the Number 2 at a location about 2000
11 feet north-northeast of the Number 1, found approximately
12 3500-pound bottomhole pressure.

13 Over the next two years, while the pressure
14 declined -- while the pressure trend in the Number 2 well
15 was declining, we saw an approximately 800-pound increase
16 in the Martha Creek Number 1.

17 Q. What's your conclusion from observing that
18 information?

19 A. That the reservoir is compartmentalized.

20 Q. When we go back to the Winston Gas Com Number 1
21 well in Section 31, what's its approximate current rate?

22 A. It's currently producing about 125 a day.

23 Q. MCF a day?

24 A. Yes, 125 MCF a day.

25 Q. And about what pressure range is that well at?

1 A. Right about 1500 bottomhole pressure.

2 Q. If the Examiner approves your second well in the
3 section at this unorthodox location, do you propose to
4 continue to produce the Winston 1 well until it's fully
5 depleted and produce it concurrently with the Winston
6 Number 2?

7 A. Yes.

8 Q. Based upon the information available to you, is
9 the second well necessary in order to fully develop the
10 potential gas reserves in Section 31?

11 A. Yes.

12 Q. Give us a quick summary of your efforts to locate
13 this well. You are looking for a location north of the
14 Winston 1?

15 A. Yes.

16 Q. And as you went through that exercise, it was
17 adjusted in the field to several potential locations in
18 response to the BLM's desires for surface use?

19 A. Yes.

20 Q. Give us a quick summary of what occurred.

21 A. The original standoff 1650 location fell along an
22 arroyo.

23 We subsequently -- or at least that was
24 originally -- The 1650 standoff would have fallen
25 originally along an arroyo.

1 We originally spotted the well at a location of
2 1000 feet from the north and 2200 feet from the east. That
3 location fell along the lease road.

4 We subsequently, then, staked one location south
5 and one location north. The location to the south the BLM
6 would not approve due to the fact that it would require
7 removal of a considerable portion of a hill.

8 Q. To the best of your knowledge, is the current
9 proposed location one that is being approved or has been
10 approved by the BLM?

11 A. That's correct.

12 MR. KELLAHIN: That concludes my examination of
13 Mr. Reyna.

14 We move the introduction of his Exhibits 1, 2,
15 3 -- I'm sorry, 1 through 4.

16 EXAMINER STOGNER: Exhibits 1 through 4 will be
17 admitted into evidence at this time.

18 EXAMINATION

19 BY EXAMINER STOGNER:

20 Q. Where was the original staked location? Was that
21 a standard?

22 The very first one that you proposed, that they
23 made you move because of the arroyo?

24 A. No, sir, it was not the first.

25 Q. And what was the first location?

1 A. The first location was 1000 feet from the north
2 and approximately 2100 feet from the east.

3 Q. And that was unorthodox?

4 A. That's correct.

5 Q. And this falls under special rules and
6 regulations that require -- What's the minimum footage?

7 A. 1650 standoffs.

8 Q. And this is a prorated pool?

9 A. Yes.

10 Q. So both wells will share an allowable; is that
11 your understanding?

12 A. That's my understanding.

13 Q. Do you know if the present situation in that pool
14 -- are they -- are the proration units assigned a minimum
15 allowable, or do you understand what's going on out there?

16 A. I do not understand. We have a separate
17 department that handles that.

18 EXAMINER STOGNER: Okay.

19 MR. KELLAHIN: Mr. Examiner, that pool is not
20 being assigned a minimum allowable. Here is the latest
21 proration schedule.

22 There is only one nonmarginal well in the pool.
23 And a nonmarginal well, as I understand it, in that pool,
24 is allowed to make 666 MCF a day. You take the 20,000 a
25 month, divide it by 30.

1 EXAMINER STOGNER: Mr. Kellahin, what are your
2 other two witnesses' expertise?

3 MR. KELLAHIN: A geologist and a landman.

4 Q. (By Examiner Stogner) Okay. You show a dryhole.
5 It looks like a Federal Wills Number 1, a Hanagan well --

6 A. Yes, sir.

7 Q. -- just to the south of your proposed location.
8 What was the depth of that well?

9 A. I believe it's approximately 3500 feet.

10 Q. So that was a shallow -- What? Delaware test?

11 A. I believe that's correct.

12 Q. Did you look at the possibility of re-entering
13 that well?

14 A. No, sir, we did not.

15 Q. Do you know what the location -- or how far that
16 well is from your proposed location?

17 A. No, I do not.

18 EXAMINER STOGNER: I have no other questions of
19 this witness.

20 You may be excused.

21 Mr. Kellahin?

22 MR. KELLAHIN: My next witness is Sherman
23 Formhals.

24 He's a geologist. He spells his last name
25 F-o-r-m-h-a-l-s.

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SHERMAN H. FORMHALS,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. For the record, sir, would you please state your name and occupation?

A. My name is Sherman H. Formhals, and I'm a geologist.

Q. Mr. Formhals, have you testified before the Division as a qualified expert in the field of petroleum geology?

A. No, sir, I haven't.

Q. Summarize for us your education.

A. I graduated from the University of New Mexico in 1972 and attended the University of New Mexico geology school for two years.

Q. Do you hold a degree in petroleum geology?

A. In -- No, I hold a bachelor's.

Q. Bachelor's degree in geology?

A. In geology.

Q. Summarize for us your employment experience as a geologist.

A. I have worked for Kerr-McGee for 23 years, for six years as a uranium exploration geologist and the

1 remainder of the time as a petroleum exploration and
2 development geologist.

3 Q. Do your duties include performing exploration
4 geology for your company's properties in the Indian Basin-
5 Morrow Gas Pool?

6 A. Yes.

7 Q. And have you done so in this case?

8 A. Yes, sir.

9 Q. And based upon that study, do you have
10 conclusions and recommendations about the second well to be
11 drilled in Section 31?

12 A. Yes.

13 MR. KELLAHIN: We tender Mr. Formhals as an
14 expert geologist.

15 EXAMINER STOGNER: Mr. Formhals is so qualified.

16 Q. (By Mr. Kellahin) Let me have you turn your
17 attention, sir, to Exhibit Number 5 and identify that for
18 us.

19 A. Number 5 is a structure map contoured on the
20 middle Morrow. Contour interval is 100 feet. The scale of
21 the map is an inch to a thousand. I have indicated Morrow
22 -- productive Morrow wells in orange and nonproductive
23 Morrow wells in blue.

24 Q. Give us a short summary of the depositional
25 environment for this particular Morrow play that you're

1 trying to develop.

2 A. The lower portion of the Morrow is a fluvial sand
3 deposition. As you move up the section for approximately
4 200 feet it becomes more marine influenced, and so you get
5 different directional trends of sand deposition throughout
6 the section.

7 Q. How do you as a geologist go about analyzing
8 where within Section 31 to put the next well?

9 A. The -- As indicated before, if you move south and
10 east, you're moving towards dryholes in the Morrow. If you
11 move to the north, due north or northeast, you're moving
12 towards productive Morrow wells.

13 Q. Is it a useful aid to you as a geologist to
14 attempt to prepare isopach maps for this particular Morrow
15 play in order to more specifically locate the next well?

16 A. When I originally evaluated the subsurface
17 geology for the Morrow in this field, it became apparent
18 that gross or net sand isopachs were not useful, and based
19 on previous history of development in Section 30, the
20 reservoir was highly compartmentalized. I found it no use
21 to do much more than structure.

22 Q. Describe for us how you have utilized structure
23 as a component by which to determine where to put a well in
24 Section 31.

25 A. The -- It became apparent to me that the wells

1 that were highest on this part of the Indian Basin field
2 were structurally high. And as you move downdip, off of
3 structure, you lost your porosity, and it could be a result
4 of hydrocarbons preserving the porosity on the structure.

5 Q. Have you prepared a cross-section to demonstrate
6 the continuity or discontinuity of the various members of
7 the Morrow within the pool?

8 A. Yes, I have.

9 Q. Let's turn to that display. It's Exhibit Number
10 6; is that right, sir?

11 A. Yes, sir.

12 Q. The existing Winston 1 well is located on the far
13 left, at position A on the cross-section?

14 A. Yes, sir.

15 Q. And we're looking at a stratigraphic cross-
16 section?

17 A. Yes, sir.

18 Q. What's the datum point that serves as the basis
19 for orienting the logs?

20 A. The Morrow formation.

21 Q. And is that a readily identifiable marker point
22 on which to hang a log?

23 A. Yes, sir.

24 Q. Describe for us what you've done.

25 A. The stratigraphic cross-section as shown on

1 Exhibit Number 5, A-A', is a south-to-north cross-section.
2 The vertical scale is an inch to 40 feet. The porosity
3 logs for the wells were used.

4 I have color-coded what I have labeled possibly
5 connected to adjacent wellbores in yellow and possibly not
6 connected to adjacent wellbores in orange, and what I've
7 tried to illustrate is the compartmentalization and the
8 poddiness of the sands between the wellbores.

9 Q. Let's look at the two in the middle.

10 A. Yes, sir.

11 Q. Those are the Martha Creek 1 and 2.

12 When Mr. Reyna describes the fact that the Martha
13 Creek Number 2 well came in at substantially higher
14 pressure than was experienced in the Martha Creek 1 at an
15 equivalent time interval, is there a geologic explanation
16 to what he saw?

17 A. Yes. Why I've said "possibly connected" is that
18 I'm not even sure -- The ones that I can correlate
19 stratigraphically between the wellbores appear to be the
20 same sands stratigraphically. But with the reservoir
21 information that Mr. Reyna presented, I'm not sure if even
22 any of these sands are connected.

23 Q. What does that information tell you, then, about
24 the location of this Winston 2 well, which would be
25 somewhere between the far left well log and the second well

1 from the left? That's where that line would fall, would it
2 not?

3 A. Yes, sir.

4 Q. And what does that tell you about locating a well
5 in that position on the cross-section?

6 A. We could encounter a similar situation as we did
7 in Section 30. The reservoir being compartmentalized, we
8 will encounter sands that aren't connected between the two
9 wellbores.

10 Q. Based upon the present available information, is
11 the proposed location in Section 31 for the Winston 2 well
12 the optimum location in which to attempt a second well?

13 A. Yes, it is.

14 Q. Let's look at the Winston 1 for a moment. Do you
15 see any remaining opportunities in that existing wellbore
16 in Section 31 for pay that has not been attempted to be
17 produced?

18 A. No, sir.

19 Q. The middle Morrow apparently produces in the
20 Section 30 Martha Creek Number 1 well, the top yellow line?

21 A. Yes, sir.

22 Q. When we move across to the Winston 1, it doesn't
23 appear that that zone was perforated. Is there data to
24 explain why it wasn't perforated?

25 A. Yes, sir, it was drill stem tested and recovered

1 1600 feet of saltwater.

2 Q. You don't see any further remaining opportunities
3 in Winston 1 to add pay that may currently not be being
4 contributed to production?

5 A. No, sir.

6 Q. In your opinion, is the approval of this
7 Application necessary in order to provide an opportunity to
8 recover additional reserves in Section 31 that might not
9 otherwise be recovered?

10 A. Yes, sir.

11 MR. KELLAHIN: That concludes my examination of
12 Mr. Formhals.

13 We move the introduction of his Exhibits 5 and 6.

14 EXAMINER STOGNER: Exhibits 5 and 6 will be
15 admitted into evidence at this time.

16 EXAMINATION

17 BY EXAMINER STOGNER:

18 Q. Mr. Formhals, in looking at Exhibit Number 5, you
19 show a crest --

20 A. Yes, sir.

21 Q. -- that appears, oh, sort of in the middle of
22 this, runs from the north to south, in the middle of
23 Section 31.

24 What portion of the middle Morrow are you calling
25 a crest? Could you elaborate a little bit more on that

1 structure?

2 A. The crest was, like you said, positioned in the
3 middle of what I mapped an anticline, and the wellbore is
4 at an optimum location to be as high as we possibly can.

5 Q. But does that reflect on the marker "A", "B" or
6 "C" of the middle Morrow?

7 A. It's middle Morrow marker "A". And this, being a
8 stratigraphic cross-section, does not reflect the
9 structure.

10 Q. Now, is this a marine deposit?

11 A. The middle marker "A"?

12 Q. Yeah, what you're showing as the crest.

13 A. I would say it's more marine influenced than
14 fluvial, yes, sir. So it would be more continuous.

15 Q. Now, when I look at the cross-section, Exhibit
16 Number 6, the well on the far left side, you have several
17 intervals marked yellow and red, which are connected or not
18 connected --

19 A. Yes.

20 Q. -- depending upon the color.

21 Am I to assume that -- I don't see the
22 perforations marked on this particular well -- that all of
23 these zones that you have shown are perforated and are
24 presently being produced?

25 A. Yes, sir, they are marked on there, but they're

1 so small you might not be able to see them.

2 Q. I guess I'm not seeing them. But they are --

3 A. Yes.

4 Q. -- they are perforated in those intervals?

5 A. Yes.

6 EXAMINER STOGNER: Okay, I have no other
7 questions of Mr. Formhals. You may be excused.

8 Mr. Kellahin?

9 MR. KELLAHIN: Our last witness is Mr. Dave
10 Henke. He spells his last name H-e-n-k-e.

11 Mr. Henke is responsible for regulatory
12 compliance for his company and, as part of his duties, has
13 determined the ownership within Sections 30 and 31 and the
14 appropriate parties to notify. In addition, he has been
15 involved in obtaining the BLM-approved APD for this well.

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

19 DIRECT EXAMINATION

20 BY MR. KELLAHIN:

21 Q. Mr. Henke, for the record would you please state
22 your name and occupation?

23 A. Yes, my name is David Henke. I'm manager of
24 conservation and unitization for Kerr-McGee Corporation.

25 Q. As part of your duties, sir, what has been your

1 continuing responsibility in this case?

2 A. The efforts in this case have been to coordinate
3 the witnesses, to -- more particularly, to obtain working
4 interest information, and determine whether or not any of
5 the adjoining operators either objected to or concurred in
6 our Application.

7 Q. Let's look at Exhibit 1, which is the locator map
8 showing the various offset operators and properties.

9 To your knowledge, is the information shown on
10 Exhibit 1 as to those offsets correct and accurate?

11 A. Yes, it is.

12 Q. And have you compared that offset information
13 with the notice certificate that I have prepared in this
14 case?

15 A. Yes, I have.

16 Q. And did we provide appropriate notification to
17 those parties entitled to notice?

18 A. Yes, we did.

19 Q. As a result of notification, Mr. Henke, did any
20 party, to your knowledge, register any objection to the
21 approval of this Application?

22 A. No, no one objected.

23 Q. Let's look within Sections 30 and 31, then, on
24 the locator map.

25 EXAMINER STOGNER: Not -- There it went. No

1 wonder I didn't find it. Thank you, Mr. Kellahin.

2 Q. (By Mr. Kellahin) In Sections 30 and 31, have
3 you obtained information as to the various interest owners
4 in both those sections?

5 A. Yes.

6 Q. And have you caused that information to be
7 tabulated?

8 A. Yes, I have.

9 Q. Let's look at Exhibit Number 7, Mr. Henke, and
10 have you identify and describe that display.

11 A. Exhibit Number 7 is an ownership listing for
12 Section 31, Township 21 South, Range 24 East, in Eddy
13 County.

14 Q. And Exhibit Number 8 is what, sir?

15 A. It's an ownership listing for Section 30, the
16 immediate section to the north.

17 Q. As this well moves to an unorthodox location and
18 encroaches upon the owners in Section 30, does it not?

19 A. That is correct.

20 Q. Are there any owners in Section 30 that are
21 different from ownership in Section 31?

22 A. All of the people that have an interest in
23 Section 30 also own an interest in Section 31.

24 Q. That includes the BLM with a royalty interest
25 that's the same?

1 A. That is correct.

2 Q. And the working interest ownership in section 30
3 is 100-percent Kerr-McGee?

4 A. That is correct.

5 Q. And the only overriding royalty owner in Section
6 30 has a larger overriding royalty interest in Section 31?

7 A. That is correct.

8 Q. Do you see any opportunity for the violation of
9 correlative rights if the Division approves this
10 Application?

11 A. No, I do not.

12 Q. Let's talk about the status of your company's
13 approval of this location with the filing of its federal
14 application for permit to drill. What's the status of
15 that, sir?

16 A. That permit to drill has been approved by the
17 BLM, subject to state approval.

18 Q. Do you have confirmation for the Examiner's
19 information with regards to the BLM's action?

20 A. Yes, I do, it's Exhibit Number 9.

21 Q. And that represents what, sir?

22 A. That represents approval of the BLM for our
23 application for permit to drill.

24 Q. It's the first page of your APD, is it not?

25 A. Yes.

1 Q. And it shows the BLM approval?

2 A. That is correct.

3 MR. KELLAHIN: That concludes my examination of
4 Mr. Henke, Mr. Examiner.

5 We move the introduction of his Exhibits 7, 8 and
6 9.

7 EXAMINER STOGNER: Exhibits 7, 8 and 9 will be
8 admitted into evidence at this time.

9 EXAMINATION

10 BY EXAMINER STOGNER:

11 Q. In looking at Exhibit Number 7, you show Sabine
12 Royalty Trust also has an interest in Section 30 to the
13 north. But Wills Royalty, Inc., and Rubie Crosby Bell, are
14 they separate from the Sabine Royalty Trust or do they have
15 any connection with it or are they different?

16 A. No, they do not, they're entirely separate
17 interests.

18 Q. And they also would share -- They share with all
19 the production coming out of Section 31; is that right?

20 A. Yes, sir.

21 Q. And with Exhibit Number 9 showing that this has
22 been approved by the BLM; is that correct?

23 A. Yes, sir.

24 EXAMINER STOGNER: I have no other questions of
25 this witness, Mr. Kellahin.

1 MR. KELLAHIN: Mr. Examiner, we would like
2 permission to mark the certificate of notice as Exhibit 10
3 and to have that introduced as Exhibit 10 at this time.

4 EXAMINER STOGNER: Exhibit Number 10, the
5 notification in this matter, will be entered into evidence
6 at this time.

7 MR. KELLAHIN: That concludes our presentation in
8 this case.

9 EXAMINER STOGNER: Mr. Bruce, do you have
10 anything to add at this time?

11 MR. BRUCE: No, sir.

12 EXAMINER STOGNER: Okay, does anybody else have
13 anything further in Case Number 11,376?

14 This case will be taken under advisement.

15 (Thereupon, these proceedings were concluded at
16 9:05 a.m.)

17 * * *

18
19 I do hereby certify that the foregoing is
20 a complete record of the proceedings in
21 the examiner hearing of Case No. 11376,
heard by me on 7 September 19 45.

22 Michael E. Stogner, Examiner
23 Oil Conservation Division
24
25

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 September 9th, 1995.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998