

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. 11,397

APPLICATION OF ENRON OIL AND GAS)
COMPANY FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

RECEIVED

OCT 18 1995

October 5th, 1995

Oil Conservation Division

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, October 5th, 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.

* * *

I N D E X

October 5th, 1995
Examiner Hearing
CASE NO. 11,397

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>PATRICK J. TOWER</u> (Landman)	
Direct Examination by Mr. Carr	5
Examination by Examiner Stogner	12
<u>BARRY L. ZINZ</u> (Geologist)	
Direct Examination by Mr. Carr	17
REPORTER'S CERTIFICATE	24

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	12
Exhibit 2	7	12
Exhibit 3	9	12
Exhibit 4	9	12
Exhibit 5	10	12
Exhibit 6	18	22
Exhibit 7	20	22
Exhibit 8	21	22

* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
 Attorney at Law
 Legal Counsel to the Division
 2040 South Pacheco
 Santa Fe, New Mexico 87505

FOR THE APPLICANT:

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

* * *

1 WHEREUPON, the following proceedings were had at
2 10:53 a.m.:

3
4
5 EXAMINER STOGNER: Call next case, Number 11,397,
6 which is the Application of Enron Oil and Gas Company for
7 compulsory pooling, Eddy County, New Mexico.

8 At this time I'll call for appearances.

9 MR. CARR: May it please the Examiner, my name is
10 William F. Carr with the Santa Fe law firm Campbell, Carr
11 and Berge.

12 We represent Enron Oil and Gas Company in this
13 case.

14 Mr. Stogner, I have two witnesses in this case,
15 Patrick Tower and Barry Zinz.

16 I would request that the record reflect that the
17 witnesses, having appeared in the previous case, remain
18 under oath and that their credentials in the areas of
19 petroleum land matters and petroleum geology are accepted
20 and made a matter of record.

21 EXAMINER STOGNER: Any other appearances?

22 Let the record show that Mr. Tower and Mr. Zinz
23 were so qualified and were sworn under oath in the previous
24 case, 11,375, and remain so under this case.

25 Mr. Carr?

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

PATRICK J. TOWER,

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

DIRECT EXAMINATION

BY MR. CARR:

Q. State your name for the record.

A. Patrick Tower.

Q. Mr. Tower, are you familiar with the Application
filed in this case on behalf of Enron?

A. Yes, I am.

Q. Are you familiar with the subject area?

A. Yes, I am.

Q. Could you briefly summarize for Mr. Stogner what
it is that Enron seeks in this Application?

A. Enron seeks an order pooling all minerals from
the surface to the base of the Morrow formation underlying
the south half of Section 12, Township 18 South, Range 29
East, in Eddy County, New Mexico.

Q. If in fact you complete the well in a formation
or pool spaced on 160-acre spacing, what acreage would you
propose be pooled in that circumstance?

A. The southwest quarter.

Q. And if on 80 acres?

A. The east half of the southwest quarter.

Q. And if you have a well on 40-acre spacing?

1 A. The southeast of the southwest quarter of Section
2 12.

3 Q. And what is the name of the well?

4 A. We refer to it as the Sand Tank "12" Federal Com
5 Well Number 1.

6 Q. And it is located at what location?

7 A. 990 feet from the south line and 2145 feet from
8 the west line of said Section 12.

9 Q. And that is a standard location?

10 A. Yes, it is.

11 Q. Have you prepared exhibits for presentation here
12 today?

13 A. Yes, I have.

14 Q. Let's go to what's been marked for identification
15 as Exhibit Number 1. Would you identify and review that
16 for Mr. Stogner?

17 A. Yes, Exhibit Number 1 is a land plat from the
18 Midland Map land company. On the map you will note that
19 there's a red outline. This is the proposed spacing unit
20 for the Sand Tank "12" Federal Com Number 1 well, with a
21 black dot depicting the physical location which I described
22 earlier.

23 Q. Is the ownership in the area indicated on this
24 plat?

25 A. To some extent. It's -- There's quite a few

1 parties that cut up, as far as undivided ownership, which
2 I'll get into with another exhibit in just a minute, as to
3 this spacing unit.

4 Q. What is the primary objective in this well?

5 A. Morrow.

6 Q. All right, let's go to Exhibit Number 2, your
7 ownership breakdown, and I'd ask you to review that for the
8 Examiner.

9 A. Okay, Exhibit Number 2 is an address list
10 compiled of all the parties that Enron has -- that are
11 represented with an ownership in this south half of Section
12 12.

13 I have asterisked one group, and you can see with
14 an asterisk at the bottom I refer to this as the Yates
15 group. This group is primarily represented by Yates
16 Petroleum Corporation, and then additionally you have some
17 other entities, Cibola Energy Corp., Florence M. Dooley,
18 Terence P. Perkins, Yates Energy Corporation, Harvey E.
19 Yates Company, William P. Dooley estate, and Jalapeno
20 Corporation.

21 I will point out that currently Enron, of this
22 group, owns 31.67 percent of the working interest. The
23 Yates group as a whole owns approximately 61 percent of the
24 working interest, although individually Enron owns the
25 single largest interest with the 31.67 percent.

1 Q. What is the current status of your relationship
2 with the Yates group?

3 A. We have worked out an agreement with the Yates
4 group that -- as to proceeding with this well, and we
5 will -- However, we have not entered into any operating
6 agreement or the final agreements. Therefore, the
7 understanding was, we would proceed with the forced
8 pooling. However, once those agreements are in place, this
9 pooling will be dismissed.

10 Q. As to the Yates group?

11 A. As to the Yates group.

12 Q. And at this time you fully expect, based on your
13 prior agreement, to have this Yates group voluntarily
14 committed to the well?

15 A. Yes, we do.

16 Q. Are there other groups that you are hopeful will
17 voluntarily be in the well?

18 A. Yes, we have -- Now, with the Harvey E. Yates
19 Company we have a similar agreement as the Yates group.
20 They represent about 1.4-percent interest, and they would
21 fall in the same category as the Yates group.

22 The remaining parties we have no such agreement.
23 However, we have had numerous conversations and/or
24 correspondence with, and hope -- indicative that we will
25 reach some arrangement with them. However, we have nothing

1 in place. Those are the remaining parties, which are
2 Cibola Energy Corporation, Florence M. Dooley, Terence P.
3 Perkins, Yates Energy Corporation, the William P. Dooley
4 estate, and Jalapeno Corporation.

5 Q. At this point in time, it is fair to say,
6 however, that it appears that to get all interest owners
7 into this spacing unit, compulsory pooling is necessary?

8 A. Yes.

9 Q. Let's go to Exhibit Number 3. Could you identify
10 that, please?

11 A. Exhibit Number 3 is a drilling cost estimate,
12 drilling and completion cost estimate, for the Sand Tank
13 "12" well. In there you will note under the drilling
14 column, which is the estimated cost of the dryhole cost for
15 this well, it's estimated at \$538,900, with the completed
16 well cost estimated at \$883,800, and this is to be an
17 11,860-foot Morrow gas test.

18 Q. Are these costs in line with what has been
19 incurred by Enron in drilling similar wells?

20 A. Yes.

21 Q. Could you just summarize for the Examiner the
22 efforts you have made to obtain voluntary joinder of all
23 interest owners in this project?

24 A. Yes, we -- I'll refer you to Exhibit Number 4, is
25 a compilation of the correspondence and also the certified

1 receipts, with the original well proposal to all the
2 parties.

3 Initially, the well proposal went -- and
4 solicitation of farmout, went to all the parties on August
5 17th of 1995. Subsequent to that, there have been numerous
6 conversations in addition to the correspondence I have
7 compiled here among all the parties, discussing this
8 proposed test.

9 The several agreements with the Dooleys -- I have
10 forwarded them some agreements; hopefully, they will sign
11 them, as far as some term assignments. And there's
12 discussion here shortly as to the operating agreement with
13 the Yates group, et al.. So in essence, we have numerous
14 conversations along with this correspondence. We've also
15 met personally with the Yates group and the Harvey E. Yates
16 Company.

17 Q. Is the correspondence reflecting your attempts to
18 obtain voluntary participation in this well -- is that
19 correspondence what has been marked as Enron Exhibit Number
20 4?

21 A. Yes, it is.

22 Q. Is Exhibit Number 5 a copy of an affidavit
23 confirming that notice of this hearing and the proposed
24 pooling has been provided to all interest owners in the
25 spacing unit?

1 A. Yes.

2 Q. Have you made an estimate of the overhead and
3 administrative costs to be incurred while drilling the well
4 and while producing it if in fact it is successful?

5 A. Yes, I have.

6 Q. And what are those figures?

7 A. Estimated would be a drilling well rate of \$5800
8 and a producing well rate of \$580.

9 Q. And are these figures in line with what's being
10 charged by other operators in the area?

11 A. Yes, they are.

12 Q. In fact, these are the figures that Yates
13 Petroleum Corporation or the Yates group requested be
14 included --

15 A. Yes.

16 Q. -- in this --

17 A. That is correct.

18 Q. Do you recommend these figures be incorporated
19 into any order that results from this hearing?

20 A. Yes, I do.

21 Q. Does Enron seek to be designated operator of this
22 well?

23 A. Yes, we do.

24 Q. Were Exhibits 1 through 5 prepared by you or
25 compiled under your direction?

1 A. Yes, they were.

2 MR. CARR: At this time, Mr. Stogner, we would
3 move the admission into evidence of Enron's Exhibits 1
4 through 5.

5 EXAMINER STOGNER: Exhibits 1 through 5 will be
6 admitted into evidence.

7 Q. (By Mr. Carr) Mr. Tower, does Enron also propose
8 to call a geological witness to review the risks associated
9 with this proposed well?

10 A. Yes, we do.

11 MR. CARR: Mr. Stogner, that concludes my direct
12 examination of Mr. Tower.

13 EXAMINER STOGNER: Okay. Thank you, Mr. Carr.

14 EXAMINATION

15 BY EXAMINER STOGNER:

16 Q. Mr. Tower --

17 A. Yes.

18 Q. -- the -- I don't see a breakout of the interests
19 on your list, on Exhibit 2.

20 A. Okay.

21 Q. But I'm assuming that whenever I first look at
22 this list, these are the parties that would be force-pooled
23 under the south half?

24 A. Yes, sir.

25 Q. How about under the southwest quarter?

1 A. Specifically under the southwest quarter, you
2 have the -- let's see here, same group of parties.
3 However, it's broken into two tracts, as you can see on the
4 land plat. There's a -- the northwest quarter of the
5 Southwest quarter, and that is broken out primarily almost
6 in the same ratio as what I gave you for the whole
7 proration unit, Enron with 31.67 and the Yates group as I
8 defined them with 59 percent, versus what I was depicting
9 in the whole proration, about 61.

10 And the other -- And the drill-site tract, which
11 is another 120-acre lease, the remaining part of the
12 southwest quarter, again Enron has 31.67 percent, same as
13 the whole proration unit. And in this case the Yates group
14 represents 63 percent of that tract. So it varies tract to
15 tract, with the averages all coming -- similar to what the
16 full proration unit ends up.

17 Q. So are there any parties, as we start going down
18 from the 320 to 160 to 80 to 40, that are left out of the
19 force-pooling provision altogether if we got down to 40
20 acres?

21 A. That will be left out on a 40-acre basis?

22 Q. Right.

23 A. Yes, there will be a few parties. Let's see,
24 the -- And I can name those. The -- if you'd like me to.
25 The Richard Martin Yates -- Let me get my list. The

1 parties that will not be involved on a 40-acre basis --
2 Yeah, Richard Martin Yates; Saint Claire Peyton Yates, Jr.;
3 Maraco Exploration; Saint Claire Peyton Yates, Jr., and
4 A.J. Losee as trustees of that certain trust identified;
5 and John A. Yates; Cibola Energy Corporation; Yates Energy
6 Corporation and Harvey E. Yates Company and Jalapeno
7 Corporation. Those individual groups will be left out and
8 do not have an ownership, either on an 80- or a 40-acre
9 basis.

10 Q. Okay. Another thing, Mr. Tower. This was
11 advertised for force pooling, and you stated that this was
12 a standard location. But that's a standard location for
13 320 acres; is that correct?

14 A. That is correct.

15 Q. How about for 160?

16 A. Let's see, I'm not certain here. Let's see. I
17 believe we are 330 off a quarter-quarter line, with that
18 2145-foot call from the west, and I believe that -- Maybe
19 my attorney can help me answer this. I can't remember if
20 the 660 or the 330 was the boundary for the 160.

21 EXAMINER STOGNER: Can you help him, Mr. Carr?

22 MR. CARR: Mr. Stogner, I can't help him. I'll
23 have to check that.

24 EXAMINER STOGNER: Okay. Well, I can save you
25 guys -- For 160 spacing it's 660 foot.

1 THE WITNESS: Okay. So I believe in that case,
2 then, we would be unorthodox.

3 Q. (By Examiner Stogner) Okay, and it's not
4 advertised --

5 A. No, it is not.

6 Q. And also on 80-acre spacing, what pool out here
7 is spaced on 80?

8 A. I do not believe currently there are any wells.
9 I think the nearest well is 2 1/2 miles, and they're deep
10 wells. I do not believe there is any current pools in the
11 immediate area with 80-acre spacing.

12 EXAMINER STOGNER: Mr. Carr, do you have any
13 comment on the 80-acre portion of this request at this
14 time?

15 MR. CARR: It seems to me at this time we
16 probably do not need to proceed with the 80-acre spacing,
17 that we need to re-advertise for the location in the 160s.

18 EXAMINER STOGNER: Okay.

19 MR. CARR: We'd only be in an 80-acre situation
20 after we got a well and got some production information.
21 So at this time we don't need that.

22 EXAMINER STOGNER: I believe it's been
23 determined. It's my recollection that -- not to pool in an
24 area unless that pooling is --

25 MR. CARR: Right, that's correct.

1 EXAMINER STOGNER: -- is enforced. Okay.

2 MR. CARR: So that portion can be dismissed. The
3 case would have to be continued for four weeks and the
4 location advertised on a 160 basis, unless you want to
5 dismiss that.

6 EXAMINER STOGNER: Or I guess there's another way
7 we could proceed with it: Go ahead and after hearing the
8 evidence and testimony, if we take it under advisement and
9 an order is issued with the --

10 MR. CARR: -- proviso that if it's 160, the
11 location would be unorthodox and have to be approved.

12 EXAMINER STOGNER: With the understanding by
13 Enron that that may be objected to --

14 THE WITNESS: Uh-huh.

15 EXAMINER STOGNER: -- and could possibly be --

16 MR. CARR: Yes.

17 EXAMINER STOGNER: -- opposed.

18 THE WITNESS: That's acceptable with Enron.

19 MR. CARR: And Mr. Stogner, in view of the fact
20 that we would be in that circumstance encroaching on the
21 same owners who would be in the well, that's a risk that
22 Enron would just have to evaluate and determine whether
23 they want to take that risk.

24 Q. (By Examiner Stogner) Okay. Mr. Tower, the
25 Exhibit 4 and Exhibit 5, which are copies of some of your

1 notice, when did you say that Enron first approached these
2 interests about drilling this well?

3 A. August 17th.

4 Q. Do you have a copy of that?

5 A. Yes, the very bottom -- Well, the certified
6 receipts are at the very bottom. Then the AFE and the
7 attached letter that sent the AFE is there. And those
8 certified receipts went with that particular well proposal
9 of August 17th.

10 EXAMINER STOGNER: Okay, I'm sorry, I didn't -- I
11 didn't dig deep enough. Okay.

12 I have no other questions of Mr. Tower at this
13 time.

14 Would you like to proceed, Mr. Carr?

15 MR. CARR: Mr. Stogner, at this time we would
16 call Barry Zinz.

17 BARRY L. ZINZ,
18 the witness herein, after having been first duly sworn upon
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. CARR:

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

23 A. Barry L. Zinz.

24 Q. Mr. Zinz, are you familiar with the Application
25 filed in this case?

1 A. Yes, I am.

2 Q. Have you made a geological study of the area that
3 is the subject of this Application?

4 A. I have.

5 Q. Have you prepared exhibits for presentation here
6 today?

7 A. Yes, I have.

8 Q. Let's go to what has been marked for
9 identification as Enron Exhibit Number 6. Will you
10 identify this and review it for Mr. Stogner?

11 A. Exhibit Number 6 is a cross-section that I've put
12 together within the prospect area where we want to drill
13 the well. It pertains to the Morrow formation, which is
14 the primary objective at the drill site.

15 And if you would refer to it, you can see that
16 the -- it is a stratigraphic cross-section which I refer to
17 as A to A'. And the section was hung -- The datum is the
18 lower Morrow. And you can see that I have designated the
19 Morrow section, the reservoirs of interest, as lower Morrow
20 and middle Morrow. And again I will say that these units,
21 these reservoirs, are our primary objective at this
22 location.

23 And also, I would like to point out that in the
24 lower Morrow, I believe these channel sands represent
25 deposition on an alluvial plain. In other words, we had a

1 marine regression. The Mississippian stratigraphy was
2 exposed, you had erosion going on, and streams carrying
3 these lower Morrow sands over this alluvial plain and
4 depositing these channels, some actually even cutting down
5 into and eroding the old Mississippian surface further.

6 And the area between the lower Morrow datum, that
7 dashed line across there, down to the little squiggly line
8 which is at the bottom of the lower Morrow section, is what
9 I refer to as the lower Morrow unit. And one way we
10 explore for this is by isopaching that particular interval.
11 This lets us see where the depressions within the
12 Mississippian erosional surface are located. This also
13 gives us a clue as to where these thick lower Morrow
14 channel sands could be deposited.

15 And the sands above the lower Morrow, again, are
16 referred to as middle Morrow. I think these sands
17 represent marine bar sands. Their trend throughout the
18 area here are northwest -- excuse me, northeast to
19 southwest. These -- As this marine transgression went back
20 and forth across the area, you had these bar sands that
21 were stacked on top of each other, and some of the units
22 developed real thick sandbodies, and the production can be
23 quite good, just as the production can be quite good in the
24 lower Morrow as well.

25 So with that kind of setting, I guess we can move

1 on to --

2 Q. Let's move to Exhibit Number 7 at this time, Mr.
3 Zinz. On this exhibit we do have a trace for the cross-
4 section that we've just reviewed; is that correct?

5 A. That's right.

6 Q. And --

7 A. The cross-section -- line of cross-section will
8 appear on this map as well as the next map that we look at.

9 Q. And it basically starts with A' about two miles
10 to the east of the proposed location?

11 A. Yes.

12 Q. All right.

13 A. That's correct.

14 Q. Let's review Exhibit Number 7 with Mr. Stogner.

15 A. Exhibit Number 7 is a lower Morrow isopach map.
16 Again, what I said just a while ago about this is the way
17 we try to explore for the lower Morrow. We isopach that
18 lower Morrow unit, which again on the cross-section goes
19 from that dashed line, the datum point, down to that little
20 squiggly line.

21 And as you can see, we have a thick coming down
22 from north to south, with the proposed location in the
23 south half of Section 12 of 18-29, showing an approximately
24 160-foot thick lower Morrow interval. I've done regional
25 work in this area, and the lower Morrow channels seem to

1 trend north to south or northwest to southeast, and I
2 believe that we have the possibility of encountering one of
3 these lower Morrow channels within this thick interval
4 here.

5 Q. Let's go to Exhibit Number 8, review that,
6 please.

7 A. Exhibit Number 8 is a net sand isopach map,
8 actually. I call it on the map here a middle Morrow trend
9 map. What you're looking at is -- The outside contour line
10 is a 10-foot contour line, and I've just color-filled with
11 yellow these northeast-to-southwest-trending middle Morrow
12 bars. Within the color-filled area, you can see the wells
13 and their thicknesses of this net sand, within the color-
14 filled areas.

15 And based on these trends and my work in the
16 area, I think we have a good shot of maybe encountering one
17 of these trends also going across the proposed location.

18 So we have the lower Morrow channel sands as a
19 possibility and then the stacked marine bar sands of the
20 middle Morrow also as a possibility at our recommended
21 location.

22 Q. Mr. Zinz, are you prepared to make a
23 recommendation to the Examiner concerning the risk penalty
24 that should be assessed against any nonparticipating
25 interest owner?

1 A. Yes, sir.

2 Q. And what is that?

3 A. I think the risk penalty should be 200 percent,
4 and that's based on the fact that we are really stepping
5 out with this location. It's definitely a wildcat well,
6 and we're two miles from any of the nearest Morrow
7 production at our drill site.

8 Q. In your opinion, is there a chance that Enron
9 could drill a well at this location that in fact would not
10 be a commercial success?

11 A. Yes, sir.

12 Q. In your opinion, will granting this Application
13 and the drilling of this well be in the best interest of
14 conservation, the prevention of waste and the protection of
15 correlative rights?

16 A. I believe it will.

17 Q. Were Exhibits 6 through 8 prepared by you?

18 A. Yes, sir, they were.

19 MR. CARR: At this time, Mr. Stogner, I would
20 move the admission into evidence of Enron Oil and Gas
21 Company Exhibits 6 through 8.

22 EXAMINER STOGNER: Exhibits 6 through 8 will be
23 admitted into evidence.

24 MR. CARR: And that concludes my direct
25 examination of Mr. Zinz.

1 EXAMINER STOGNER: I have no questions of this
2 witness. You may be excused.

3 MR. CARR: And that concludes our presentation in
4 this case.

5 EXAMINER STOGNER: I did overlook one thing, Mr.
6 Carr.

7 MR. CARR: Yes, sir.

8 EXAMINER STOGNER: Overhead charges, what were
9 those again?

10 MR. CARR: The overhead charges were \$5800 while
11 drilling, \$580 a month while producing.

12 EXAMINER STOGNER: Sorry about that.

13 Anything further in this case?

14 MR. CARR: Nothing further.

15 EXAMINER STOGNER: Does anybody else have
16 anything further in Case Number 11,397?

17 The case will be taken under advisement.

18 (Thereupon, these proceedings were concluded at
19 11:20 a.m.)

20 * * *

21

22

23

24

25

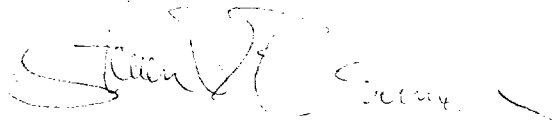
CERTIFICATE OF REPORTER

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 October 14th, 1995.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11397, heard by me on 5 October 1995.

, Examiner
Oil Conservation Division