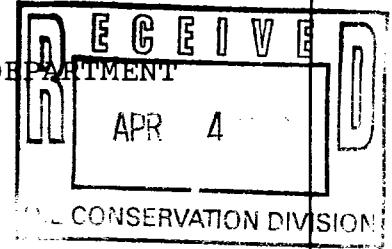


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION



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

CASE NO. 11,494

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

March 21st, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, March 21st, 1996, 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

March 21st, 1996
Examiner Hearing
CASE NO. 11,494

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* * *

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* * *

A P P E A R A N C E S

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By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 10:03 a.m.:

3
4
5 EXAMINER CATANACH: At this time we'll call Case
6 11,494.

7 MR. CARROLL: Application of Enron Oil and Gas
8 Company for compulsory pooling, Lea County, New Mexico.

9 EXAMINER CATANACH: Are there appearances in this
10 case?

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

14 We represent Enron in this matter, and I have two
15 witnesses.

16 EXAMINER CATANACH: Any other appearances?

17 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
18 the Santa Fe law firm of Kellahin and Kellahin, appearing
19 this morning on behalf of Bass Enterprises Production
20 Company and Kaiser-Francis Oil Company.

21 EXAMINER CATANACH: Any witnesses, Mr. Kellahin?

22 MR. KELLAHIN: No, sir.

23 EXAMINER CATANACH: Okay, will the witnesses
24 please stand to be sworn in?

25 (Thereupon, the witnesses were sworn.)

1 PATRICK J. TOWER,
2 the witness herein, after having been first duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. CARR:

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

7 A. Patrick J. Tower.

8 Q. Where do you reside?

9 A. Midland, Texas.

10 Q. By whom are you employed?

11 A. Enron Oil and Gas Company.

12 Q. And what is your position with Enron?

13 A. I'm a project landman.

14 Q. Mr. Tower, have you previously testified before
15 this Division?

16 A. Yes, I have.

17 Q. At the time of that testimony were your
18 credentials as a petroleum landman accepted and made a
19 matter of record?

20 A. Yes, they were.

21 Q. Are you familiar with the Application filed in
22 this case?

23 A. Yes, I am.

24 Q. Are you familiar with the status of the lands in
25 the subject area?

1 A. Yes, I am.

2 MR. CARR: Are the witness's qualifications
3 acceptable?

4 EXAMINER CATANACH: They are.

5 Q. (By Mr. Carr) Mr. Tower, would you briefly
6 summarize for Mr. Catanach what it is that Enron is seeking
7 with this Application?

8 A. Enron is seeking an order pooling all mineral
9 interests from the surface to the base of the Morrow
10 formation, underlying the east half of Section 7, Township
11 24 South, Range 34 East, in Lea County, New Mexico, for all
12 formations that are developed on 320-acre spacing.

13 To be dedicated to this will be Enron's proposed
14 Bell Lake Unit 7 Number 1 well, to be drilled at a standard
15 location 2200 feet from the north line and 1980 feet from
16 the east line in Unit G of said Section 7.

17 Q. Mr. Tower, could you refer to what has been
18 marked for identification as Enron Exhibit Number 1,
19 identify this and review it for the Examiner?

20 A. Yes, Exhibit Number 1 is a land plat depicting
21 the lands in question. What it shows is the proration
22 unit, being the east half of Section 7, outlined in red.
23 It also shows the proposed location I mentioned a minute
24 ago, with a dot, and it shows the ownership generally in
25 the area.

1 Q. And what is the primary objective in the proposed
2 well?

3 A. It is the Morrow formation. It's currently in
4 the South Bell Lake-Morrow Gas Pool.

5 Q. Could you review for Mr. Catanach the ownership
6 breakdown in the proposed spacing unit and refer to Exhibit
7 2?

8 A. Yes, Exhibit Number 2 depicts the ownership in
9 this east half of Section 7, as to the 320-acre spacing
10 unit, or spacing units that would occur.

11 Kaiser-Francis Oil Company owns 84.01035-percent
12 working interest, Bass Enterprises Production Company, et
13 al., and its affiliated entities collectively own 10.97784-
14 percent working interest, and Enron Oil and Gas owns
15 5.01181-percent working interest.

16 Q. So at this point in time, Enron actually has
17 signed, sealed and delivered five percent of the working
18 interest in the proposed spacing unit?

19 A. Yes, that's correct.

20 Q. Let's go to the AFE, which is marked as Exhibit
21 3. Would you review the totals on that for the Examiner?

22 A. Exhibit Number 3 is an AFE showing the estimated
23 well costs for drilling this 14,500-foot Morrow gas well.
24 As you can see, the total dryhole cost is estimated to be
25 \$870,500. The total completed well cost is \$1,170,400.

1 Q. Are these costs in line with what's charged by
2 other operators for similar wells in this area?

3 A. Yes, they are.

4 Q. Could you summarize your efforts to obtain the
5 voluntary joinder in this well of all working interest
6 owners in the proposed spacing unit?

7 A. Yes. Do you want me to refer to the exhibits?

8 Q. You can refer to Exhibit Number 4.

9 A. Exhibit Number 4 depicts the initial
10 communication, a written proposal by Enron to the various
11 parties that are subject to force-pooling.

12 You'll note that the initial one, the Kaiser-
13 Francis Oil Company, was sent November 10th of 1995,
14 wherein Enron proposed the well and solicited some type of
15 voluntary agreement.

16 As far as the Bass Enterprises Production Company
17 and its affiliated entities, the well proposal was sent
18 February 7th, 1996.

19 Q. What's happened since these original contacts?

20 A. Since these contacts there have been numerous
21 conversations with Kaiser. I have numerous dates, however
22 I'll just summarize in general and testify.

23 There have been numerous conversations. There
24 have been discussions, for example, with Kaiser-Francis,
25 with Jim Wakefield, their engineering group; Neal DeShazo,

1 their geologist; and Wayne Fields, land; discussions of the
2 geology and our interpretation and what we're after here.

3 Insofar as Bass, the same thing, we advised them
4 in -- prior to, I think it was January -- that we were
5 heading towards force-pooling. The primary negotiations
6 have been ongoing with Kaiser, being the unit operator of
7 some of the lands in question, and we're trying to
8 entertain a deal with them prior to approaching Bass, but
9 that's where we're heading.

10 There have been numerous conversations and also
11 subsequent meetings with Bass in conjunction with some
12 other matters that we have been involved in joint
13 operations. We have had several meetings and direct
14 discussions with two of their geologists, Mr. Cervantes,
15 Mr. Hillis, also Wayne Bailey, concerning general talks of
16 the geology and our objectives in this area.

17 Q. When was your most recent conversation with
18 Kaiser-Francis?

19 A. This was yesterday.

20 Q. What is the status of those negotiations at this
21 time?

22 A. At this point in time, Kaiser is undecided. They
23 have been working this area for some time. They have shot
24 a 3-D and having difficulties, apparently, in interpreting
25 and deciding what they need to do. As of yesterday,

1 they're still undecided.

2 They had no problem with us going through with
3 the force-pooling, and they -- but however, they're still
4 uncommitted as to what they're going to do as far as this
5 well would be joinder, farmout or nonconsent.

6 Q. In your negotiations with Kaiser, have you agreed
7 to make available to them and provide them with any data
8 that you obtain from the well?

9 A. Yes, we have agreed with Kaiser that regardless
10 of their election, if they were nonconsent, farmout, even
11 under this order, that it's Enron's policy to still provide
12 them with the well information. That is our intent.

13 Q. Are you intending to continue your negotiations
14 with Kaiser?

15 A. Yes, we are.

16 Q. If you are able to reach voluntary agreement,
17 will you immediately advise the Division when that
18 agreement is made?

19 A. Yes, we will.

20 Q. Now, as to your negotiations with Bass, what is
21 your most recent communication with Bass?

22 A. We have communicated via voice mail in the last
23 several days. We did receive a letter faxed yesterday from
24 Bass -- actually a phone call, I believe, Monday,
25 indicating their willingness to participate in this test.

1 And subsequent to that, yesterday, we received a letter
2 stating this, to this effect, subject to entering into a
3 mutually agreeable operating agreement, which has not been
4 done.

5 We have forwarded an operating agreement to Bass,
6 which is currently in their office for review, and our
7 intention is that as soon as that operating agreement has
8 been executed and in place, Enron will dismiss this order,
9 insofar as Bass, and it's my understanding they're
10 agreeable with that.

11 Q. And you intend to share all data from the well
12 with Bass?

13 A. Yes, likewise we have no -- we will share the
14 data as a participant with Bass.

15 Q. How soon do you plan to drill the well?

16 A. We have full management approval to proceed at
17 this point, even with the parties under a nonconsent
18 situation. We would expect that the order normally has a
19 90-day time frame. It's our intent to proceed within that
20 time frame, subject to -- if there were unusual delays, you
21 know, we would naturally seek extensions. However, we do
22 not anticipate that and intend to proceed.

23 Q. Enron has drilled other Morrow wells in the area?

24 A. Yes, we've drilled numerous -- in fact, currently
25 are drilling 15,600-foot tests within several miles

1 currently of this location.

2 Q. Is Exhibit Number 5 an affidavit confirming that
3 notice of this hearing has been provided to both Enron and
4 Kaiser-Francis in accordance with OCD rules?

5 A. Yes, it is.

6 Q. Have you made an estimate of the overhead and
7 administrative costs to be incurred while drilling the
8 well, and also when producing it if it is, in fact,
9 successful?

10 A. Yes, I have.

11 Q. And what are those figures?

12 A. Those rates are -- and again, these are primarily
13 based on *Ernst and Young* surveys -- a drilling well rate of
14 \$5800, a producing well rate of \$580.

15 The drilling rate is *Ernst and Young*, the
16 producing rate is approximately \$20 higher just in rounding
17 off and also in comparison to our wells and what we're
18 being charged in this area. These are considerably less
19 than the current operating agreements in place several
20 miles away being charged and billed to Enron. So we tried
21 to just round that one off to be consistent.

22 Q. Do you recommend that these figures be
23 incorporated into the order which results from today's
24 hearing?

25 A. Yes.

1 Q. Will Enron be calling a geological witness to
2 present that technical portion of the case?

3 A. Yes, we will.

4 Q. Were Exhibits 1 through 5 prepared by you or
5 compiled at your direction?

6 A. Yes, they were.

7 MR. CARR: Mr. Catanach, at this time we would
8 move the admission into evidence of Enron Exhibits 1
9 through 5.

10 EXAMINER CATANACH: Exhibits 1 through 5 will be
11 admitted as evidence.

12 MR. CARR: And that concludes my direct
13 examination of Mr. Tower.

14 EXAMINER CATANACH: Mr. Kellahin?

15 MR. KELLAHIN: Thank you, Mr. Catanach.

16 CROSS-EXAMINATION

17 BY MR. KELLAHIN:

18 Q. Mr. Tower, I've handed you what I will mark as
19 Bass Exhibit Number 1. The first page of that purports to
20 be a letter from Mr. Bailey to you, dated yesterday. Is
21 that the letter to which you referred in your direct
22 examination?

23 A. Yes, it is.

24 Q. Stapled onto the last page of that exhibit is a
25 statement that Mr. Bailey provided me. Of importance to me

1 is the last item in there with regards to providing data to
2 Bass and Kaiser-Francis in the event they're subject to the
3 force pooling order.

4 A. Uh-huh.

5 Q. Would you have any objection if the Examiner's
6 order included item 3 within the context of that decision?

7 A. No, as we testified earlier, it is our general
8 policy to do so. I'm not aware of the Commission's general
9 policy. We intend to do it regardless of whether it's in
10 the order or not, so from that standpoint we have no
11 problem.

12 MR. KELLAHIN: All right, sir.

13 Thank you, Mr. Examiner.

14 We would move the introduction of what I will
15 mark as Bass Exhibit Number 1.

16 MR. CARR: No objection.

17 EXAMINER CATANACH: Bass Exhibit Number 1 will be
18 admitted as evidence.

19 Mr. Kellahin, are you formally requesting that
20 that be included in the order?

21 MR. KELLAHIN: Yes, Mr. Examiner.

22 MR. CARR: And we have no objection to the
23 inclusion of that.

24 THE WITNESS: That was strictly item number 3
25 with the information.

1 MR. KELLAHIN: Yes, sir.

2 THE WITNESS: Yes, okay.

3 MR. KELLAHIN: I think the other two items are a
4 matter of routine in a pooling order anyway.

5 THE WITNESS: Right, okay.

6 EXAMINATION

7 BY EXAMINER CATANACH:

8 Q. Mr. Tower, who is the -- Is this in a unit, this
9 acreage?

10 A. Yes, this is in the South Bell Lake Unit.

11 Or let me say, as far as our proration unit, 96,
12 roughly, percent of the acreage being Kaiser and Bass is
13 subject to that particular unit, federal unit. The
14 remaining interest of Enron is not -- with the exclusion,
15 one party did agree to farm out on a small percentage with
16 its unit interest to arrive at our five percent.

17 But it is subject to that particular unit, yes.

18 Q. Who's the unit operator?

19 A. Kaiser-Francis.

20 Q. If the well is drilled, how would that relate to
21 the unit operations?

22 A. I'm not sure -- In what regard? What do you
23 mean?

24 Q. Well, I mean would it be considered a unit well
25 and --

1 A. Yes, it will. Yes, it will be considered a unit
2 well. The location is within the boundary of the unit,
3 although Enron's interest is not, again, subject to the
4 unit. But it will be a unit well, yes.

5 Q. Do you anticipate that Bass will sign the JOA?

6 A. Yes, I do.

7 EXAMINER CATANACH: I have nothing further, Mr.
8 Carr.

9 MR. CARR: At this time, we would call Mr. Zinz.

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

13 DIRECT EXAMINATION

14 BY MR. CARR:

15 Q. Would you state your name for the record?

16 A. Barry Zinz.

17 Q. Where do you reside?

18 A. Midland, Texas.

19 Q. By whom are you employed?

20 A. Enron Oil and Gas.

21 Q. What is your position with Enron?

22 A. Geologist.

23 Q. Mr. Zinz, have you previously testified before
24 this Division and had your credentials as a geologist
25 accepted and made a matter of record?

1 A. Yes, I have.

2 Q. Are you familiar with the Application filed in
3 this case?

4 A. I am.

5 Q. Have you made a geological study of the subject
6 area?

7 A. I have.

8 MR. CARR: Are the witness's qualifications
9 acceptable?

10 EXAMINER CATANACH: Yes, they are.

11 Q. (By Mr. Carr) Mr. Zinz, are you prepared to make
12 a recommendation to the Examiner as to the risk penalty
13 that should be assessed against any interest owner who does
14 not voluntarily participate in the well?

15 A. Yes, sir.

16 Q. And what is that recommendation?

17 A. 200 percent.

18 Q. Let's go to your Exhibit Number 6, the north-
19 south cross-section.

20 A. Right.

21 Q. Would you refer to that and review it for Mr.
22 Catanach?

23 A. Could we also --

24 Q. Yes, and if you would like to go ahead and review
25 your structure map at the same time -- Is that what you'd

1 like to do --

2 A. Yes.

3 Q. -- Exhibit 7?

4 A. Right. The structure map has the line of cross-
5 section on it, Mr. Examiner, and if we look at that too it
6 will help.

7 As stated previously, our intent is to drill a
8 14,500-foot Morrow test. The Morrow sand is the primary
9 objective, and specifically the Morrow C sand, highlighted
10 on the cross-section that you see there.

11 The structure map shows the line of section is
12 more or less a north-south section that runs from Enron's
13 Government "L" well on the south, up across the Bell Lake
14 field. It incorporates three Continental wells, the Bell
15 Lake 16, the Bell Lake 1, and the Bell Lake 1-Y wells.

16 These wells were originally drilled by Conoco.
17 Now, the unit is, of course, operated by Kaiser, as also
18 previously stated.

19 And like I say, the main objective here is the
20 Morrow "C" sand, which structurally you can see the area
21 that we would like to drill in, in the east half of Section
22 7, is downthrown from the Bell Lake feature itself.

23 If you look at the structure map, which is a 50-
24 foot contour interval on the structure map, if you look on
25 the crest of the feature, you see a well that has minus

1 9638, and to the west there, there's a 10,510 subsea. So
2 there's about 900 feet of displacement there.

3 We also have one line of 2-D seismic that ties
4 our Government "L" well to the Crystal well there in
5 Section 6, and it shows the break of a fault, where I have
6 traced that fault line right by that well.

7 And that's the only data we have. I have
8 interpreted that fault swinging around to the east in
9 placing the Bell Lake Unit 16 well up on the upthrown side,
10 and that well had a show out of the Morrow C sand. We will
11 be stepping downdip across the fault in drilling our well
12 at our proposed location.

13 Q. Are you ready to go to your isopach?

14 A. Yes.

15 Q. Let's refer to Exhibit Number 8. Would you
16 review that for Mr. Catanach?

17 A. Exhibit Number 8 is a porosity isopach map of
18 that C sand interval. What we have out here in this Bell
19 Lake, Antelope Ridge, Pitchfork Ranch area, we have these
20 feeder channels coming from north to south in the C sand,
21 feeding the Pitchfork Ranch area to the south, which I've
22 interpreted as a fan system. And what I've identified here
23 is one of these south-trending channels.

24 The two wells -- actually three wells, our two
25 wells in Section 18, and then the well over there in

1 Section 13, all three wells produced -- are still producing
2 from the C sand.

3 As you go to the north on the upthrown side of
4 the fault, as I mentioned before, the Bell Lake 16 in that
5 northeast corner of Section 7 produced like 491 million out
6 of that C sand.

7 Then you go across that feature and tie into the
8 well up in Section 31 up there, which is the Bell Lake 1-Y
9 well. That well produced like 2.3 BCF out of that Morrow
10 C.

11 So I've trended this C channel, this feeder
12 system, coming down through the east half of Section 7
13 there, and it's on the downthrown side of the fault system,
14 and that's where we would like to drill our well.

15 Q. Let's go to Exhibit Number 9, the cumulative
16 production map, and I'd ask you to review that.

17 A. This cum production map just confirms what I've
18 said earlier about production on some of these wells. It
19 shows the production, cum production, from the Morrow C
20 sands, from the wells within the area.

21 And the well in Section 13 produced 650 million
22 out of the Morrow C before it started loading up with water
23 and eventually was abandoned.

24 The two wells in 18 have produced right at 9 BCF
25 out of the C sand. And our well, the Government "L" well,

1 up in the northeast corner, is still producing, but that
2 well is also making water now.

3 So if you go back to your structure map, we want
4 to make sure we want to be updip enough from those wells,
5 since we are seeing water there, to tap that channel and
6 gain production out of that C sand interval.

7 Q. Would you summarize your geological conclusions?

8 A. What we're looking at here is a one-well shot, we
9 think, in the east half of Section 7 there. We want to
10 move updip from wells that are cutting a little bit of
11 water now, and we think we do have a trap due to that fault
12 there. And that's the basis for drilling the well.

13 Q. It is your opinion, however, that you could drill
14 a well at this location that would not be a commercial
15 success?

16 A. That's true.

17 Q. Now, you have testified as to the risk in the
18 Morrow sand?

19 A. Uh-huh.

20 Q. Would there be similar risk in the other 320-acre
21 gas intervals, the Wolfcamp, the Strawn and the Atoka?

22 A. The other intervals that produce in the area
23 would be Wolfcamp, there's not much Strawn production, also
24 Atoka in the Devonian.

25 Most all of those formations within the mapped

1 area here are productive up on the main part of that
2 feature on the upthrown side, and I really don't expect to
3 find those.

4 I think those would be extremely risky on this
5 downthrown side of the fault where we want to drill.

6 Q. Does Enron seek to be designated operator of the
7 proposed well?

8 A. That's correct.

9 Q. In your opinion, will the pooling of these lands
10 and the drilling of this well be in the best interest of
11 conservation, the prevention of waste and the protection of
12 correlative rights?

13 A. Yes, I believe that.

14 Q. Were Exhibits 6 through 9 either prepared by you
15 or compiled at your direction?

16 A. They were.

17 MR. CARR: Mr. Catanach, at this time we would
18 move the admission into evidence of Enron Exhibits 6
19 through 9.

20 EXAMINER CATANACH: Exhibits 6 through 9 will be
21 admitted as evidence.

22 MR. CARR: That concludes my direct examination
23 of Mr. Zinz.

24 EXAMINER CATANACH: Mr. Kellahin?

25 MR. KELLAHIN: I have no questions, thank you.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Zinz, what do you see as the primary geologic risk in drilling this well?

A. Reservoir, having thick enough reservoir there to adequately provide reserves for an economic well.

Q. Do you believe that there are remaining gas reserves in that east half? It's just a matter of how much there is left?

A. That's correct.

Q. You could conceivably encounter a thicker sand section than the wells to the south in Section 18; is that correct?

A. The way I have it contoured -- and I apologize, my contour datum didn't get on this map, but they are 10-foot intervals --

Q. Uh-huh.

A. -- and where we want to drill that contour line that runs right through our location would be a 20-foot contour interval.

So actually it's getting a little thinner in that direction, as compared to the wells that are down in 18.

Q. The wells in 18 would be about what?

A. I show that the -- The top number there is the net porosity, and the bottom number is the net sand. So

1 they show 12 and 51 for our Government "L", versus 10 and
2 30 for the Government "L" 2.

3 So yes, I see what you're saying, yeah, it would
4 have a little bit more porosity at that location.

5 Q. Is there a gas-water contact in this reservoir?

6 A. I don't know that -- You're dealing with a water
7 drive here, but from what we've seen from these wells in 18
8 and 13, yes, there is water associated with the sand here.

9 Our well -- If you look on the cross-section, we
10 worked over or Government "L" well, and as of this month it
11 was making 1.6 million and 44 barrels of water a day. And
12 that is formation water. We had an analysis made of it.

13 EXAMINER CATANACH: That's all I have of the
14 witness, Mr. Carr.

15 MR. CARR: That concludes our presentation in
16 this case.

17 EXAMINER CATANACH: Okay, anything further, Mr.
18 Kellahin?

19 MR. KELLAHIN: No, sir.

20 EXAMINER CATANACH: There being nothing further
21 in this case, Case 11,494 will be taken under advisement.

22 (Thereupon, these proceedings were concluded at
23 10:31 a.m.)

24 * * *

25

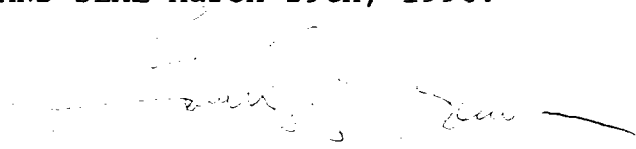
CERTIFICATE OF REPORTER

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 March 29th, 1996.


 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 Exar. Iner hearing of Case No. 11494, heard by me on March 21 1996.


 _____, Examiner
 Oil Conservation Division