

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. 11,632
)	
APPLICATION OF TEXACO EXPLORATION AND)	ORIGINAL
PRODUCTION, INC., FOR COMPULSORY)	
POOLING, SAN JUAN COUNTY, NEW MEXICO)	
)	

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

October 17th, 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, October 17th, 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.

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October 17th, 1996
Examiner Hearing
CASE NO. 11,632

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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 By: PAUL R. OWEN

* * *

1 WHEREUPON, the following proceedings were had at
2 11:43 a.m.:

3 EXAMINER CATANACH: All right, at this time we'll
4 call Case Number 11,632.

5 MR. CARROLL: Application of Texaco Exploration
6 and Production, Inc., for compulsory pooling, San Juan
7 County, New Mexico.

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

10 MR. OWEN: Yes, Mr. Examiner, Paul Owen of the
11 Santa Fe law firm of Campbell, Carr, Berge and Sheridan,
12 for the Applicant, Texaco Exploration and Production.

13 I have two witnesses.

14 EXAMINER CATANACH: Additional appearances?
15 (Off the record)

16 EXAMINER CATANACH: Okay, will the witnesses
17 please stand and be sworn?

18 (Thereupon, the witnesses were sworn.)

19 MR. OWEN: I'd to call Chuck Snure.

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

23 DIRECT EXAMINATION

24 BY MR. OWEN:

25 Q. Please state your name and place of residence.

1 A. My name is Chuck Snure. I live at 6934 East
2 Geddes Place, Englewood, Colorado.

3 Q. By whom are you employed?

4 A. I'm employed by Texaco Exploration and
5 Production, Inc.

6 Q. And what do you do for Texaco?

7 A. I'm a landman for Texaco.

8 Q. Have you previously testified before this
9 Division?

10 A. Yes, I have.

11 Q. At the time that you testified, were your
12 credentials as a professional landman, petroleum landman,
13 accepted and made a matter of record?

14 A. Yes, they were.

15 Q. Are you familiar with the Application filed on
16 behalf of Texaco in this case?

17 A. Yes, I am.

18 Q. Are you familiar with the status of the land in
19 the subject area?

20 A. Yes, I am.

21 MR. OWEN: Are the witness's qualifications
22 acceptable?

23 EXAMINER CATANACH: Yes, they are.

24 Q. (By Mr. Owen) Mr. Snure, briefly state what
25 Texaco seeks with this Application.

1 A. What we're trying to do is drill our Federal
2 State Com Number 2 well, and what we're seeking with this
3 Application is to get the force pooling of the parties that
4 have not responded to our proposal.

5 Q. And are you seeking pooling of all gas interests?

6 A. Yes, we're seeking to pool the gas rights in the
7 Mesaverde formation, in the east half of Section 32, 30
8 North, 11 West, San Juan County, New Mexico.

9 Q. What is the -- What well will this be dedicated
10 to?

11 A. This will be the Fed State Com Number 2.

12 Q. And what is the well location, proposed well
13 location?

14 A. The proposed well location is in the southeast
15 quarter of Section 32, 30 North, 11 West.

16 Q. Do you have the dimensions for the proposed well
17 location?

18 A. Yes, 1120 feet from the south line and 1605 feet
19 from the east line.

20 Q. I notice that the measurements you just described
21 are slightly different than those contained in the
22 Application. Is this a standard location?

23 A. Yes, it is.

24 Q. All right, Mr. Snure, I'd like you to identify
25 and review the plat which has been labeled Texaco Exhibit

1 Number 1.

2 A. Exhibit Number 1 shows the ownership of the east
3 half of Section 32 as to the Mesaverde gas rights.

4 You'll notice the red shaded area is owned by
5 Texaco.

6 The black crossed lines in the northeast-
7 southeast is owned by Merit Energy and the southeast-
8 southeast owned by Burlington.

9 Q. Does it indicate well location? Does this plat
10 indicate the well location?

11 A. Yes, it does, it also indicates the well
12 location.

13 Q. Okay. What's the objective in the proposed well?

14 A. The objective is the Mesaverde gas rise.

15 Q. All right, let's go ahead and go to Texaco
16 Exhibit Number 2. Why don't you review that for us?

17 A. This is the ownership breakdown on a percentage
18 basis in the east half of Section 32.

19 This is an Exhibit A that was attached to our
20 operating agreement.

21 Q. What percentage of the ownership and the acreage
22 has been voluntarily committed to the well?

23 A. Voluntarily committed to the well, approximately
24 88 percent.

25 Q. All right. What efforts have you made to obtain

1 voluntary joinder for the remaining percentage?

2 A. For the remaining percentage, we have prepared
3 letters that have been sent to Burlington Oil and Gas in
4 August of this year.

5 Q. Is Burlington the only outstanding owner which is
6 not voluntarily committed to the well?

7 A. Yes, that is correct.

8 Q. When did you send the AFE and the CA to
9 Burlington?

10 A. The AFE and the operating agreement were mailed
11 by certified mail on August the 15th, 1996.

12 Q. And Burlington is not --

13 A. They received them on August 19th, 1996.

14 Q. And Burlington is not voluntarily committed to
15 the well following the AFE; is that right?

16 A. That is correct.

17 Q. All right. Is Texaco Number 3 copies of letters
18 reflecting Texaco's attempts to obtain voluntary joinder in
19 this project?

20 A. Yes, that is correct.

21 Q. In your opinion has Texaco made a good-faith
22 effort to locate and obtain the voluntary joinder of all
23 interest owners?

24 A. Yes, I believe we have made a -- that effort.

25 Q. Have you made an estimate of the overhead and

1 administrative costs to be incurred?

2 A. Yes, we have.

3 Q. What are those?

4 A. The drilling well rate is \$5000 per month, for
5 the producing well rate \$500 per month.

6 Q. Are these in line with the Ernst and Young 1995
7 survey?

8 A. Yes, they are.

9 Q. Are these costs in line with what is being
10 charged by other operators in the area?

11 A. Yes, they are.

12 Q. Do you recommend that these figures be
13 incorporated into the order which results from this
14 hearing?

15 A. Yes, I do.

16 Q. All right, let's go to Texaco Exhibit Number 4.
17 It's an affidavit with attached letters confirming that
18 notice of this Application of hearing has been provided in
19 accordance with NMOCD rules.

20 A. Yes.

21 Q. Will Texaco call a technical witness to testify
22 about the risk associated with the proposed well?

23 A. Yes, we plan to.

24 Q. Were Exhibits -- Texaco Exhibits 1 through 4
25 prepared by you or compiled under your direction?

1 A. Yes, they were.

2 Q. All right. Now, I notice on the letters directed
3 at Burlington, some of the letters reflect Four Star as
4 being the proposed operator.

5 What is the relationship between Four Star and
6 Texaco?

7 A. Four Star is a subsidiary of Texaco.

8 MR. OWEN: Okay. Mr. Examiner, I offer Exhibits
9 1 through 4.

10 EXAMINER CATANACH: Exhibits 1 through 4 will be
11 admitted as evidence.

12 MR. OWEN: That concludes my examination of this
13 witness.

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Mr. Snure --

17 A. Yes.

18 Q. -- Four star will be the operator of this well?

19 A. Yes.

20 Q. And Merit Energy is signed up?

21 A. Yes, sir. They have -- They signed the AFE and
22 the operating agreement and have returned those in
23 September.

24 MR. OWEN: Mr. Examiner, the AFE which we intend
25 to offer through the geologist reflects Merit's joinder.

1 Q. (By Examiner Catanach) Okay. Now, are you just
2 pooling, in fact, the Mesaverde only, or are you pooling
3 from the surface to the Mesaverde formation?

4 A. We are actually pooling just the Mesaverde, as to
5 the gas rights only.

6 Q. Okay. Do you anticipate that Burlington will
7 voluntarily join the well?

8 A. Not at this time.

9 Q. Have they responded to you at all?

10 A. No.

11 Q. And you started your contact with Burlington in
12 August; is that correct?

13 A. Yes, sir, that is correct, by certified mail.

14 Q. Have you had any direct contact by phone or
15 anything with any of Burlington's personnel?

16 A. Yes, sir, we have. We have spoken by phone, that
17 is correct.

18 Q. They are aware of what's going on, they're just
19 not committed?

20 A. Yes, sir, that is correct.

21 EXAMINER CATANACH: All right.

22 EXAMINATION

23 BY MR. CARROLL:

24 Q. Mr. Snure, is Four Star a wholly owned subsidiary
25 of Texaco?

1 A. It -- Actually, Four Star is the -- The interests
2 in the San Juan Basin have been transferred to Four Star.
3 So what we're -- what -- the properties that had originally
4 been Texaco properties in the San Juan Basin have been
5 transferred to Four Star, and it is a -- it's primarily a
6 wholly owned subsidiary, so...

7 MR. OWEN: It's my understanding that all the
8 interest in Four Star is owned by Texaco.

9 MR. CARROLL: Okay, that would make it wholly
10 owned.

11 MR. OWEN: Right.

12 MR. CARROLL: Mr. Owen, you indicated before the
13 hearing that Burlington had entered an appearance. We
14 don't have that in the record here.

15 MR. OWEN: I received that information by phone,
16 and I don't believe that I have an entry of appearance in
17 my file from Mr. Kellahin.

18 MR. CARROLL: Yeah, we don't either, and Mr.
19 Kellahin was here and didn't indicate --

20 MR. OWEN: It's my understanding that Burlington
21 is not opposing this pool.

22 MR. CARROLL: Okay, thank you.

23 EXAMINER CATANACH: The witness may be excused.

24 MR. OWEN: For my second witness, I call Mr. Dave
25 Huxol.

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DAVID L. HUXOL,

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

DIRECT EXAMINATION

BY MR. OWEN:

Q. Please state and spell your name for the record,
please.

A. My name is David Lee Huxol, H-u-x-o-l.

Q. And where do you reside?

A. I live at 6143 East Peakview Place in Englewood,
Colorado.

Q. And by whom are you employed?

A. Texaco.

Q. What do you do for Texaco?

A. I'm a geologist.

Q. Have you previously testified before this
Division?

A. No, I have not.

Q. Briefly summarize your education and experience
in petroleum geology for the Examiner.

A. Okay. I have six years of education. I have
four years at Central Missouri State University in
Warrensburg, Missouri. I have -- That's where I got my
bachelor's degree in geology. I have two years at the
University of Missouri at Columbia. I have a master's of

1 science from there.

2 I've worked for Texaco since 1980 as a petroleum
3 geologist. That would be 16 years of experience.

4 MR. OWEN: Mr. Examiner, I tender Mr. Huxol as an
5 expert in petroleum geology.

6 EXAMINER CATANACH: He is so qualified.

7 Q. (By Mr. Owen) Mr. Huxol, are you familiar with
8 the Application filed in this case on behalf of Texaco?

9 A. Yes, I am.

10 Q. Have you made a technical study of the area
11 surrounding the proposed well?

12 A. Yes, I have.

13 Q. Have you prepared exhibits for presentation in
14 this case?

15 A. Yes, I have.

16 Q. Mr. Huxol, let's go to Texaco Exhibit Number 5,
17 the structure map. Would you please review the information
18 contained on that exhibit for the Examiner?

19 A. Yes. What we have here is a structure map. It's
20 at a scale of 1 to 4000. It's a structure map on the top
21 of the Menefee formation or on the top of the Cliff House.
22 It's on a 10-foot contour interval with every 50 feet being
23 emboldened. The red numbers that you see on the map are
24 all the formation tops. You can generally see that in this
25 area everything dips to the northeast on this map.

1 Also on this map, you might note that Section 32,
2 which is our project area, has the east half of the section
3 outlined in green. That's the spacing area. It's 320
4 acres.

5 Also, there is a red circle in the southeast
6 quarter of Section 32 that signifies where we intend to
7 drill the well.

8 The other thing that I might make note of on this
9 map is that there are no -- you notice that there are wells
10 that are drilled in Section 32. There are no Mesaverde
11 producing wells in that section.

12 Q. Is there any significance to the structure, as
13 far as making a successful well --

14 A. No.

15 Q. -- reflected on this?

16 All right, let's go to Texaco Exhibit Number 6,
17 the cross-section. Why don't you go ahead and review the
18 information on the cross-section for the Examiner?

19 A. Okay. This is the cross-section. You may want
20 to refer back to the map. I have to apologize; the line
21 that I put on the map did not come out in the printer, that
22 shows where the cross-section actually goes.

23 From the left to the right what I have is a
24 cross-section that starts in Texaco's Fed State Unit Number
25 1 well in the southeast quarter of Section 32. It goes to

1 the 1E well, which is in the northeast quarter of Section
2 32, continues up towards the Mesaverde Blanco field, the
3 Morris 100 well that Marathon drilled earlier this year.
4 It's in the northwest quarter of Section 28. And the
5 Fifield Number 4 well, which is in the northwest quarter of
6 Section 21. So essentially, it's a north-south cross-
7 section.

8 What I'd like to show with this cross-section is
9 that there is quite a bit of risk that's involved with
10 drilling this well.

11 You might notice that -- What I have on this
12 cross-section, the scale is 2 1/2 inches equals 100 feet in
13 a vertical scale. You have, starting at the top, the Cliff
14 House, then you can see the top of the Menefee on each
15 well, and then the Point Lookout a little bit lower there.
16 That's the whole Mesaverde section.

17 In the Blanco-Mesaverde field, most of the
18 production comes from the Point Lookout and the Menefee.
19 You might notice -- Okay, on the Fifield Number 4 well and
20 the Morris 100 well, what we have on the right-hand side of
21 each well here, we have a gamma-ray/neutron-density log.
22 On the left-hand side, we have a gamma-ray resistivity log.
23 You might notice that where you have good production, you
24 have pretty good resistivity over this area, in the range
25 of about 30 ohms or above.

1 The red on each well in the middle of the well
2 diagram here indicates where the wells were actually
3 perf'd.

4 Continuing on to the south in the Texaco Fed
5 State Com Number 1E, we have a gamma-ray/neutron log. That
6 well has not been tested in the Mesaverde.

7 And then we get down to the Fed State Unit Number
8 1 well. All that we have on this well is an SP resistivity
9 curve -- and a resistivity curve.

10 This particular well is very close to where we
11 intend to drill -- or would like to drill the well in
12 question.

13 You might notice on the Fed State Unit Number 1
14 that in the Point Lookout you have virtually no resistivity
15 response. It is not similar at all to the wells that
16 actually produce up to the north. The same thing in the
17 Menefee section. That doesn't look very good.

18 But you do have one sand that comes out on the SP
19 in orange. It's at about 3600 or 3800 feet, right up in
20 here. It has a good resistivity response. That has about
21 28 ohms of resistivity up there. That is what we are going
22 for. The sand just below that does not have a good
23 resistivity response.

24 There are two things that indicate that this is a
25 high risk.

1 Number one, comparing the resistivity in this
2 well to the wells up in the Blanco-Mesaverde field to the
3 north, the resistivity of the Morris 100 well and the
4 Fifield Number 4 well, you do not give a very good
5 resistivity response on these wells. To me that indicates
6 that the zone has either no permeability or is wet. This
7 indicates that this particular sandstone does not have a
8 very big area.

9 The other thing is, the sandstone just below this
10 particular zone also does not have a very good resistivity
11 response. There's a chance that that also may be wet.

12 The other thing that comes into play here, the
13 sandstone in the well just to the west, which I do not have
14 on this cross-section, is not present. So there is a very
15 good chance that, number one, we could miss the well --
16 miss the sandstone entirely. And number two, we could get
17 some water that's going to come in on this well.

18 So we're looking at this as being a fairly risky
19 well.

20 Q. What conclusions have you reached from your
21 technical study?

22 A. From my technical study, we think that we do have
23 potential for a gas well here from this small sand zone,
24 the Number 2. We have concluded that it's a fairly high-
25 risk well.

1 Q. All right. Let's go ahead and go to Texaco
2 Exhibit Number 6 [sic]. It's marked on the back. It's
3 your AFE for the proposed well. Can you review the totals
4 reflected on the AFE for the Examiner?

5 A. Yes, sir. The totals are reflected in three
6 columns. There's -- At about a quarter of the way down the
7 page, you see that there's a dryhole column, a completion
8 column and a totals column.

9 If you follow that down to about a third of the
10 way from the bottom, you can see that the dryhole totals
11 are about \$91,000, completion is for about \$99,000, and
12 total is about \$190,000. This is for a well to 3950 feet,
13 which should be enough to go through the Cliff House
14 formation where the prospective sand is.

15 Q. Are these costs in line with what's being charged
16 by other operators in the area --

17 A. Yes.

18 Q. -- for similar wells?

19 A. Yes, sir.

20 Q. Has Texaco drilled other Mesaverde wells in the
21 area?

22 A. Yes, sir, we just completed one well, that the
23 costs were very comparable to this.

24 Q. Okay. Are you prepared to make a recommendation
25 to the Examiner as to the risk penalty that should be

1 assessed against the nonconsenting interest owners in these
2 spacing units?

3 A. Yes, we believe that 200 percent is justified.

4 Q. Do you think that there's a chance that you could
5 drill a well at the proposed location that would not be a
6 commercial success?

7 A. Yes, I do.

8 Q. Does Texaco seek to be the designated operator of
9 the proposed well?

10 A. Texaco/Four Star.

11 Q. Four Star, pardon me.

12 A. (Nods)

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

17 A. Yes.

18 Q. Were Exhibits 5 through 7 prepared by you or
19 compiled under your direction?

20 A. Yes.

21 Q. Mr. Examiner -- Or, pardon me, Mr. Huxol, do you
22 have a time line for drilling the proposed well?

23 A. We're hoping that we can get a well within the
24 next couple of weeks -- or, I'm sorry, a drilling rig in
25 the next couple of weeks, and start it fairly quickly.

1 Q. What constraints do you see on drilling the well
2 in the next -- before the end of the year?

3 A. We're hoping that we can get it in under the
4 weather window. We're hoping that we can get the well
5 going before the weather gets really bad.

6 Q. Okay. Do you anticipate having a rig on -- by
7 mid-November --

8 A. Yes.

9 Q. -- if an order is granted?

10 A. Yes.

11 MR. OWEN: That concludes my examination of Mr.
12 Huxol, Mr. Examiner.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. Mr. Huxol, is the -- The Blanco-Mesaverde field
16 is more to the east and the south of this area?

17 A. The actual outline of the Blanco-Mesaverde field
18 is -- The closest point is in Section 28.

19 It is my understanding that all of Section 28 is
20 included in that field. So we're about a mile away from
21 that field.

22 EXAMINER CATANACH: Okay.

23 MR. OWEN: It's my understanding that the
24 proposed well is within a mile of the Blanco-Mesaverde.

25 Q. (By Examiner Catanach) The well in the southwest

1 quarter of Section 32, that is a -- that has been drilled
2 to the Mesaverde and not completed yet; is that correct?

3 A. That was a Dakota well.

4 Q. Oh, okay.

5 A. In that particular well, the sandstone that we're
6 going for is not present.

7 Q. That well is currently a Dakota well?

8 A. Yes, sir.

9 Q. Okay, but you've identified the sand in the Cliff
10 House that you want to target in the southeast quarter?

11 A. Yes, sir.

12 Q. Is there any potential, do you think, in the
13 Menefee or Point Lookout at your proposed location?

14 A. We have been looking at that. At this time we
15 don't think that there's anything down there.

16 If you look at the resistivity on the Point
17 Lookout and if you compare it to what actually produces up
18 to the north, it just doesn't look as good as the stuff up
19 to the north.

20 EXAMINER CATANACH: Okay, I have nothing further,
21 Mr. Owen.

22 The witness may be excused.

23 Is there anything further?

24 MR. OWEN: Thank you, Mr. Huxol.

25 My presentation is concluded, Mr. Examiner.

1 EXAMINER CATANACH: Okay, there being nothing
2 further in this case, Case 11,632 will be taken under
3 advisement.

4 MR. OWEN: Thank you, Mr. Examiner.

5 (Thereupon, these proceedings were concluded at
6 12:07 p.m.)

7 * * *

18 I do hereby certify that the foregoing is
19 a true and correct copy of the proceedings in
20 Case No. 11,632, 96.
21 David R. Catnach, Examiner
22 Oil & Gas Division
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 20th, 1996.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998