

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. 11,641
)
 APPLICATION OF ARCO PERMIAN, A DIVISION)
 OF ATLANTIC RICHFIELD COMPANY, FOR)
 COMPULSORY POOLING AND UNORTHODOX WELL)
 LOCATION, EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 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, November 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.

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November 21st, 1996
 Examiner Hearing
 CASE NO. 11,641

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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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P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:56 a.m.:

3 EXAMINER CATANACH: Call the hearing back to
4 order, and at this time we'll call Case 11,641.

5 MR. CARROLL: Application of ARCO Permian, a
6 division of Atlantic Richfield Company, for compulsory
7 pooling and unorthodox well location, Eddy County, New
8 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. We represent ARCO Permian in this
14 matter, and I have two witnesses.

15 EXAMINER CATANACH: Any other appearances?
16 Will the two witnesses please stand to be sworn
17 in?

18 (Thereupon, the witnesses were sworn.)

19 MR. CARR: At this time, we call Lee Scarborough.

20 LEE M. SCARBOROUGH,
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. CARR:

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

1 A. Lee Scarborough.

2 Q. Where do you reside?

3 A. Midland, Texas.

4 Q. By whom are you employed?

5 A. ARCO Permian.

6 Q. And what is your current position with Arco?

7 A. Landman.

8 Q. Mr. Scarborough, have you previously testified
9 before this Division?

10 A. Yes, sir.

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

14 A. Yes, sir.

15 Q. Are you familiar with the Application filed in
16 this case?

17 A. Yes, sir.

18 Q. And are you familiar with the status of the lands
19 in the subject area?

20 A. Yes, sir.

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

23 EXAMINER CATANACH: Yes, they are.

24 Q. (By Mr. Carr) Could you briefly state what ARCO
25 seeks in this matter?

1 A. Pooling the following acreage in Section 34,
2 Township 17 South, Range 28 East: west half of formations
3 developed on 320-acre spacing, southwest of formations
4 developed on 160-acre spacing, south half, southwest for
5 formations developed on 80-acre spacing, and the southeast,
6 southwest for formations developed on 40-acre spacing.

7 Q. And to what well do you propose to dedicate these
8 spacing units?

9 A. Galileo 34 State Com Well Number 1.

10 Q. And what is the location proposed for that well?

11 A. Unorthodox location, 1017 feet from the south
12 line, 1379 feet from the west line.

13 Q. And you are proposing to pool from the surface to
14 the base of the Abo; is that correct?

15 A. Yes, sir.

16 Q. Have you prepared certain exhibits for
17 introduction in this case?

18 A. Yes, sir.

19 Q. Would you refer to what has been marked for
20 identification as ARCO Exhibit Number 1.

21 A. Yes.

22 Q. And what is that?

23 A. It is a land map showing the proration unit and
24 the proposed well location and tract numbers.

25 Q. What is the primary objective in the proposed

1 well?

2 A. We're drilling this well to the Morrow.

3 Q. Okay.

4 A. The primary objective, however, is the Atoka.

5 Q. And you want to pool from the surface to the base
6 of the Morrow?

7 A. Yes.

8 Q. Let's go to Exhibit Number 2. Can you review
9 that for Mr. Catanach?

10 A. Exhibit Number 2 is the ownership breakdown for
11 the proration unit.

12 Q. What percentage of the acreage in a 320-acre unit
13 has been voluntarily committed to this well?

14 A. Approximately 90 percent.

15 Q. Are there owners in this acreage that you have
16 been unable to locate?

17 A. No, sir.

18 Q. And how many interest owners have you identified
19 who will be subject to the pooling order?

20 A. Two.

21 Q. And who are they?

22 A. Yates Petroleum and the Moore Trust.

23 Q. Could you briefly review for Mr. Catanach the
24 current status of your negotiations with Yates Petroleum
25 Corporation?

1 A. I have a verbal approval from Yates on October
2 22nd that they will participate in the well.

3 Q. So you anticipate that actually this compulsory
4 pooling order will only pool the interests of the Moore
5 Trust?

6 A. Yes, sir.

7 Q. Have you made a good-faith effort to obtain the
8 voluntary participation of the Moore Trust?

9 A. Yes, sir.

10 Q. And could you review for the Examiner those
11 efforts?

12 A. On 8-28-96, we sent letters offering an
13 opportunity to participate or to farm out their interest.

14 Q. How recently have you been in communication with
15 representatives of the Moore Trust?

16 A. That would be on November 13th.

17 Q. And what was their last word to you on whether or
18 not they will participate in the well?

19 A. They are reviewing our operating agreement at
20 this time.

21 Q. Is Exhibit Number 3 copies of letters to the
22 Moore Trust reflecting your efforts to obtain their
23 voluntary participation in the well?

24 A. Yes, sir.

25 Q. Mr. Scarborough, is it possible that you might

1 have everyone voluntarily in?

2 A. Yes.

3 Q. And if that occurs, would you immediately notify
4 the Division --

5 A. Yes, sir.

6 Q. -- so that this case could be dismissed?

7 A. I will.

8 Q. What is Exhibit Number 4?

9 A. It is the AFE for the well.

10 Q. And Would you review the totals as reflected on
11 this AFE?

12 A. It reflects a dryhole cost of \$450,300, completed
13 well cost of \$643,600.

14 Q. Are these costs consistent with what ARCO has
15 incurred drilling similar wells in the area?

16 A. Yes, sir.

17 Q. Is Exhibit Number 5 an affidavit confirming that
18 notice of this hearing, in fact, has been provided to the
19 Moore Trust and Yates and other interest owners who have
20 subsequently joined in this effort?

21 A. Yes, sir.

22 Q. Have you made an estimate of the overhead and
23 administrative costs incurred while drilling the well and
24 then while producing it if it is successful?

25 A. Yes, sir.

1 Q. And what are those figures?

2 A. \$6000 drilling well rate and \$600 producing well
3 rate.

4 Q. And what is the source of these figures?

5 A. Those come from the Ernst and Young survey which
6 has been adjusted to accurately reflect our costs, and
7 they're also the same as Nearburg's costs for similar wells
8 in the area.

9 Q. These are in line with actual costs incurred by
10 ARCO for operating properties in the area?

11 A. Yes, sir.

12 Q. Do you recommend these figures being incorporated
13 into the Order that results from today's hearing?

14 A. Yes, sir.

15 Q. Does ARCO seek to be designated operator of the
16 well?

17 A. Yes, we do.

18 Q. Will ARCO be calling a geological witness to
19 review the risk associated with the development of this
20 acreage?

21 A. Yes, sir.

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

24 A. Yes, they were.

25 MR. CARR: Mr. Catanach, at this time we would

1 move the admission into evidence of ARCO Exhibits 1 through
2 5.

3 EXAMINER CATANACH: Exhibits 1 through 5 will be
4 admitted as evidence.

5 MR. CARR: And that concludes my direct
6 examination of Mr. Scarborough.

7 EXAMINATION

8 BY EXAMINER CATANACH:

9 Q. Mr. Scarborough, you've got a verbal from Yates,
10 and what is the status on the Moore interests? You're
11 still negotiating with them?

12 A. Yes, sir.

13 Q. And they may voluntarily commit?

14 A. We hope they will, yes, sir.

15 Q. Okay. The Application, you're seeking to pool
16 from the surface to the base of the Morrow formation?

17 A. Yes, sir.

18 EXAMINER CATANACH: Okay. Your advertisement for
19 this case, Mr. Carr, says from the surface to the base of
20 the Atoka formation.

21 MR. CARR: That's right.

22 EXAMINER CATANACH: We're going to need to
23 correct that, I think.

24 MR. CARR: I think so. I think you'll need to...

25 MR. PEARCY: That's the way it should have been

1 stated, from base of Abo to the base of the Morrow.

2 MR. CARR: Well, we'll have to just re-advertise
3 that to pick that up, then. We'll amend the Application to
4 cover that.

5 EXAMINER CATANACH: Okay, so actually what you're
6 pooling is from the base of the Morrow -- I mean, from the
7 base of the Abo to the base of the Morrow?

8 MR. CARR: To the base of the Morrow.

9 EXAMINER CATANACH: Okay, in any case that's
10 going to have to be readvertised --

11 MR. CARR: It will.

12 EXAMINER CATANACH: -- before we can do anything
13 on it, so...

14 Q. (By Examiner Catanach) ARCO has got all the
15 interest in the southwest quarter covering the other three
16 proration units?

17 A. Yes, sir.

18 Q. Okay. You're also seeking to pool an 80-acre
19 unit, Mr. Scarborough. Do you know if there's any 80-acre
20 pools in this area?

21 A. I do not, no.

22 Q. The -- Your drilling costs, has ARCO drilled
23 wells to similar depth in this area recently?

24 A. Yes, sir.

25 Q. And these are in line with those drilling costs?

1 A. Yes, sir.

2 EXAMINER CATANACH: I have no further questions
3 of the witness.

4 MR. CARR: Mr. Catanach, at this time we call
5 Dave Pearcy.

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

9 DIRECT EXAMINATION

10 BY MR. CARR:

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

12 A. David Pearcy.

13 Q. And where do you reside?

14 A. Midland, Texas.

15 Q. By whom are you employed?

16 A. By ARCO Permian.

17 Q. What is your position with ARCO Permian?

18 A. Senior geologist.

19 Q. Have you previously testified before the Oil
20 Conservation Division?

21 A. Yes, I have.

22 Q. And at that time were your credentials as a
23 petroleum geologist accepted and made a matter of record?

24 A. They were.

25 Q. Are you familiar with the Application filed in

1 this case?

2 A. Yes.

3 Q. And have you made a geological study of the area
4 that is the subject of this Application?

5 A. I have.

6 MR. CARR: Are the witness's qualifications
7 acceptable?

8 EXAMINER CATANACH: Yes, they are.

9 Q. (By Mr. Carr) Mr. Percy, let's go to what has
10 been marked ARCO Exhibit Number 6. I would ask you to
11 identify that for Mr. Catanach and review the information
12 on this exhibit.

13 A. This exhibit shows the cumulative gas production
14 from Atoka and Morrow wells in the vicinity of the Galileo
15 well.

16 Q. Are there dryholes in the immediate area?

17 A. Yes, there are numerous dryholes in the area.

18 I want to point out that the Atoka primary
19 objective has produced from several wells which are on the
20 eastern half of the map, although these cums have been
21 generally small. That's still what we're hoping that we
22 might get a BCF or more out of at the proposed location.

23 Q. Let's go to Exhibit Number 7. Can you review
24 that?

25 A. Exhibit 7 is a net sand map of this basal Atoka

1 sand, is our primary objective, showing the proposed
2 location there in the southwest quarter of Section 34, and
3 that this unorthodox location will be necessary in order to
4 tap into this sand pod, that you see is quite restricted.

5 Q. And have you identified this pod by using seismic
6 information?

7 A. That is correct.

8 Q. In your opinion, are there other similar pods in
9 the immediate vicinity?

10 A. It looks like there are several pods, again from
11 these wells that have produced just east. You can see that
12 we're getting similar sand thicknesses to what we
13 anticipate in those wells in Section 35 and in 26 and just
14 on the north end there in Section 23, some sands which
15 generally are 15 feet or less.

16 Q. Are you prepared to make a recommendation to the
17 Examiner concerning the risk that should be assessed
18 against any interest owner that doesn't voluntarily commit
19 to the well?

20 A. Yes, I am.

21 Q. And what do you recommend?

22 A. I recommend the full 200-percent penalty.

23 Q. Do you believe that there is a chance at this
24 location that ARCO could drill a well that would not be an
25 economic success?

1 A. As shown by the offsetting wells, many of which
2 are dryholes, yes.

3 Q. In your opinion, will granting of this
4 Application and the drilling of the proposed well be in the
5 best interest of conservation, the prevention of waste and
6 the protection of correlative rights?

7 A. Yes.

8 Q. How soon does ARCO hope to actually drill the
9 well?

10 A. Within 30 to 45 days.

11 Q. Were Exhibits 6 and 7 prepared by you?

12 A. Yes, they were.

13 MR. CARR: At this time, Mr. Catanach, we move
14 the admission into evidence of ARCO Exhibits 6 and 7.

15 EXAMINER CATANACH: Exhibits 6 and 7 will be
16 admitted as evidence.

17 MR. CARR: And that concludes my examination of
18 Mr. Percy.

19 EXAMINATION

20 BY EXAMINER CATANACH:

21 Q. Mr. Percy, we're using 3-D seismic or just 2-D
22 seismic?

23 A. That is 3-D seismic.

24 Q. 3-D. Have you utilized 3-D seismic to identify
25 these sandbodies in this area?

1 A. This Atoka sand is a 3-D objective, and as you
2 can see, there's not much in the way of subsurface to tell
3 us the sand is there. So we're beginning to hope we can
4 locate these, and this will be a first test of that idea
5 for the Atoka.

6 Q. Do you believe the resolution of your 3-D seismic
7 data is accurate enough to where you can map these -- the
8 extent of these sands, the 5 to 10 feet?

9 A. Well, we hope so, sir. We're seeing something
10 that looks like an anomaly in this area, which we will soon
11 find out if we can drill the well.

12 But we don't want to drill at a location that's
13 going to be less than optimum.

14 Q. So what your objective is, you're trying to drill
15 basically in the middle of this anomaly?

16 A. Yes, that's right.

17 Q. And you believe by moving north to a standard
18 location, you're increasing -- or you're increasing the
19 risk of not encountering --

20 A. We certainly believe so.

21 Q. There's no offset Atoka production to the south.

22 A. Nothing --

23 Q. Have there been any --

24 A. -- to the south, within the scope of this map.

25 It looks like all the other production has been primarily

1 off there, to the east side.

2 I see one well on the southwest which tested
3 water from the Atoka, and there is another well directly
4 west, about four miles from the proposed location, which
5 also tested a little bit of gas but never produced
6 anything.

7 Q. Do you believe that there ultimately may be any
8 Atoka production to the south in Sections 3 and 4?

9 A. It's hard to tell. You see on the basal Atoka
10 sand map that we're showing that there is a potential
11 location that we've discussed in that area, although that
12 primary objective is for the Morrow. We'll see.

13 Q. Is that ARCO's acreage in Section 3?

14 A. We -- In which section, sir?

15 Q. Three?

16 A. Three, we have an interest in the acreage in
17 Section 3. There are others as well.

18 EXAMINER CATANACH: Okay, Mr. Carr, with regards
19 to the unorthodox location --

20 MR. CARR: Yes.

21 EXAMINER CATANACH: -- who did you guys give
22 notice to?

23 MR. CARR: We gave notice to the owners in the
24 tract and also the offsets. I can't -- I maybe able to
25 identify who they are.

1 But we did give notice to the parties toward whom
2 we were moving the well.

3 THE WITNESS: I know the east half of Section 3
4 is operated by Devon, that they were notified.

5 Q. (By Examiner Catanach) East half of Section 3 is
6 Devon?

7 A. East half of Section 3, Devon operates that
8 Morrow gas well.

9 MR. CARR: On the affidavit, Mr. Catanach, we've
10 got the parties to whom notice was given, and that included
11 the offset operators, the affected parties under Rule 104,
12 as well as the Moore Trust and Yates, who are in the
13 spacing unit.

14 And I can't tell you tract by tract, but I can
15 provide you that if you would like.

16 EXAMINER CATANACH: Okay, I need to see that.

17 MR. CARR: Okay.

18 Q. (By Examiner Catanach) Mr. Pearcy, you're going
19 to drill down to the Morrow and test it. What are the
20 prospects in the Morrow?

21 A. We think they're rather dim at this location,
22 just based on the lack of any significant Morrow sands that
23 appear to be on trend. Of course, there could be something
24 we stumble into, but based on what we see from the
25 subsurface as well as the 3-D, we're not optimistic at all.

1 Just good practice, though, to drill on through
2 the Morrow.

3 Q. What are the -- Are the secondary objectives in
4 the well pretty good, or how would you rate those?

5 A. Rather speculative. In addition to the Morrow,
6 there would be the uphole possibilities in the Strawn,
7 Cisco and Canyon, perhaps in the Wolfcamp. We have had
8 Wolfcamp shows in some of the other surrounding wells.

9 And we just feel that Atoka plus those other
10 possibilities make it a viable well to be drilled.

11 EXAMINER CATANACH: I believe that's all I have
12 of the witness.

13 MR. CARR: That concludes our presentation in
14 this case.

15 We will provide you with the identification of
16 who has those offsetting tracts.

17 EXAMINER CATANACH: Okay.

18 MR. CARR: And we will also provide an amended
19 advertisement, for the 19th.

20 EXAMINER CATANACH: It would be for the 19th of
21 December.

22 MR. CARR: Okay.

23 EXAMINER CATANACH: Mr. Carr, can you also check
24 to see if there are any 80-acre pools in this area?

25 MR. CARR: I'm sorry?

1 EXAMINER CATANACH: Check to see if there are any
2 80-acre pools --

3 MR. CARR: Yeah.

4 EXAMINER CATANACH: -- in this area.

5 Okay. Is there anything else?

6 There being nothing further, Case Number 11,641
7 will be readvertised for the December 19th hearing.

8 (Thereupon, these proceedings were concluded at
9 10:15 a.m.)

10 * * *

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CERTIFICATE OF REPORTER

[illegible]

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 November 27th, 1996.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is
a true and correct copy of the
original as shown to me on 11/6/11
November 21 1916
David R. Catant, Examiner
Oil Conservation Division

STEVEN T. BRENNER, CCR
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