

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. 11,657

APPLICATION OF INTERCOAST OIL AND GAS)
 COMPANY FOR COMPULSORY POOLING, 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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I N D E X

November 21st, 1996
 Examiner Hearing
 CASE NO. 11,657

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>DAVID C. SHATZER</u> (Geologist)	
Direct Examination by Mr. Carr	4
Examination by Examiner Catanach	15
REPORTER'S CERTIFICATE	19

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	7	14
Exhibit 2	7	14
Exhibit 3	8	14
Exhibit 4	10	14
Exhibit 5	10	14
Exhibit 6	11	14
Exhibit 7	11	14
Exhibit 8	12	14
Exhibit 9	13	14

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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 10:17 a.m.:

3
4 EXAMINER CATANACH: Okay, at this time we'll call
5 Case 11,657.

6 MR. CARROLL: Application of InterCoast Oil and
7 Gas Company for compulsory pooling, 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.

14 We represent InterCoast Oil and Gas Company, and
15 I have one witness.

16 EXAMINER CATANACH: Any other appearances?
17 Will the witness please stand and be sworn in?
18 (Thereupon, the witness was sworn.)

19 DAVID C. SHATZER,
20 the witness herein, after having been first duly sworn upon
21 his oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. CARR:

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

25 A. My name is David Shatzer.

1 Q. And where do you reside?

2 A. Midland, Texas.

3 Q. By whom are you employed?

4 A. InterCoast Oil and Gas.

5 Q. And what is your current position with
6 Intercoast -- with InterCoast?

7 A. I'm a geologist, working Texas and southeast New
8 Mexico.

9 Q. Have you previously testified before the Oil
10 Conservation Division?

11 A. Yes, I have.

12 Q. And at the time of that testimony have you had
13 your credentials as a geologist accepted and made a matter
14 of record?

15 A. Yes, I have.

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

18 A. Yes, I am.

19 Q. Have you made a geological study of the area
20 surrounding the proposed well?

21 A. Yes, I have.

22 Q. Are you prepared to share the results of that
23 study with the Examiner?

24 A. Yes.

25 MR. CARR: Are the witness's qualifications

1 acceptable?

2 EXAMINER CATANACH: They are.

3 Q. (By Mr. Carr) Could you briefly summarize for
4 Mr. Catanach what it is you seek in this Application?

5 A. We are seeking a pooling of the interests from
6 the -- from below 3000 feet to the base of the Morrow in --
7 underlying the south half of Section 21 for the formations
8 developed on 320-acre spacing, in Township 18 South, 28
9 East.

10 We would also want to include in this pooling
11 160-acre-spaced formations for the southwest quarter, 80-
12 acre-spaced formations north half of the southwest quarter,
13 and those formations that are spaced on 40 acres in the
14 northeast southwest quarter.

15 Q. And to what did you propose to dedicate these
16 spacing units?

17 A. They are to be dedicated to the Illinois Camp
18 State Number 21 Number 1 well, at an orthodox location
19 located 1980 from the south line and 1650 from the west
20 line.

21 Q. Mr. Shatzer, have you prepared exhibits for
22 presentation in this case?

23 A. Yes, I have.

24 Q. Could you refer to what has been marked for
25 identification as InterCoast Exhibit Number 1?

1 A. Yes. Exhibit Number 1 is just a simple land map
2 showing the outline of the south half, Section 21 proration
3 unit.

4 It shows the well control surrounding us and some
5 of the interests, although certainly not all the ownership
6 is represented on this map. It will be shown on a later
7 exhibit.

8 Q. What is the status of the acreage in the south
9 half of this section? State, federal or fee land?

10 A. It's all state acreage.

11 Q. And what is the primary objective in the proposed
12 well?

13 A. We are -- The primary objective are sands of the
14 Morrow formations.

15 Q. Let's go to InterCoast Exhibit Number 2. Can you
16 identify that and review it for Mr. Catanach?

17 A. Yes, this is a large-scale ownership map that
18 will break down the actual ownership of the interests of
19 the well that we're -- in the south half of Section 21, our
20 actual proration unit.

21 The breakdown of the overall percentage
22 interests, working interests, is shown in the north half of
23 Section 21, but that does refer to the south half of 21,
24 outlined in yellow, and it shows that InterCoast is the
25 largest working interest and the breakdown of five other

1 interests.

2 Individually, how those are obtained on each of
3 the tracts of acreage is shown in the south half.

4 Q. So the figures at the top of the page are for a
5 south-half unit?

6 A. Yes.

7 Q. At the bottom of the page we have the ownership
8 broken out by the individual tract as shown on the south
9 half?

10 A. Yes.

11 Q. What percentage of the working interest ownership
12 has been voluntarily committed to the well at this time?

13 A. As of yesterday, we've received a signed AFE
14 joinder from 68.75 percent of the working interests.

15 ARCO has sent us a letter that says that they
16 will be joining it, but we haven't received to our company
17 their signed AFE. That would bring us to 87.5.

18 Q. And at this time are you negotiating with these
19 individuals the terms of an appropriate operating
20 agreement?

21 A. Yes.

22 Q. Are there any owners in this tract whose
23 whereabouts you've been unable to locate?

24 A. No.

25 Q. Okay, let's go to Exhibit Number 3. Would you

1 refer to this and simply review the effort you've made to
2 obtain the voluntary joinder of the interest owners in the
3 south half?

4 A. Yes, this is a copy of the letter that was sent
5 out on October 2nd, 1996, and this letter was sent to all
6 the outside parties. It proposed the drilling of this well
7 and asked for either their participation or a farmout.

8 And as I said, we've really received indications
9 that all parties will be joining us.

10 Q. Have you talked with -- Is it Logro?

11 A. Yes.

12 Q. This week?

13 A. Yes, we've talked to Logro, and they've verbally
14 said that they will be signing these materials as well.

15 Q. What about Marathon?

16 A. Marathon -- Marathon has signed an AFE, not --
17 They haven't signed the operating agreement yet.

18 Q. At this point in time, if you are successful,
19 you'll have all the interest owners voluntarily committed
20 to the well; is that right?

21 A. Yes.

22 Q. And will you notify the Division immediately
23 should that occur?

24 A. Yes, we will.

25 Q. Can you identify for us Exhibit Number 4?

1 A. Exhibit Number 4 is the AFE for our estimated
2 well costs for drilling this well, and this was sent to all
3 parties.

4 Q. Can you review the totals reflected on that
5 exhibit?

6 A. The total was dryhole cost of \$438,700, completed
7 well cost of \$767,350.

8 Q. And are these costs in line with what's been
9 charged by other operators for similar wells in the area?

10 A. Yes, they are.

11 Q. Is Exhibit Number 5 an affidavit with attached
12 letters confirming that notice of this hearing has been
13 provided to all interest owners who may be subject to
14 pooling?

15 A. Yes.

16 Q. Have you made an estimate of the overhead and
17 administrative costs to be incurred while drilling the well
18 and also while producing it if, in fact, it is successful?

19 A. Yes.

20 Q. And what are those?

21 A. Those figures are \$5828 per month drilling and
22 overhead cost and \$546 per month producing overhead cost.

23 Q. And what is the source of those figures?

24 A. Those are a median of the 1995 Ernst and Young
25 survey.

1 Q. Do you recommend that these figures be
2 incorporated into the order that results from this hearing?

3 A. Yes, we do.

4 Q. Does InterCoast seek to be designated operator of
5 the well?

6 A. Yes.

7 Q. Has InterCoast drilled other Morrow wells in the
8 immediate area?

9 A. Yes, we have.

10 Q. Let's go to what's been marked Exhibit Number 6.
11 Will you identify this, please?

12 A. Exhibit Number 6 is the structure map on the top
13 of the lower Morrow and -- in this area. And it shows the
14 regional dip and -- that is, to the southeast, and that's
15 -- we're going to be drilling slightly downdip from the
16 nearest -- most of the nearest Morrow producers, that we're
17 trying to offset.

18 Q. Mr. Shatzer, did you have any seismic information
19 available to you in constructing these maps?

20 A. No, we did not. This is all subsurface.

21 Q. Let's go to Exhibit Number 7. Will you identify
22 and review that, please?

23 A. Yes, this is a porosity isopach map on the middle
24 Morrow, what I refer to as the green sand. It's one of the
25 reservoir producers, and some of the wells that are to the

1 northwest.

2 And this is a porosity isopach, net porosity feet
3 greater than 7 percent, and it's a 5-foot contour, and it
4 just shows that our proposed location is moving -- trying
5 to extend to the southeast this trend of porosity in this
6 individual sand.

7 Q. There are some dryholes in this area, are there
8 not?

9 A. Yes, there are. There's been some wells that
10 have been dry in this and other Morrow zones, and also
11 there have been some that have been completed, such as the
12 well in Section 28 was completed in this zone, and never
13 made an economic producer.

14 Q. Let's go now to your cross-section, Exhibit
15 Number 8, and I would ask you to review that for Mr.
16 Catanach.

17 A. The cross-section shows the -- some of the
18 nearest well control to the proposed location.

19 The well in Section 17 was the Mewbourne Illinois
20 Camp 17 State Number 2, and it has a type of middle Morrow
21 green sand that we are targeting for our prospect.

22 The next well in the north, the extreme north
23 portion of Section 21, is the Louis Dreyfus Artesia 21
24 State Number 1, and it made a producer in the middle Morrow
25 green sand. However, it's rather tight, the production has

1 been poor to fair to date, and probably won't make an
2 economic well in the Morrow.

3 And then the proposed location is shown.

4 And then finally the well in Section 28 that I
5 referred to that did make also a middle Morrow green sand
6 completion and was uneconomic.

7 Q. Let's move to your Exhibit Number 9, your
8 production map. What does this show you?

9 A. It shows the Morrow production in the area, and
10 it shows that there are some economic producers, but there
11 are also several wells that were uneconomic for the expense
12 in drilling a Morrow well.

13 The only production shown on this map are Morrow
14 producers, so that all these production figures refer to at
15 least some sand in the Morrow formation, and that several
16 of these in Section 21, 28, the west half of 16, those were
17 poor producers, and that -- we're trying to extend the
18 trend of the better sand wells.

19 Q. Are you prepared to make a recommendation to the
20 Examiner concerning the risk that should be assessed
21 against any nonparticipating interest owner in this well?

22 A. Yes, I am.

23 Q. And what is that?

24 A. That risk would be well cost plus 200 percent.

25 Q. And generally summarize upon what you base that

1 recommendation.

2 A. The recommendation is based on geological
3 evidence from these various maps, the overall risk that
4 these maps demonstrate in drilling for the Morrow sands in
5 this area.

6 Q. In your opinion, could InterCoast drill a well at
7 this location that would not be a commercial success?

8 A. Yes.

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

13 A. Yes.

14 Q. And how soon do you plan to spud the well?

15 A. We would like to spud the well sometime around
16 the end of December.

17 Q. Were Exhibits 1 through 9 prepared by you or
18 compiled at your direction?

19 A. Yes.

20 MR. CARR: At this time, Mr. Catanach, we would
21 move the admission of InterCoast Exhibits 1 through 9.

22 EXAMINER CATANACH: Exhibits through 9 will be
23 admitted as evidence.

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

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Shatzer, it's my understanding you want to pool from 3000 feet. What's the significance of that depth?

A. That's the depth cutoff on the acreage that we're drilling on, that -- We don't own the shallow rights above that.

There's well control that you can see on Exhibit Number 1, there's a lot of shallow Queen Grayburg wells, and we don't have rights for those, and that depth severance refers to that shallow oil production.

Q. Okay. You said you had a verbal commitment from ARCO and what other parties?

A. We actually have a letter from ARCO that says that they'll be joining. Theirs is written, and the verbal that would be remaining outstanding interests would be the Logro interests, that they -- We've got verbal indication that they will also join.

So if everyone joins, why, we'll be able to dismiss.

Q. I'm sorry, the -- You've got a letter from ARCO. You have a commitment from Logro?

A. Logro has indicated that they'll join. They haven't signed anything yet, and neither has ARCO, but ARCO

1 has got a letter that says to the effect that they will.

2 Q. And the other three, the Dreyfus, Marathon and
3 Yates, are committed?

4 A. They've signed an AFE.

5 Q. Okay.

6 A. Not the operating agreement yet, but the AFE.

7 Q. So you do anticipate you will have full
8 agreement?

9 A. It is a -- Yes, we think that we -- that this may
10 happen, but -- not possible.

11 Q. Okay. The Morrow being the primary objective,
12 are the -- what you've -- You've got two different
13 producing sands in the Morrow. Are both of those
14 potentially productive at this --

15 A. Yes.

16 Q. Which one would you classify as the better
17 prospect? The middle Morrow?

18 A. I think the middle Morrow.

19 Q. The green sand?

20 A. Yes, sir.

21 Q. Can you generally -- Is there a correlation
22 between a well that may not be economic in the Morrow and
23 the amount of sand it encounters?

24 A. Yes, the amount of sand and the sand quality,
25 that's a judgment call that we make when the well's logged

1 and the various gas indications and things when it's
2 drilled.

3 Q. Your well looks like -- in the middle Morrow
4 interval, it looks like it will encounter probably the
5 maximum amount of net sand in that interval, yet you still
6 think it's a highly risky prospect. Can you elaborate on
7 that at all?

8 A. Yes, we're moving out into an area unknown --
9 relatively unknown control. The only control to the south
10 of us is the well in Section 28, and it -- while it was
11 completed in that zone, it only made 42 million, which is,
12 you know, very uneconomic at this expense and depth. And
13 we really don't have any control.

14 The Dreyfus well had sand that met the criteria,
15 but its performance was poor. It's all right. They spent
16 a lot of money on that well, and they've only made 119
17 million, are making around 350 MCF a day, and that's also a
18 poor well. And they actually got the amount of net
19 required, and they still didn't get the required amount of
20 permeability to make an economic well.

21 So therein lies the additional risk that's not
22 really, you know, able to put on the maps.

23 Q. Where is the Dreyfus well?

24 A. North of Section -- just north of our proposed
25 location in Section 21.

1 Q. Okay.

2 A. Yeah, 135 million and 350 MCF a day.

3 Q. It's been producing for a while?

4 A. It's relatively new, about a year.

5 EXAMINER CATANACH: That's all I have, Mr. Carr.

6 MR. CARR: That concludes our presentation in
7 this case.

8 EXAMINER CATANACH: Okay, there being nothing
9 further in this case, Case 11,657 will be taken under
10 advisement.

11 (Thereupon, these proceedings were concluded at
12 10:36 a.m.)

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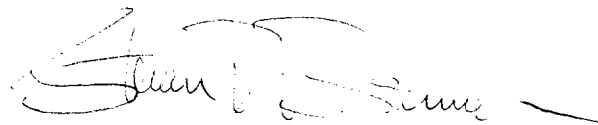
CERTIFICATE OF REPORTER

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 November 28th, 1996.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is
 a true and accurate record of the proceedings.
 November 21, 1996
 David R. Cotant
 Notary Public

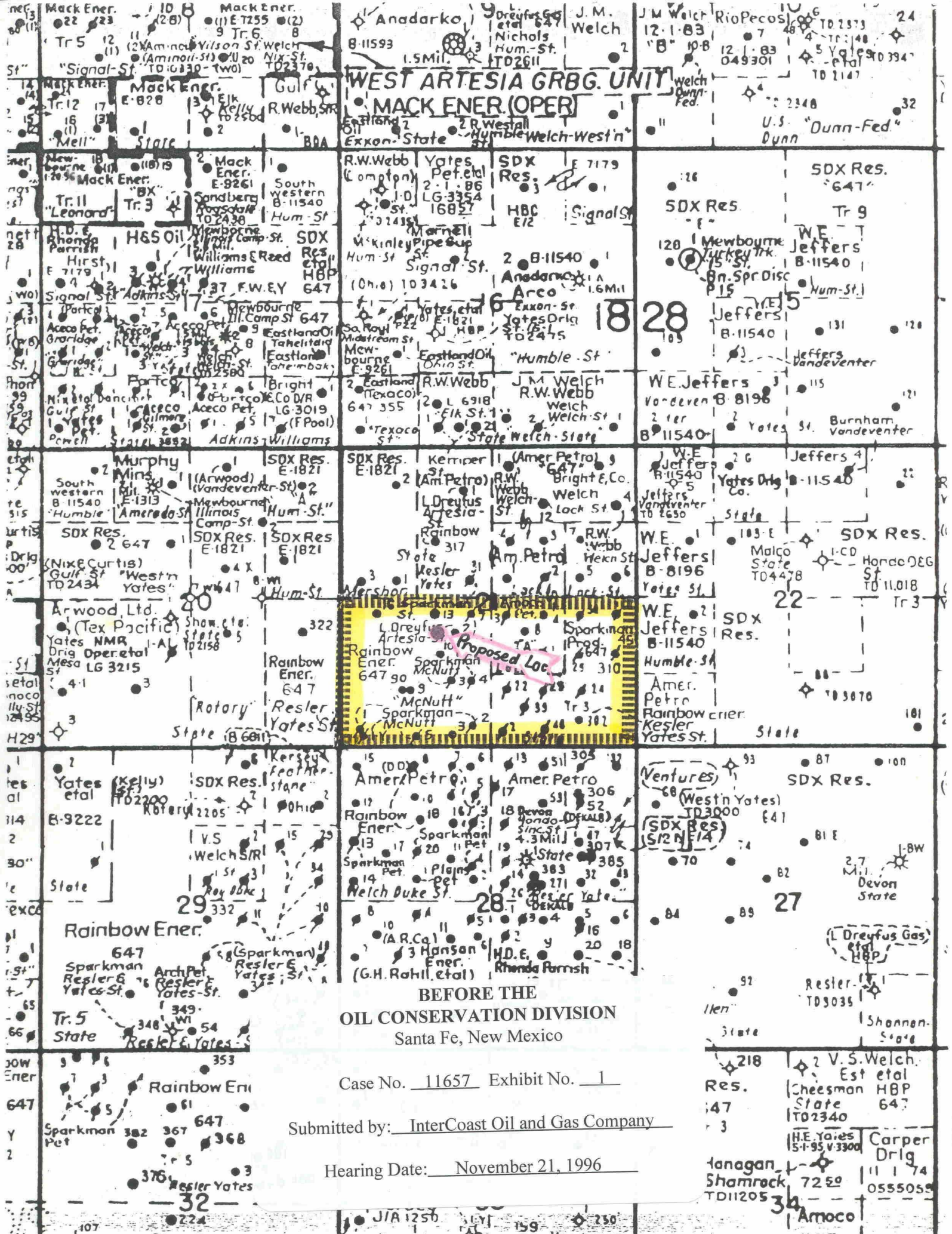


EXHIBIT NO.
CASE NO. 11657

SECTION 21 TOWNSHIP 18-SOUTH RANGE 28-EAST COUNTY EDDY STATE NEW MEXICO

LEASEHOLD OWNERSHIP SUMMARY
SOUTH HALF (S/2) SECTION 21-18S-28E
EDDY COUNTY, NEW MEXICO

OWNER	UNIT PERCENT
InterCoast Oil and Gas Company	46.8750%
Atlantic Richfield Co.	18.7500%
Logro Corporation	12.5000%
Louis Dreyfus	9.1146%
Marathon Oil Co.	5.9896%
Yates Petroleum Corp.	6.7708%
TOTAL	100.0000%

21

SW/4=160 ACRES

State of New Mexico
Base Lease No. 647-390
InterCoast Oil and Gas-93.75%
Louis Dreyfus-6.25%

PROPOSED
LOCATION

100.00%

NW/4 SE/4=40 ACRES

State of New Mexico
Base Lease No. 647-384
Logro Corp.-100.00%

State of New Mexico

S/2 SE/4 & NE/4 SE/4=120 ACRES

State of New Mexico
Base Lease No. 647-394
Atlantic Richfield----50.00%
Yates Petroleum Corp.-18.06%
Marathon Oil Co.-----15.97%
Louis Dreyfus Natural-15.97%
100.00%

State of New Mexico

State of New Mexico

BEFORE THE
OIL CONSERVATION DIVISION
Santa Fe, New Mexico

Case No. 11657 Exhibit No. 2

Submitted by: InterCoast Oil and Gas Company

Hearing Date: November 21, 1996