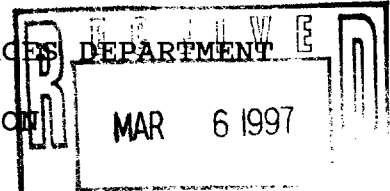


STATE OF NEW MEXICO  
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
 OIL CONSERVATION DIVISION



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

OIL CONSERVATION

CASE NO. 11,712

APPLICATION OF 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

February 20th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 20th, 1997, 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.

\* \* \*

STEVEN T. BRENNER, CCR  
 (505) 989-9317

## I N D E X

February 20th, 1997  
Examiner Hearing  
CASE NO. 11,712

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\* \* \*

## 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 and SHERIDAN, 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   9:16 a.m.:

3

4           EXAMINER CATANACH: At this time we'll call Case  
5   11,712.

6           MR. CARROLL: Application of InterCoast Oil and  
7   Gas Company for compulsory pooling, Eddy County, New  
8   Mexico.

9           EXAMINER CATANACH: Call for appearances.

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

13          We represent InterCoast Oil and Gas in this  
14   matter, and I have two witnesses.

15          EXAMINER CATANACH: Additional appearances?

16          Will the two witnesses please stand to be sworn  
17   in?

18          (Thereupon, the witnesses were sworn.)

19          MR. CARR: Mr. Catanach, initially I would like  
20   to note that InterCoast Oil and Gas has change its name.  
21   It is now KCS Medallion Resources, Inc. It's the same  
22   company, it's just a name change.

23          And accordingly we would request that the order  
24   entered in this case bear the name KCS Medallion Resources,  
25   Inc.

1                               RICK DEFFENBAUGH,  
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.     My name is Rick Deffenbaugh, that's  
8     D-e-f-f-e-n-b-a-u-g-h.

9               Q.     Where do you reside?

10              A.     Tulsa, Oklahoma.

11              Q.     By whom are you employed?

12              A.     KCS Medallion Resources, Inc.

13              Q.     And what is your position at KCS Medallion?

14              A.     I'm a senior landman.

15              Q.     Mr. Deffenbaugh, have you previously testified  
16     before this Division?

17              A.     I have.

18              Q.     At the time of that testimony, were your  
19     credentials as an expert in petroleum land matters accepted  
20     and made a matter of record?

21              A.     Yes, they were.

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

24              A.     I am.

25              Q.     And are you familiar with the status of the lands

1 in the subject area?

2 A. Yes, I am.

3 MR. CARR: Are Mr. Deffenbaugh's qualifications  
4 acceptable?

5 EXAMINER CATANACH: They are.

6 Q. (By Mr. Carr) Could you briefly state what KCS  
7 Medallion seeks in this case?

8 A. Yes, KCS seeks the pooling from the base of the  
9 San Andres formation to the base of the Morrow formation,  
10 underlying the following spacing units in the south half of  
11 Section 33, Township 17 South, Range 29 East, those being  
12 the south half for anything on 320s, southeast for anything  
13 on 160, the north half of the southeast on anything on 80  
14 and the northwest of the southeast on anything on 40-acre  
15 units.

16 These units are created, or we desire these units  
17 to be created, for the drilling of the Bear Grass Well  
18 Number 33-1, to be drilled at a standard location 1980 feet  
19 from the south line and 1650 feet from the east line.

20 Q. Mr. Deffenbaugh, have you prepared exhibits for  
21 presentation in this case?

22 A. I have.

23 Q. Let's go to what has been marked as KCS Medallion  
24 -- It's been marked as InterCoast Exhibit Number 1. Would  
25 you identify and review that?

1           A.    Yes, this is merely a land plat showing the  
2 subject south half of Section 33 and showing the location  
3 as requested.

4           Q.    What is the status of the acreage in the south  
5 half of Section 33?

6           A.    The acreage in the south half of 33 is broken up  
7 into essentially four tracts.

8                   The southwest quarter is broken into the north  
9 half and the south half of the southwest quarter. That is  
10 federal lands, Bureau of Land management, federal lands.

11                   The southeast quarter is broken into two tracts  
12 as well, those being the north half, southeast, and the  
13 southwest, southeast, comprising one tract, and the  
14 southeast quarter of the southeast quarter, comprising the  
15 other tract. The southeast quarter is State of New Mexico  
16 lands.

17           Q.    And the southwest quarter is included within a  
18 federal unit?

19           A.    That is correct.

20           Q.    Does Heyco own an interest in the southwest  
21 quarter?

22           A.    Yes, they do.

23           Q.    And what is the status of your relationship with  
24 Heyco in regard to this prospect at this time?

25           A.    They have indicated a willingness to participate,

1 and we are in the final stages of the negotiations of an  
2 operating agreement. Therefore, we would request that  
3 their pooling be dismissed with regards to both Heyco,  
4 being, Harvey Yates Company, and Shinnery Investment  
5 Company.

6 Q. Okay. What is the primary objective in the well?

7 A. The Morrow.

8 Q. Let's go to what has been marked as your Exhibit  
9 Number 2, and would you review that for Mr. Catanach,  
10 please?

11 A. Yes, this is a table -- Essentially there's a map  
12 on the front and then a table that shows the leasehold  
13 summary of the entire south half. As you can see, there  
14 are a number of owners.

15 KCS Medallion Resources is showing there with 50  
16 percent. That comprises 100 percent of the southeast  
17 quarter. The remaining owners are owners under this  
18 federal unit that is made up of all these -- essentially 50  
19 owners over in the southwest quarter.

20 Through contacts with those various parties we  
21 have now gotten a commitment from about 11.5 percent of  
22 those parties to participate, which is shown in the first  
23 column past the working interest.

24 The second column, being -- We expect to make a  
25 trade with approximately 27.893 percent of those various



1 owners.

2 And then the final column is a column of parties  
3 that have not made a decision as to what they want to do,  
4 that comprise 10.61 percent.

5 Breaking these down by numbers, if you will,  
6 there's approximately 50 owners other than KCS Medallion.  
7 Thirteen of the 50 have agreed to participate; 15 of the 50  
8 have elected to make a trade, which are all in the  
9 negotiation stages; and 22 of the 50 have not reached -- or  
10 we have not reached a final agreement with those parties.

11 Q. Basically, we're seeking to pool in this  
12 proceeding those interest owners that are indicated on  
13 Exhibit 2 in all columns, "participate" and "expect trade"  
14 and "undecided"?

15 A. That is correct.

16 Q. The only two that we're not looking to pool in  
17 this matter is Heyco and Shinnery?

18 A. That is correct.

19 Q. In your opinion, has KCS Medallion made a good-  
20 faith effort to locate all individuals in the subject  
21 acreage and obtain their voluntary participation?

22 A. We have.

23 Q. Can you identify what has been marked as Exhibit  
24 Number 3?

25 A. Yes, this is an AFE prepared by InterCoast Oil

1 and Gas Company at the time, now KCS Medallion Resources,  
2 for the drilling of this well.

3 Q. Can you review the totals set forth on this  
4 exhibit?

5 A. Yes, we're showing a total dry and abandonment  
6 cost of \$491,650 and a total completed well cost of  
7 \$821,400.

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

10 A. Yes, they are.

11 Q. Can you identify what has been marked as  
12 InterCoast Oil and Gas Exhibit Number 4?

13 A. Yes, this is a set of letters that were sent to  
14 the various owners. First we made contacts by telephone  
15 and then essentially sent these letters.

16 The first set is a set sent to the record title  
17 holders in the southwest quarter, dated November 20th,  
18 1996.

19 And then you'll see there's a second set of  
20 certified letters that was sent not only to the operator of  
21 the federal unit in the southwest quarter but also to each  
22 of the various individual owners in the southwest quarter,  
23 dated December 11th, 1996.

24 Q. Is Exhibit Number 5 an affidavit confirming that  
25 notice of today's hearing has been provided in accordance

1 with Oil Conservation Division Rules?

2 A. Yes, it is.

3 Q. Have you made an estimate of the overhead and  
4 administrative costs to be incurred while drilling this  
5 well and also while producing it, if it is successful?

6 A. Yes, we have. Based on Ernst and Young figures  
7 for a well of this depth, we are showing a drilling rate of  
8 \$5828 and a producing rate of \$546.

9 Q. These are based on the 1995 Ernst and Young  
10 survey?

11 A. Yes, it is.

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

14 A. Yes, I do.

15 Q. Does KCS Medallion desire to be designated  
16 operator of this well and spacing unit?

17 A. Yes.

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

20 A. Yes, they were.

21 MR. CARR: At this time, Mr. Catanach, we move  
22 the admission into evidence of KCS Medallion or InterCoast  
23 Oil and Gas Exhibits 1 through 5.

24 EXAMINER CATANACH: Exhibits 1 through 5 will be  
25 admitted as evidence.

1 MR. CARR: That concludes my direct examination  
2 of Mr. Deffenbaugh.

3 EXAMINATION

4 BY EXAMINER CATANACH:

5 Q. Just briefly going over some of these things, Mr.  
6 Deffenbaugh, you said there were about 50 owners besides  
7 KCS in the --

8 A. Yes, sir, there's actually 50, there are exactly  
9 50 owners, yes, sir.

10 Q. Twenty-two were still undecided?

11 A. Yes, sir, that's correct. Those 22, as you'll  
12 see, represent very small ownership, but I've had  
13 conversations with all these parties, and they just haven't  
14 made an election as to what they want to do yet.

15 Q. Okay.

16 A. This has been ongoing for a while with regards to  
17 letters back and forth and numerous, numerous phone calls  
18 with regards to each of these various individuals.

19 I expect that some of these parties will end up  
20 electing to participate, and we probably will -- well, of  
21 course we'll certainly advise the Commission of any parties  
22 with which we reach voluntary joinder.

23 Q. Okay. Fifteen of these interest owners are still  
24 -- or you expect to trade with these; is that right?

25 A. That's correct.

1 Q. Okay. And 12 have elected to participate at this  
2 point?

3 A. Thirteen.

4 Q. Thirteen?

5 A. Yes, sir.

6 Q. Okay, it's my understanding that the pooled  
7 interval will be from the base of the San Andres to the  
8 base of the Morrow?

9 A. That's correct.

10 Q. Okay. Who is the operator of the federal unit?

11 A. Amoco. And as you can see, I've shown them under  
12 "expect to trade". They've indicated a desire to reach a  
13 voluntary agreement here.

14 Q. Okay. All of the interest owners were located,  
15 right?

16 A. Yes, sir.

17 Q. Accounting for 100 percent?

18 A. Yes, sir.

19 Q. The well location has been staked at this point?

20 A. I believe it has. I'm not positive of that; I'd  
21 have to check on that for you. But I believe it has been  
22 staked.

23 Q. Okay. You don't anticipate any problems with  
24 that well location?

25 A. No, sir. We have reconn'd the property. We've

1     gone out and verified that it is a drillable location, but  
2     I don't believe it's actually physically been staked. I  
3     can get an answer for you on that in a minute.

4           Q.     We've had some problems where we've had to change  
5     the location -- change the order because of the location  
6     change, and I'm just trying to make sure that that's --

7           A.     Okay, I will verify that before I leave today.

8           Q.     Okay. Are these well costs in line with  
9     something you've drilled recently?

10          A.     Yes, sir.

11                  EXAMINER CATANACH: That's all I have of the  
12     witness. You may be excused.

13                  MR. CARR: At this time we would call Mr. Siruta.

14                         WILLIAM A. SIRUTA,  
15     the witness herein, after having been first duly sworn upon  
16     his oath, was examined and testified as follows:

17                                 DIRECT EXAMINATION

18     BY MR. CARR:

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

20           A.     William Siruta. That's S-i-r-u-t-a.

21           Q.     Where do you reside?

22           A.     Midland, Texas.

23           Q.     By whom are you employed?

24           A.     KCS Medallion Resources, Inc.

25           Q.     And what is your current position with KCS?

1 A. I'm a geologist.

2 Q. Have you previously testified before this  
3 Division and had your credentials as an expert in petroleum  
4 geology accepted and made a matter of record?

5 A. Yes, I have.

6 Q. Have you made a geological study of the area  
7 surrounding the proposed well?

8 A. Yes, I have.

9 Q. Are you prepared to share the results of that  
10 study with the Examiner?

11 A. Yes.

12 MR. CARR: Are the witness's qualifications  
13 acceptable?

14 EXAMINER CATANACH: They are.

15 Q. (By Mr. Carr) Mr. Siruta, let's go to what has  
16 been marked as Exhibit Number 6. I'd ask you to identify  
17 and review that, please.

18 A. Exhibit 6 is a production map of the area in  
19 question here.

20 The wells shaded in green, or the circles shaded  
21 in green, are Morrow producers. The top number is the gas  
22 cum, the second number next to the well is the oil cum, and  
23 the lower number is present daily rate or the date when the  
24 well was P-and-A'd

25 Q. Let's go to Exhibit Number 7, your structure map.

1           A.   Exhibit 7 is the structure map on the base of the  
2   Morrow massive shale. It indicates the general structure  
3   in this area with dip going to the southeast.

4           Also, the proration unit that we've chosen is  
5   highlighted and hachured, and a cross-section is indicated  
6   on here, and also the proposed location is indicated in  
7   red.

8           Q.   And now let's go to your next exhibit, your  
9   isopach of the Morrow.

10          A.   This is a net sand isopach of the main Morrow pay  
11   in this area, using an 8-percent cutoff. On the map I've  
12   indicated beside each well the net thickness of sand in  
13   that well. The wells shaded in green are the wells that  
14   produce from that pay zone, and again the cross-section and  
15   location are indicated, and this indicates the general  
16   trend of the sand in this immediate area.

17          Q.   Let's go to your next exhibit, the cross-section.  
18   A trace for this is found on the preceding exhibit. Review  
19   this with the Examiner.

20          A.   This is a cross-section just involving two wells  
21   in this area. It shows the main Morrow pay, shaded in  
22   yellow, and just indicates the nature of the sand in this  
23   area.

24          Q.   Are you prepared to make a recommendation to the  
25   Examiner concerning the risk associated with the drilling



1 of this well?

2 Q. And what do you recommend?

3 A. 200 percent.

4 Q. And basically what are you basing your  
5 recommendation on?

6 A. The Morrow sands in this area are very continuous  
7 and very difficult to predict. Sometimes even when you  
8 find the sand, it's difficult to predict whether you're  
9 going to have porosity and permeability, as illustrated by  
10 the one well that's on the cross-section.

11 Q. Do you believe there's a chance that you could  
12 drill a well at this location that, in fact, would not be a  
13 commercial success?

14 A. Yes.

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

18 A. Yes.

19 Q. How soon does KCS plan to commence the drilling  
20 of this well?

21 A. As soon as possible. We, I think, are looking  
22 for a rig right now.

23 Q. Okay. Were Exhibits 6 through 9 prepared by you?

24 A. Yes.

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

1 move the admission into evidence of Exhibits 6 through 9.

2 EXAMINER CATANACH: Exhibits 6 through 9 will be  
3 admitted as evidence.

4 MR. CARR: That concludes my examination of Mr.  
5 Siruta.

6 EXAMINATION

7 BY EXAMINER CATANACH:

8 Q. Mr. Siruta, the well in the southwest quarter of  
9 this section was not productive in this interval?

10 A. That's correct. It was tested but was not  
11 productive.

12 Q. It encountered 20 feet of net sand?

13 A. Yes, they came into this well, and the operator  
14 was Amoco, and they perforated and acidized and tested the  
15 zone and had gas too small to measure. They came back,  
16 reperforated, re-acidized, and again had gas too small to  
17 measure. So they came back, re-acidized for a third time,  
18 had a 10-MCF-a-day rate. They ran some tracer surveys,  
19 just never could make a commercial well.

20 And, you know, that's really all the information  
21 I have on the well.

22 Q. What do you attribute that to? Is it the  
23 geologic properties?

24 A. Well, it's two possibilities. I think, of  
25 course, the obvious one might be is that maybe they've

1 damaged the zone when they drilled it. But they did  
2 reperforate and treat several times, so I don't know if  
3 that's a valid reason for it to not be productive.

4 It could be that the sand does have very good  
5 porosity but has very poor permeability, and that's  
6 probably more than likely the case.

7 Q. Your proposed location should encounter a greater  
8 amount of sand; is that correct?

9 A. That's what we're hoping to do, is not only  
10 encounter a thicker portion of the sand but also maybe get  
11 into more of the permeability, the better permeability in  
12 the sands, because the well to the north is a very strong  
13 well and is very permeable, and it took very little  
14 treatment to produce.

15 EXAMINER CATANACH: I have nothing further of  
16 this witness.

17 MR. CARR: That concludes our presentation in  
18 this case.

19 EXAMINER CATANACH: All right, there being  
20 nothing further in this case, Case 11,712 will be taken  
21 under advisement.

22 (Thereupon, these proceedings were concluded at  
23 9:35 a.m.)

24 \* \* \*

25

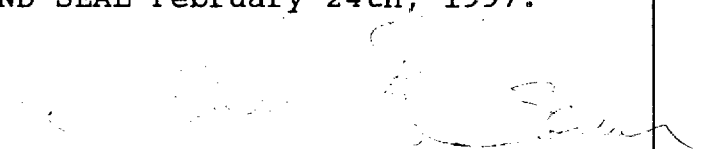
## CERTIFICATE OF REPORTER

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.

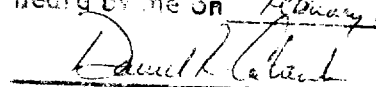
I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL February 24th, 1997.

  
 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. 11712, heard by me on February 20, 1997.

  
 \_\_\_\_\_, Examiner  
 Oil Conservation Division