

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. 11,749  
)  
APPLICATION OF KCS MEDALLION RESOURCES, )  
INC., FOR COMPULSORY POOLING AND AN )  
UNORTHODOX WELL LOCATION, EDDY COUNTY, ) ORIGINAL  
NEW MEXICO )  
\_\_\_\_\_ )

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH Hearing Examiner

April 17th, 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, April 17th, 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.

\* \* \*

## I N D E X

April 17th, 1997  
 Examiner Hearing  
 CASE NO. 11,749

## PAGE

APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>DAVID C. SHATZER</u> (Geologist)	
Direct Examination by Mr. Bruce	4
Examination by Examiner Catanach	10
REPORTER'S CERTIFICATE	16

\* \* \*

## E X H I B I T S

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

\* \* \*

## 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:

JAMES G. BRUCE, Attorney at Law  
612 Old Santa Fe Trail, Suite B  
Santa Fe, New Mexico 87501  
P.O. Box 1056  
Santa Fe, New Mexico 87504

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   9:51 a.m.:

3           EXAMINER CATANACH: Okay, at this time we'll call  
4   Case 11,749.

5           MR. CARROLL: Application of KCS Medallion  
6   Resources, Inc., for compulsory pooling and an unorthodox  
7   well location, Eddy County, New Mexico.

8           EXAMINER CATANACH: Call for appearances.

9           MR. BRUCE: Mr. Examiner, Jim Bruce from Santa  
10   Fe, representing the Applicant.

11           I have one witness to be sworn.

12           EXAMINER CATANACH: Additional appearances?

13           There being none, swear in the witness, please.

14           (Thereupon, the witness was sworn.)

15                   DAVID C. SHATZER,

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

18                   DIRECT EXAMINATION

19   BY MR. BRUCE:

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

21           A.    My name is David Shatzer.

22           Q.    And where do you reside?

23           A.    Midland, Texas.

24           Q.    Who do you work for and in what capacity?

25           A.    KCS Medallion Resources as a geologist.

1           Q.    Have you previously testified before the  
2 Division?

3           A.    Yes, I have.

4           Q.    And were your credentials accepted as a matter of  
5 record?

6           A.    Yes, they were.

7           MR. BRUCE:  Mr. Examiner, I'd tender Mr. Shatzer  
8 as an expert petroleum geologist.

9           EXAMINER CATANACH:  He is so qualified.

10          MR. BRUCE:  Mr. Examiner, KCS Medallion  
11 originally sought an order pooling the east half of Section  
12 14, Township 17 South, Range 28 East, from the surface to  
13 the base of the Morrow formation and approving an  
14 unorthodox well location 660 feet from the south line and  
15 1330 feet from the east line.

16          The parties being pooled have come to terms, and  
17 so we are not seeking pooling any longer.  We are here  
18 today only for the unorthodox location.  And this could  
19 probably be processed administratively, but it would  
20 require massive re-notice and delay in the drilling plans,  
21 and that's why we're going forward today.

22          Q.    (By Mr. Bruce)  Mr. Shatzer, would you refer to  
23 your Exhibit 1, identify it for the Examiner, and discuss  
24 the primary zone of interest of the well?

25          A.    Exhibit 1 shows the -- is a production map of the

1 area, showing the -- only the wells that penetrated the  
2 Morrow formation, and the Morrow wells are color-coded in  
3 green, and the production cumulative and daily below the  
4 lines are shown.

5 And you can see that the closest well at B on the  
6 cross-section is a rather poor producer, that the better  
7 two producers are over a mile to the south and southeast of  
8 the proposed location, and that there's very little control  
9 moving to the north and northwest.

10 So this location is a northwest stepout of some  
11 existing Morrow production, and therefore that is the  
12 reason that we are asking for this unorthodox location.

13 Q. Okay. Would you refer next to your Exhibit  
14 Number 2 and discuss a little bit more of the Morrow  
15 geology and the basis of your proposed location?

16 A. Okay. Exhibit 2 is a Morrow sand isopach on net  
17 pay thickness in this area, and the general trends on the  
18 area are based on the well control that we have to the east  
19 and southeast, and we're -- they trend northwest-southeast,  
20 and that generally to make a good well in this zone, you  
21 need at least ten feet of net-pay sand, and that the wells  
22 in Section 13 and the northeast-northeast of Section 24  
23 don't meet that criteria with only two feet, and zero feet  
24 in several instances, and that the one good well in this  
25 zone in the southwest of 24 meets that pay criterion of 12

1 feet of net pay sand, and shows that we want to drill in  
2 the extreme southern portion of Section 14 to step out from  
3 this production at a location with some amount of risk, due  
4 to the fact that it is moving away from control.

5 Q. Okay. What is Exhibit 3?

6 A. Exhibit 3 is the Morrow structure map, structure  
7 on top of the lower Morrow shale -- the base of the lower  
8 Morrow shale, excuse me, base of the lower Morrow shale,  
9 top of the lower Morrow, and that it shows the general  
10 trend of dip to the east southeast.

11 And basically, the dip and structure in this area  
12 is rather inconsequential to the stratigraphic production.

13 Q. Okay, why don't you refer to your Exhibit 4, the  
14 cross-section, and maybe discuss in a little bit more  
15 detail the Morrow wells in the immediate area of your  
16 proposed --

17 A. All right, the Morrow wells in the immediate area  
18 on B-B', you have that -- or A-B, the well at A is the one  
19 with the net pay of 12 feet, and it only had a cased hole  
20 log on it, but that's where it's pay coming out of this  
21 middle Morrow, and that we don't see it in the other two --  
22 In the next two sands, the middle two sands, this  
23 particular zone is extremely thin and noncommercial, and  
24 those were dry holes.

25 And then we're trying to extend this trend to the

1 north and moving into our proposed location in 14.

2 And then the final well in Section 13 at B shows  
3 two feet of net sand, and at least there's a little bit  
4 more sand developing up there that we feel like identifies  
5 the trend that we're trying to drill for in Section 14.

6 Q. Okay. What is Exhibit 5, Mr. Shatzer?

7 A. Exhibit 5 is the land plat showing offset  
8 ownership.

9 Q. Okay. And is Exhibit my affidavit of notice  
10 giving evidence of the written notice to all of these  
11 parties of the Application?

12 A. Yes, it is.

13 MR. BRUCE: Okay. Mr. Examiner, if you'll look  
14 at Exhibit 6, I'm not sure all of the proper notice has  
15 been given. If you'll turn to page 1, it's kind of  
16 suspect.

17 MR. CARR: Only the signature.

18 MR. BRUCE: Now, for your information, they found  
19 there are -- If you'll go through this, there are three or  
20 four notice letters, because additional parties were found,  
21 and I think we've gotten everyone pretty much well notified  
22 over the course of several weeks.

23 Q. (By Mr. Bruce) Now, Mr. Shatzer, did KCS  
24 Medallion request waivers from the offset lessees or  
25 operators?



1 A. Yes, they did.

2 Q. And does Exhibit 7 contain copies of signed  
3 waiver letters from various lessees or operators?

4 A. Yes, Exhibit 7 is many of the people we contacted  
5 for waivers and their signed agreement to that waiver.

6 Q. And does Exhibit 8 contain copies of unsigned  
7 waiver letters that were sent to the remaining offsets?

8 A. Yes, it does.

9 Q. But at this time you haven't heard any objection;  
10 they just haven't signed the waiver letters?

11 A. Right, they haven't voiced any objection, just  
12 haven't done anything.

13 Q. In your opinion, is the granting of this  
14 Application in the interests of conservation and the  
15 prevention of waste?

16 A. Yes, it is.

17 Q. And regarding Exhibits 1 through 4, these were  
18 originally prepared by Mr. Siruta, a geologist in your  
19 office; is that correct?

20 A. Yes.

21 Q. And have you reviewed the data, and do you agree  
22 with their geological interpretation?

23 A. Yes, I have; I've worked the area and agree with  
24 the interpretation of the data.

25 Q. And were Exhibits 5 through 8 prepared by you or

1 compiled from company business records?

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, I'd move the admission  
4 of KCS Medallion Exhibits 1 through 8.

5 EXAMINER CATANACH: Exhibits 1 through 8 will be  
6 admitted as evidence.

7 EXAMINATION

8 BY EXAMINER CATANACH:

9 Q. Mr. Shatzer, is there a minimum amount of sand  
10 you need in this well to make -- that you feel would make a  
11 good completion, commercial completion?

12 A. Well, porosity is generally the determining  
13 factor. But usually if you don't have close to ten feet of  
14 net sand, the associated porosity/permeability is not great  
15 enough to make an economic well.

16 And even the well that had 12 feet, I feel like,  
17 must be close to even greater reservoir thickness to have  
18 that production, because it's a pretty good well at 2.8 BCF  
19 -- 2.6 BCF.

20 Q. Is this -- What pool is this in, do you know?

21 A. I believe it would be in the Empire, Empire  
22 North, I would think.

23 Production forms -- But I've worked the area,  
24 that I know the wells in 13 and 24 would be in Empire. I  
25 know that the wells, the cluster of three just due east are

1 in Empire North. I know that, I've worked those. And I  
2 believe that well in the southwest of 24 is also Empire  
3 North Morrow.

4 Q. Okay. The well in the east half of Section 23,  
5 that was a well that was completed and then produced in the  
6 Morrow for a time?

7 A. Yeah, there is a well on the cross-section at --  
8 the well that will look like it would be in -- it would  
9 about in the J location, J unit, that was perf'd in the  
10 lower Morrow, and also some perms in the middle Morrow, and  
11 it was swabbed dry, never completed as a flowing well. But  
12 it was perforated.

13 Q. Okay, the interval that you're targeting is the  
14 middle Morrow?

15 A. Yes.

16 Q. Okay. Well, I show -- You show some cumulative  
17 production out of that well, 268 million, so it didn't  
18 produce very long, probably.

19 A. Yeah, I would -- The pay doesn't look very good  
20 in the middle Morrow. I would think that what pay came out  
21 of that well came out of the lower Morrow, just as far as  
22 contribution.

23 Q. Do you have any potential in your -- at your  
24 proposed location for lower Morrow production?

25 A. Yes, there's -- yeah -- Yes, there's definitely

1 potential for the lower Morrow. I think that it's  
2 definitely the secondary target behind the middle Morrow,  
3 but I'm sure there could be some lower Morrow sands as  
4 well.

5 Q. You just didn't map any of those lower Morrow  
6 sands?

7 A. No.

8 Q. Does that have any effect, your unorthodox  
9 location, have any effect on the lower interval, or is this  
10 simply --

11 A. No, not really. I mean, obviously the wells over  
12 in 13 have nearly no net.

13 Over to -- The wells to the due east, obviously  
14 those are lower Morrow completions, and so their sand trend  
15 is kind of just off of the middle Morrow trend, and I think  
16 that the location was placed and positioned nearly --  
17 solely for the middle Morrow, rather than lower Morrow.

18 Q. Is there any additional potential in the  
19 Pennsylvanian?

20 A. The Atoka has got some mobility in this area, but  
21 that's just very erratic and very scattered.

22 I don't believe it was seen in any of the nearby  
23 wells, but -- and it could be -- an Atoka sand could come  
24 up in the proposed location, at the proposed location.

25 But that's about it. I don't -- The Penn and

1 Cisco, I don't believe, are prospective.

2 Q. How about up from that? Anything else uphole?

3 A. I don't believe -- the other were out of the Abo  
4 trend and were -- the shallow -- this area has been tried  
5 for some shallow oil wells, and there are some to the  
6 north.

7 But right at this location I think that it's not  
8 something we're -- that we think we'll encounter.

9 Q. So really the unorthodox location probably just  
10 applies to the Pennsylvanian?

11 A. Yes, sir.

12 Q. Currently there's no producing wells in Section  
13 23? Those two wells are both P-and-A'd?

14 A. Yes. And since he did not put shallow production  
15 on here, I couldn't say that there isn't any shallow oil  
16 producers to the south half it.

17 I know in the north half of 23, there's not much  
18 shallow production.

19 Now, the south half I'm not sure, because this  
20 map just shows Morrow penetrations and leaves off any  
21 Permian oil wells.

22 But I know in the north half there's really not  
23 much production, north half of 23, much of 15 and 14 in the  
24 Queen Grayburg zones that produce farther to the west.

25 Q. You had no objections from any offset interest

1 owners and operators?

2 A. No, none to date.

3 Q. The only -- Exhibit Number 8 are the interest  
4 owners who have not signed a waiver; is that correct?

5 A. Yes.

6 Q. All the others have?

7 A. Yes.

8 EXAMINER CATANACH: Okay.

9 MR. BRUCE: Mr. Examiner, for your information, I  
10 think on some of those -- Let me double-check. On Exhibit  
11 8, Conoco has either assigned or has some interest in the  
12 well being drilled, as does Fina.

13 EXAMINER CATANACH: Okay.

14 MR. BRUCE: And the other three companies or  
15 individuals are offsets.

16 Q. (By Examiner Catanach) Who operates the wells in  
17 Section 13, do you know?

18 A. No, I don't.

19 EXAMINER CATANACH: The interest owners that were  
20 notified were simply in Sections 23 and 24, Mr. Bruce; is  
21 that correct?

22 MR. BRUCE: From what I'm looking at, yes.

23 EXAMINER CATANACH: Okay.

24 MR. BRUCE: I think the well in Section --  
25 southwest quarter of Section 13 is operated by Yates, Mr.

1 Examiner.

2 EXAMINER CATANACH: Okay. I have nothing  
3 further.

4 Anything further, Mr. Bruce?

5 MR. BRUCE: Not in this case.

6 EXAMINER CATANACH: Okay. There being nothing  
7 further, Case 11,749 will be taken under advisement.

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

10 \* \* \*

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

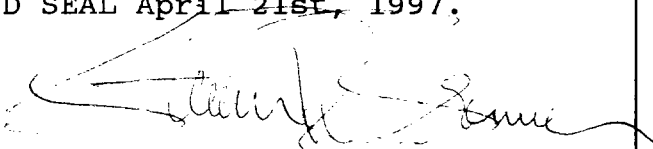
CERTIFICATE OF REPORTER

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 ~~April 21st~~, 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. 11769, heard by me on April 17, 1997.

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

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