

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:)
APPLICATION OF PALOMA RESOURCES, INC.,)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 11,821

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

September 4th, 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, September 4th, 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.

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September 4th, 1997
 Examiner Hearing
 CASE NO. 11,821

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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: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:20 a.m.:

3 EXAMINER CATANACH: We'll go ahead and skip over
4 the first case, Odessa, at this time, and we'll go to Case
5 Number 11,821.

6 MR. CARROLL: Application of Paloma Resources,
7 Inc., for compulsory pooling, Lea County, New Mexico.

8 EXAMINER CATANACH: Call for appearances in this
9 case.

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. We represent Paloma Resources, Inc.,
13 in this matter, and I have two witnesses.

14 EXAMINER CATANACH: Call for additional
15 appearances.

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

18 (Thereupon, the witnesses were sworn.)

19 JIM PIERCE,
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. Will you state your name for the record, please?

25 A. Yes, Jim Pierce.

1 Q. Mr. Pierce, where do you reside?

2 A. Roswell, New Mexico.

3 Q. By whom are you employed?

4 A. I'm a self-employed landman.

5 Q. And what is your relationship with Paloma
6 Resources, Inc.?

7 A. I am their contract landman.

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

10 A. No, I have not.

11 Q. Could you briefly review for Mr. Catanach your
12 educational background?

13 A. Yes, sir, I have a BA in English from McMurry
14 University in Abilene, Texas.

15 Q. Following graduation, for whom have you worked?

16 A. I started in 1977 with a landman firm, Van Aaron
17 and Associates, whom I worked for for a couple of years.
18 And then I joined another landman firm by the name of C.M.
19 Tilly and Associates in Midland. I worked with them for a
20 year and a half and went independent in 1980.

21 Q. And since 1980 have you been employed as a
22 contract landman?

23 A. Yes, sir.

24 Q. Are you familiar with the Application filed in
25 this case on behalf of Paloma?

1 A. Yes, I am.

2 Q. And are you familiar with the status of the lands
3 in the subject area?

4 A. Yes, sir.

5 MR. CARR: Mr. Catanach, we would tender Mr.
6 Pierce as an expert witness in petroleum land matters.

7 EXAMINER CATANACH: Mr. Pierce is so qualified.

8 Q. (By Mr. Carr) Would you briefly state what
9 Paloma seeks with this Application?

10 A. Yes, sir, we are seeking an order pooling all
11 minerals from the surface to the base of the Strawn
12 formation under the west half, southwest quarter of Section
13 28, 16 South, 37 East, Lea County, for an 80-acre spacing,
14 including the undesignated West Knowles-Drinkard Pool Unit
15 and the undesignated West Casey-Strawn Pool, and also a 40-
16 acre spacing, being the southwest-southwest of same
17 section, for all formations, including the Lovington-
18 Grayburg San Andres Pool, Undesignated Lovington-Paddock
19 Pool, Lovington-Abo Pool, and Undesignated East Lovington-
20 Upper Pennsylvanian Pool.

21 Q. Now, to what well do you propose to dedicate
22 these pooled units?

23 A. The Shell Home Stake Number 1 well, located in
24 the southwest-southwest, 660 from the south and west lines.

25 Q. And that's a standard location --

1 A. Yes, sir.

2 Q. -- is it not?

3 A. Yes, sir.

4 Q. Mr. Pierce, could you go to what has been marked
5 for identification as Paloma Exhibit Number 1 --

6 A. Yes, sir.

7 Q. -- identify that and review it for Mr. Catanach?

8 A. Yes, sir, this is a land map indicating the west
9 half of the southwest quarter of Section 28, 16-37, Lea
10 County, which is the proration for our Strawn formation.

11 Q. And what we're proposing to pool is the west half
12 of the southwest of this section?

13 A. Yes, sir.

14 Q. Why is the south half shaded yellow?

15 A. It's common and undivided acreage, the entire
16 south half.

17 Q. Is the Strawn formation the primary objective in
18 this pool?

19 A. Yes, sir.

20 Q. Could you go to Exhibit Number 2 and refer to
21 this exhibit and review the ownership breakdown in the west
22 half of the southwest quarter for Mr. Catanach?

23 A. Yes, sir, the interest owners shaded in green are
24 the interest owners who have agreed to lease and/or have
25 voluntarily signed an AFE to join in the re-entry of the

1 well.

2 Q. And those shaded green owners are on the title
3 opinion, which is the last document in Exhibit 2; is that
4 correct?

5 A. Correct, yes, sir.

6 Q. What is the status of Conoco's interest in this
7 well?

8 A. We have received an assignment of their 15 net
9 acres.

10 Q. And how have you indicated those interest owners
11 who would be subject to pooling?

12 A. In red and also unshaded.

13 Q. And that's, again, referencing the title opinion?

14 A. Yes, sir.

15 Q. Mr. Pierce, what percentage of the working
16 interest is voluntarily committed to this well at this
17 time?

18 A. We have approximately 98 percent.

19 Q. Now, attached and included as part of your
20 Exhibit 2 is a notice affidavit, which is the second page
21 of the exhibit, indicating that notice of this hearing has
22 been provided in accordance with OCD rules; is that
23 correct?

24 A. Yes, sir.

25 Q. Behind that affidavit have you attached copies of

1 your letters and either the copies of the return receipts
2 or the return envelopes as to each of these interest
3 owners?

4 A. Yes, I have.

5 Q. And you have notified them each of today's
6 hearing?

7 A. Yes, sir.

8 Q. Could you summarize for Mr. Catanach the efforts
9 you have made to identify and obtain the voluntary joinder
10 of all interest owners in this proposed spacing unit?

11 A. Yes, sir, we began in October of last year with
12 the search of the county records in Lea County, ran the
13 title to discern who owned what and how much underneath our
14 prospect, contacted everybody, initially by mail and/or
15 telephone, made trades on the phone and whatnot, sent out
16 leases.

17 When we couldn't find people that -- It's been at
18 least ten years since there was any activity in this
19 section, this quarter section -- or this half-section,
20 rather, and we had some addresses and got a lot of mail
21 back but followed up with certified mails, receipts,
22 contacted directory assistance for -- contacted the
23 neighbors of the people where they used to reside.

24 When we had Social Security numbers we followed
25 up with the Social Security offices, and we were able to

1 locate some people through these various means. Checked
2 the tax rolls, tried to get some updated addresses, phone
3 numbers and whatnot through telephone directories in our
4 libraries and whatnot.

5 Q. Did you also check all county records?

6 A. Yes, sir.

7 Q. So you looked in the county records, you did a
8 Social Security Number check?

9 A. Yes, sir.

10 Q. You checked the tax rolls?

11 A. Correct.

12 Q. You've worked through telephone directories?

13 A. Yes, sir.

14 Q. In your opinion, have you made a good-faith
15 effort to locate all individuals and obtain their voluntary
16 joinder in this well?

17 A. Yes, I have.

18 Q. Mr. Pierce, will Paloma call an engineering
19 witness to review the technical portion of this case?

20 A. Yes, they will.

21 Q. Were Exhibits 1 and 2 prepared by you?

22 A. Yes.

23 MR. CARR: Mr. Catanach, at this time we would
24 move the admission into evidence of Paloma Exhibits 1 and
25 2.

1 EXAMINER CATANACH: Exhibits 1 and 2 will be
2 admitted as evidence.

3 MR. CARR: And that concludes my direct
4 examination of Mr. Pierce.

5 EXAMINER CATANACH: A couple questions, Mr.
6 Pierce.

7 THE WITNESS: Yes, sir.

8 EXAMINATION

9 BY EXAMINER CATANACH:

10 Q. How many interest owners are there in this unit?

11 A. Over 235.

12 Q. Have you been able to locate all these interest
13 owners?

14 A. No, sir.

15 Q. Do you have an exhibit that shows which ones you
16 could not locate or --

17 A. Yes, sir, they're indicated in -- by not being
18 color coded.

19 Q. Okay.

20 A. Everything in green is what we have in hand.

21 What's indicated in red are people that we have
22 been able to find that we have not -- they have not either
23 given us assignment or lease to date.

24 And then everybody that is not color-coded are
25 people that we have not been able to find, which is a

1 little over a hundred and some odd people that own less
2 than five acres.

3 Q. Okay, so there's over a hundred people that you
4 have not been able to find?

5 A. Yes, sir.

6 Q. And what are your efforts to find these people?
7 What have they been?

8 A. Again, the county clerk's record check in Lea
9 County, tried to find old addresses. Sometimes they were
10 ten and even twenty years old. We would write them letters
11 requesting an oil and gas lease, get the letters back.

12 We'd follow up by looking in phone directories,
13 calling directory assistance and whatnot and see if they
14 had moved to a different address, same town and whatnot.
15 Check tax rolls for that county that they used to live in.
16 When we had Social Security Numbers, we went through the
17 Social Security Office to find out if they had a new
18 address.

19 Many of these are unknown heirs of -- so-and-so.
20 What had happened is, back in 1930 a fellow by the name of
21 Harry Miller bought a 16th under the south half of Section
22 28 and sold it to about 30 people, and we've got leases
23 from people that did not even know that they owned
24 minerals, did not even know what an oil and gas lease was.

25 Q. So you've got less than two percent of interest

1 outstanding at this point?

2 A. Yes, sir.

3 Q. Okay. Mr. Pierce, at our last -- at the hearing
4 previously, we had -- the Division had received some
5 correspondence from Condor Exploration.

6 A. Yes, sir.

7 Q. Have you been in contact with them?

8 A. You bet.

9 Q. And what have your efforts been with regards to
10 Condor?

11 A. Condor has signed an AFE and elected to
12 participate.

13 EXAMINER CATANACH: Okay, I have no further
14 questions.

15 MR. CARR: At this time we would call Bruce
16 Stubbs.

17 BRUCE A. STUBBS,

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

20 DIRECT EXAMINATION

21 BY MR. CARR:

22 Q. Will you state your name for the record, please?

23 A. Bruce A. Stubbs.

24 Q. Where do you reside?

25 A. Roswell, New Mexico.

1 Q. Mr. Stubbs, by whom are you employed?

2 A. I'm a consulting petroleum engineer employed by
3 Pecos Petroleum Engineering.

4 Q. And what is your relationship to Paloma
5 Resources, Inc.?

6 A. I'm a consulting petroleum engineer.

7 Q. Have you previously testified before this
8 Division and had your credentials as an expert witness in
9 petroleum engineering accepted and made a matter of record?

10 A. Yes, I have.

11 Q. Are you familiar with the Application filed in
12 this case on behalf of Paloma?

13 A. Yes, I am.

14 Q. Have you made an engineering study of the area
15 surrounding the Shell Oil Company Home Stake Well Number 1
16 location?

17 A. Yes, I have.

18 Q. And are you prepared to share the results of that
19 study with Examiner Catanach?

20 A. Yes.

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

23 EXAMINER CATANACH: They are.

24 Q. (By Mr. Carr) Mr. Stubbs, let's go to what has
25 been marked for identification as Paloma Exhibit Number 3.

1 I'd ask you to identify that and review it, please.

2 A. Exhibit Number 3 is a nine-section map
3 surrounding the Home Stake Number 1 well. And on that
4 map -- It's color-coded to identify which wells are
5 producing and which zones they produced out of.

6 The two main zones we're interested in are the
7 Strawn, which is red, and the Paddock, which are the green-
8 colored wells.

9 Q. Let's go to Exhibit Number 2 -- I mean Exhibit
10 Number 4, your production table. Would you review that?

11 A. Okay, this is a tabular listing of all the wells
12 surrounding the Home Stake Number 1 in those nine sections.
13 It gives the location, the cumulative production and the
14 status of the well, whether it's producing and the rate
15 it's producing at, or the last production date.

16 On this list there's a total of 68 wells that
17 have penetrated the Strawn formation. Out of that there's
18 25 wells that were dry and abandoned, which represents
19 about 37 percent of the Strawn tests. There's also about
20 15 producing Strawn wells that are -- have fairly low cums
21 that I would classify as poor wells that probably didn't
22 pay out, and that represents about 22 percent.

23 The remaining 43 wells, 63 percent of the wells,
24 are good Strawn wells that have fairly high cums.

25 Q. Let's go to the log section on the Home Stake

1 Number 1 well. Will you review that for Mr. Catanach?

2 Exhibit Number 5.

3 A. This is the original gamma-ray neutron log that
4 was run on the Home Stake Number 1 well back in 1953 when
5 it was drilled.

6 The two zones of interest are the Paddock -- and
7 that zone is from about 6225 to 6334. They cored that
8 well, reported, oh, a total of about 80 feet of gray
9 dolomite bleeding oil and fairly good shows. They drill-
10 stem tested that interval and it acted like it didn't have
11 much permeability. We don't have the original charts, but
12 they reported flammable gas to surface in two hours and
13 forty minutes. They recovered 315 feet of heavy oil and
14 gas-cut mud, flowing pressure from zero to 150 p.s.i., and
15 the shut-in pressure in 30 minutes to 525 p.s.i.

16 So it's -- Even though they had fairly decent
17 shows, it acts like it's fairly tight.

18 The second page -- or the third page, is the log
19 section across the Strawn from approximately 11,190 to
20 11,440. There's no reports and no tests across that
21 interval, so we don't know whether they had shows or not.
22 Evidently they didn't, or I would think they would have
23 tested it.

24 The logs do indicate some porosity, calculate
25 about 8- to 12-percent porosity across that interval. So

1 it's really kind of a toss-up to whether they had shows or
2 not.

3 Q. Let's go to your structure map, Exhibit Number 6.
4 Will you review that for Mr. Catanach?

5 A. This is a structure map on top of the Strawn
6 formation, and this well, the Home Stake well, is slightly
7 high to two good Strawn producers in Unit Letter B and C of
8 Section 33.

9 Those two wells -- Go back to the production map.
10 The one in Unit Letter B has made 444,000 barrels, in Unit
11 Letter C has made 273,000 barrels. So it's slightly updip
12 to those two wells. So structurally we're -- It's in a
13 good position.

14 Q. Would you now review your diagrammatic sketch,
15 Paloma Exhibit Number 7?

16 A. This is a schematic of the wellbore as it exists
17 today and the way we anticipate completing the well. In
18 1953 they drilled to a total depth of 12,125 feet. When
19 they plugged it they filled the hole with mud, set a plug
20 at the base of the intermediate casing, and surface
21 plugged.

22 And of course it's been 44 years since that was
23 done and we don't -- at this time don't know the condition
24 of the intermediate casing or the open-hole section.

25 What we anticipate doing is going in and drilling

1 out the two plugs, drill it back to TD, clean up the hole
2 and run 5-1/2-inch production casing and cement it back to
3 the intermediate casing.

4 Q. Would you now refer to your AFE, Paloma Exhibit
5 Number 8, and review for the Examiner the projected dryhole
6 and completed well costs for this effort?

7 A. This is an AFE I prepared to estimate the cost to
8 re-enter and equip this well.

9 The cost to -- dryhole cost is \$184,100. The
10 completion costs are \$341,425, for a total AFE cost of
11 \$525,525.

12 Q. Are you prepared to make a recommendation to the
13 Examiner concerning the risk penalty that should be
14 assessed against any nonparticipating interests in this
15 well?

16 A. Yes, I am.

17 Q. And upon what do you base that recommendation?

18 A. Well, I feel like it's a fairly high-risk
19 project, and it ought to be the maximum 200 percent.

20 Q. Are there risks associated with the re-entry
21 itself?

22 A. Well, there's risk associated by re-entering the
23 old wellbore, there's risks associated with establishing
24 commercial production, and there's a fairly significant
25 risk, I think, that if we do have reservoir-quality rock

1 you may see some significant depletion.

2 So there is risk.

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

6 A. The going rate in the area right now is \$650 a
7 month administrative overhead charge, and the drilling
8 overhead charge is \$6500 per month.

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

11 A. Yes, I do.

12 Q. Does Paloma Resources, Inc., seek to be
13 designated operator of this well?

14 A. Yes, they do.

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

19 A. Yes, it will.

20 Q. Were Paloma Exhibits 3 through 8 either prepared
21 by you or compiled at your direction?

22 A. Yes, they were.

23 MR. CARR: Mr. Catanach, at this time we would
24 move the admission into evidence of Paloma Exhibits 3
25 through 8.

1 EXAMINER CATANACH: Exhibits 3 through 8 will be
2 admitted as evidence.

3 MR. CARR: That concludes my direct examination
4 of Mr. Stubbs.

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Mr. Stubbs, you testified the overhead rates in
8 this area are that much. What experience do you have in
9 this area that you can make that --

10 A. Well, the operator has looked at the Ernst and
11 Young overhead rates, and that's the average rates for that
12 depth of well.

13 I personally have interest in wells of that
14 depth, and it's ranging anywhere from about \$600 to \$725 a
15 month, overhead rates.

16 Q. These rates are comparable to the Ernst and
17 Young?

18 A. Yes.

19 Q. Okay. Now, this AFE represents a Strawn
20 completion; is that correct?

21 A. That's correct.

22 Q. Does this include a Paddock -- testing the
23 Paddock or completing the Paddock?

24 A. No, it really doesn't. It's just -- The Strawn,
25 I think, is the main zone.

1 Like I said, the Paddock is a possible secondary
2 zone, but based on the drill stem test, unless we have a
3 good show, see something encouraging, I'm not sure that's
4 something that we're going to end up doing.

5 Q. Is this in the area of the Strawn porosity mounds
6 or algal mounds --

7 A. Right, yes.

8 Q. -- that you'll drill for?

9 A. And that's what defines production, is having
10 enough porosity and permeability. And you'll notice on
11 this map that you can have a very good well offset by dry
12 holes. So it's where you have porosity and permeability
13 development that you have production.

14 Like the well in Unit Letter B of Section 33,
15 there's a dry hole to the north and a dry hole to the east,
16 and it produced 444,000 barrels. So it's fairly spotty
17 production.

18 Q. Are you projecting your well to be in that same
19 porosity complex --

20 A. Well, I'm kind of hoping it's not. If it is,
21 it's probably going to have severe depletion. I mean,
22 that's one of the risks, is whether you have a separate
23 porosity development or if it's in that same porosity pod.
24 There's really no way of knowing at this point, that I know
25 of.

1 Q. So this -- Was this well ever produced, or was it
2 a dry hole?

3 A. No, it was just drilled to TD. I think it was
4 probably a Devonian test, and they topped the Miss., and
5 they weren't structurally where they wanted to be so they
6 just plugged it. Never had production casing run in it.
7 And the only drill stem tests that they reported were in
8 the Paddock zone.

9 EXAMINER CATANACH: I have nothing further of
10 this witness.

11 MR. CARR: Mr. Catanach, that concludes our
12 presentation in this case.

13 EXAMINER CATANACH: Is there anything in Case
14 11,821?

15 There being nothing further in this case, Case
16 11,821 will be taken under advisement.

17 (Thereupon, these proceedings were concluded at
18 8:43 a.m.)

19 * * *

20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the above hearing of Case No. 11821,
heard by me on September 17, 1997.
23 David W. Calkins, Examiner
24 Oil Conservation Division
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 September 5th, 1997.


 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998