

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. 11,888

APPLICATION OF SANTA FE ENERGY )  
 RESOURCES, INC., FOR COMPULSORY )  
 POOLING, LEA COUNTY, NEW MEXICO )

**ORIGINAL**

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

December 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, December 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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## I N D E X

December 4th, 1997  
Examiner Hearing  
CASE NO. 11,888

|  | PAGE |
|--|------|
| EXHIBITS                                 | 3    |
| APPEARANCES                              | 3    |
| APPLICANT'S WITNESSES:                   |      |
| <u>JOE W. HAMMOND</u> (Landman)          |      |
| Direct Examination by Mr. Bruce          | 4    |
| Examination by Examiner Catanach         | 14   |
| <u>THOMAS J. TINNEY, III</u> (Geologist) |      |
| Direct Examination by Mr. Bruce          | 14   |
| Examination by Examiner Catanach         | 22   |
| REPORTER'S CERTIFICATE                   | 29   |

\* \* \*

## E X H I B I T S

| Applicant's | Identified | Admitted |
|-------------|------------|----------|
| Exhibit 1   | 5          | 12       |
| Exhibit 2   | 7          | 12       |
| Exhibit 3   | 7          | 12       |
| Exhibit 4   | 8          | 12       |
| Exhibit 5   | 9          | 12       |
| Exhibit 6   | 10         | 12       |
| Exhibit 7   | 11         | 12       |
| Exhibit 8   | 15         | 22       |
| Exhibit 9   | 17         | 22       |
| Exhibit 10  | 17         | 22       |
| Exhibit 11  | 19         | 22       |

\* \* \*

## A P P E A R A N C E S

FOR THE APPLICANT:

JAMES G. BRUCE, Attorney at Law  
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 Santa Fe, New Mexico 87501  
 P.O. Box 1056  
 Santa Fe, New Mexico 87504

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 8:56 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case  
4 11,888, the Application of Santa Fe Energy Resources, Inc.,  
5 for compulsory pooling, Lea County, New Mexico. I'll call  
6 for appearances in this case.

7 MR. BRUCE: Mr. Examiner, Jim Bruce from Santa  
8 Fe, representing the Applicant, and I have two witnesses to  
9 be sworn.

10 EXAMINER CATANACH: Call for additional  
11 appearances?

12 Will the witnesses please stand to be sworn in?

13 (Thereupon, the witnesses were sworn.)

14 JOE W. HAMMOND,  
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. BRUCE:

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

20 A. Joe W. Hammond.

21 Q. And where do you reside?

22 A. Midland, Texas.

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

24 A. Santa Fe Energy, as a senior landman.

25 Q. Have you previously testified before the

1 Division?

2 A. Yes, I have.

3 Q. And were your credentials as an expert petroleum  
4 landman accepted as a matter of record?

5 A. Yes, they were.

6 Q. And are you familiar with the land matters  
7 involved in this case?

8 A. Yes, I am.

9 MR. BRUCE: Mr. Examiner, are Mr. Hammond's  
10 credentials acceptable?

11 EXAMINER CATANACH: Yes, they are.

12 Q. (By Mr. Bruce) Mr. Hammond, what is it that  
13 Santa Fe Energy seeks in this case?

14 A. Santa Fe Energy seeks an order pooling the west  
15 half of Section 19, Township 20 South, Range 34 East, Lea  
16 County, New Mexico. It will be from the surface to the  
17 base of the Morrow for all pools or formations spaced on  
18 320 acres, and the southwest quarter of Section 19 for all  
19 pools or formations spaced on 160 acres. And we also seek  
20 approval of an unorthodox gas well location.

21 Q. Okay. What is Exhibit 1, Mr. Hammond?

22 A. Exhibit 1 is a land plat outlining the proposed  
23 west half spacing unit. Santa Fe's acreage is shaded in  
24 yellow. The proposed well is marked in the southwest  
25 quarter of Section 19. It has an unorthodox surface

1 location of 660 feet from the south line and 2084 feet from  
2 the west line of Section 19.

3 Q. Now, Mr. Hammond -- and the geologist will get  
4 into this, I believe, but this well is in the potash  
5 area --

6 A. It is.

7 Q. -- is it not?

8 A. Yes, it is.

9 Q. And the red mark is the surface location on this  
10 plat?

11 A. Yes, it is.

12 Q. Is that the only surface location that you could  
13 get approved in the west half of --

14 A. That is --

15 Q. -- Section 19?

16 A. That is true, yes.

17 Q. Okay. Now, what are Santa Fe's plans for the  
18 well?

19 A. Well, we have re-entered the well and are  
20 directionally drilling at this time to an unorthodox  
21 bottomhole location of 1100 feet from the south line and  
22 660 feet from the west line of the section.

23 We have received verbal approval from the  
24 Division Director to re-enter this well.

25 Q. Okay. And again, the geologist will --

1 A. Yes.

2 Q. -- testify a little more about what's going on?

3 What is the leasehold ownership of the west half?

4 And I refer you to your Exhibit 2.

5 A. Yes, Exhibit 2 is a synopsis of the ownership in  
6 the section. There are two federal leases.

7 Lease NM 13276 basically covers the northwest  
8 quarter and the north half of the southwest quarter.

9 And Lease NM 0550543 covers basically the south  
10 half of the southwest quarter.

11 Q. Of these people on Exhibit 2, who do you seek to  
12 force pool?

13 A. We seek to force pool Doyle Hartman and Larry  
14 Nermyr.

15 Q. And looking at their interests, I mean they own  
16 collectively -- what? Maybe less than a percent?

17 A. Less than -- One just a little over half of one  
18 percent, yes.

19 Q. Okay. Now, on Exhibit -- Let's move on to  
20 Exhibit 3. Is this a list of the offset lessees to your  
21 proposed unorthodox location?

22 A. Yes, it is.

23 Q. Okay, we'll get into that a little bit later, Mr.  
24 Hammond.

25 Now, let's discuss Santa Fe's efforts to obtain

1 the voluntary joinder of Mr. Hartman and Mr. Nermyr in the  
2 well. What is Exhibit 4?

3 A. Exhibit 4 is my initial well proposal letter sent  
4 to them October 1, along with an AFE, and it also has  
5 attached the certified receipts attached to it. And  
6 basically what that does is give them the opportunity to  
7 participate or farm out their interest to us or sell their  
8 interest to us.

9 Q. Now, besides this letter, have you made any other  
10 attempts to contact these two interest owners?

11 A. Yes, I have attempted to contact Doyle Hartman's  
12 office and have called Doyle Hartman's office in Midland,  
13 Texas, on October the 10th, October the 24th, November the  
14 10th and November the 19th. Each time I spoke with a land-  
15 type secretary and basically got the same response every  
16 time, that they were in between landmen, that they had our  
17 proposal, and the information that I was asking was going  
18 to be passed on to Mr. Hartman.

19 We've previously force pooled Mr. Hartman, and on  
20 small-type interests such as this he normally does not  
21 respond.

22 Q. Now, what about Mr. Nermyr?

23 A. Mr. Nermyr is basically the same type of deal.  
24 We've previously force-pooled him, he does not respond to  
25 our proposals. I have made efforts to try to locate a



1 phone number for him up in Montana. I did make an effort  
2 to find anybody that may be a relative up there. I did  
3 find a Tom Nermyr in Bottineau, North Dakota, but he  
4 indicated he was no relation to Larry Nermyr.

5 So both of these parties are -- This is their  
6 typical response, which is none.

7 Q. And again, you've -- Santa Fe has force pooled  
8 Mr. Nermyr, oh, six or eight times over the last several  
9 years in this area, have they not?

10 A. Yes, they have.

11 Q. And Mr. Nermyr's letters are never picked up, and  
12 there's been absolutely no response whatsoever?

13 A. No, no response at all.

14 Q. Okay. In your opinion, has Santa Fe Energy made  
15 a good-faith effort to obtain the voluntary joinder of  
16 these two interest owners?

17 A. Yes, we have.

18 Q. Mr. Hammond, would you identify Exhibit 5 and  
19 discuss the proposed well costs?

20 A. Yes, Exhibit 5 is a copy of Santa Fe's AFE. It  
21 is a proposed 14,000-foot Morrow test. Again, the  
22 estimated dryhole cost is \$610,000, and the completed well  
23 cost is \$895,000.

24 Q. Are these costs in line with the costs of other  
25 wells drilled to this depth in this area of Lea County?

1           A.    Yes, these are even less in cost because we are  
2 doing a re-entry, and therefore it's less, it's --

3           Q.    -- substantially less?

4           A.    -- substantially less, yes.

5           Q.    Does Santa Fe request that it be designated  
6 operator of the well?

7           A.    Yes.

8           Q.    And do you have a recommendation for the amounts  
9 which Santa Fe Energy should be paid for supervision and  
10 administrative expenses?

11          A.    Yes, I do.  It's \$5500 a month for drilling and  
12 \$550 a month for a producing well.

13          Q.    And are these amounts equivalent to those  
14 normally charged by Santa Fe and other operators in the --

15          A.    Yes, they are.

16          Q.    -- area?

17                   And are these the same as are being charged to  
18 the working interest owners under the JOA?

19          A.    Yes, they are.

20          Q.    Were the uncommitted interest owners notified of  
21 this hearing?

22          A.    Yes, they were.

23          Q.    And is Exhibit 6 my affidavit of notice with the  
24 notice letter and certified return receipt?  Mr. Hammond?  
25 Is Exhibit 6 my affidavit of notice?

1 A. Oh, yes, it is.

2 Q. Finally, Mr. Hammond, would you refer back to  
3 Exhibits 1 and 3 regarding the offset ownership?

4 Exhibit 1, the green is the proposed bottomhole  
5 location --

6 A. Yes, it is.

7 Q. -- on that map?

8 A. Yes, it is.

9 Q. And so you're closest to Sections 24, 25 and the  
10 west half of Section 30 at your unorthodox location,  
11 correct?

12 A. Yes.

13 Q. Who are the interest owners in those sections?

14 A. The interest owners are Santa Fe Energy, Louis  
15 Dreyfus Natural Gas and Southwestern Energy Production.

16 Q. And those are all participating working interest  
17 owners in the well, are they not?

18 A. Yes, they are.

19 Q. So you're only moving closer to yourself?

20 A. That's -- That's a good way to put it, yes.

21 Q. Okay. And finally, Mr. Examiner, Exhibit 7 is a  
22 copy of the notice letter I sent out regarding the  
23 administrative application. That was sent out on September  
24 26th, and no objection has been received to that notice.

25 Mr. Hammond, were Exhibits 1 through 7 prepared

1 by you or under your supervision or compiled from company  
2 business records?

3 A. Yes, they were.

4 Q. And in your opinion, is the granting of Santa Fe  
5 Energy's Application in the interests of conservation and  
6 the prevention of waste?

7 A. Yes.

8 MR. BRUCE: Mr. Examiner, we'd move the admission  
9 of Exhibits 1 through 7. And as noted, we had applied for  
10 administrative approval of the unorthodox location on  
11 September 26th. As indicated, notice was given, no one  
12 objected and seven weeks have passed since the objection  
13 deadline, which was October 16th, and we would ask that  
14 this be resubmitted for administrative approval at this  
15 time for the unorthodox location.

16 EXAMINER CATANACH: Exhibits 1 through 7 will be  
17 admitted as evidence.

18 MR. BRUCE: We will present additional evidence  
19 through the geologist as to the need for the unorthodox  
20 location.

21 EXAMINER CATANACH: Mr. Bruce, do you know why  
22 the application for administrative approval was not  
23 processed?

24 MR. BRUCE: Mr. Stogner told me that -- He just  
25 said, Well, since we're going to hearing it could all be

1 heard at that point. I was not notified of that until  
2 after the notice and filing deadline had passed for this  
3 hearing.

4 I had already filed for the force pooling, and I  
5 did not know of any particular problem with the unorthodox  
6 location until about a week -- well, about two weeks before  
7 this hearing, when I received a letter from Mr. Stogner  
8 saying, Present the evidence here. And we don't mind doing  
9 that, but...

10 EXAMINER CATANACH: Do you see any reason why  
11 this unorthodox location couldn't be approved  
12 administratively?

13 MR. BRUCE: I think after you see the geologist's  
14 evidence, I don't think there's really any reason why it  
15 couldn't be.

16 EXAMINER CATANACH: Because unless you want to  
17 continue this for four weeks and readvertise it --

18 MR. BRUCE: I'd rather have it processed  
19 administratively, Mr. Examiner.

20 EXAMINER CATANACH: Okay --

21 MR. BRUCE: Perhaps if Mr. Stogner saw what Mr.  
22 Tinney will shortly -- We're presenting essentially the  
23 same as what we presented at the administrative level, but  
24 maybe Mr. Tinney can expand upon that and Mr. Stogner can  
25 look at that transcript.

1 EXAMINER CATANACH: Okay.

2 EXAMINATION

3 BY EXAMINER CATANACH:

4 Q. Mr. Hammond, all the interests, with the  
5 exception of Hartman and Nermyr, are committed to the well?

6 A. Yes, they are under a JOA -- There's actually two  
7 JOAs that covers this area, and all of them have signed one  
8 of the two JOAs, one or the other.

9 And that's a -- Again, that's another good point  
10 because, again, neither Hartman nor Nermyr have never  
11 signed a JOA in this area, and they're just an uncommitted  
12 interest.

13 EXAMINER CATANACH: Okay, I have nothing further  
14 of Mr. Hammond. He may be excused.

15 MR. BRUCE: Call Mr. Tinney to the stand.

16 THOMAS J. TINNEY, III,  
17 the witness herein, after having been first duly sworn upon  
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. Will you please state your name and city of  
22 residence for the record?

23 A. Thomas Jordan Tinney, III, Midland, Texas.

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

25 A. Santa Fe Energy Resources as a senior geologist.

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

3 A. Yes, I have.

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

6 A. Yes, they were.

7 Q. And are you familiar with the geological matters  
8 involved in this Application?

9 A. Yes, I am.

10 Q. And is this area of Lea County, is this under  
11 your responsibility at Santa Fe Energy?

12 A. Yes, it is.

13 MR. BRUCE: Mr. Examiner, I tender Mr. Tinney as  
14 an expert petroleum geologist.

15 EXAMINER CATANACH: He is so qualified.

16 Q. (By Mr. Bruce) Mr. Tinney, would you identify  
17 Exhibit 8 and discuss the primary zone of interest for this  
18 well?

19 A. Exhibit 8 is a cumulative production map. It  
20 shows some of the wells that are close by and identifies  
21 the Morrow production associated or close by this prospect.

22 I would like to point out that the Santa Fe Topaz  
23 30 Fed Com Number 1 in Section 30 that's on your exhibit is  
24 also a Morrow producer. It was completed in May of 1996.

25 Q. Okay, let's go -- some of these things on this

1 map -- the Santa Fe Topaz 30, is it -- How much feet of pay  
2 did that well encounter?

3 A. The well actually encountered a gross 41 feet of  
4 lower Morrow, but in fact it was perforated only from one  
5 and a half feet of perforations in the very top part of  
6 that zone, and I will point that out on the cross-section  
7 that you see there, A-A', in a later exhibit.

8 Q. Is that because it was wet?

9 A. That's correct, the lower part of the sand was --  
10 calculated out wet, and we were afraid of water.

11 Q. Okay. Now, up north you have the Sinagua 18 Fed  
12 Com Number 1. That is a lower Morrow producer also, is  
13 that not?

14 A. That is correct. And it's a little hard to read,  
15 but that well has cum'd 3.7 BCF out of the lower Morrow.

16 Q. And so that's what you're shooting for, for the  
17 proposed well?

18 A. That's correct.

19 Q. Okay. You've got this blue outline. That is the  
20 potash, that outlines the potash in this area?

21 A. That is the potash boundary. And as you can see,  
22 we're inside that boundary. And the red square is the only  
23 location that we could get approved in the west half of 19,  
24 surface location.

25 Q. Because the potash companies would object



1 otherwise; is that correct?

2 A. That's correct, and you can see there's the  
3 dryhole symbol for the old Cities Service well that we're  
4 re-entering, the Government "N" 1 Number Y, which was an  
5 original Devonian test.

6 There's also a producer basically on that same  
7 pad, a shallow producer. We, in fact, actually had to move  
8 that tank batter just to be able to re-enter this old  
9 Cities Service dry hole.

10 Q. So regardless of the bottomhole location of the  
11 well, this is the only available surface location for Santa  
12 Fe in the west half?

13 A. That's correct.

14 Q. Okay. Let's move on to your Exhibit 9, and would  
15 you identify that for the Examiner?

16 A. Yes, this is a structure map on top of the lower  
17 Morrow. As you can see, the Topaz 30 Fed Com Number 1 in  
18 Section 30, by moving updip at the re-entry in Section 19,  
19 we will get over 100 feet updip, and we're hoping that by  
20 doing so we will get that entire lower Morrow sand out of  
21 any water and that the entire sand will be productive.

22 Q. Okay, Mr. Tinney, let's move on to your Exhibit  
23 10 and discuss what you are currently -- what the current  
24 status of the re-entry is and what you are seeking to help  
25 by moving the well to the west.

1           A.    Mr. Examiner, we've re-entered the Cities Service  
2 well and were able to get down to approximately 12,500  
3 feet. At that point we had shale caving in on us. We  
4 attempted for three days to get deeper to the objective,  
5 which is approximately 13,800 feet.

6           Q.    Were you going to originally test the Morrow zone  
7 in that well?

8           A.    That's correct. Our original intention was just  
9 to do a straight vertical re-entry, which obviously would  
10 be cheaper, and go in and DST the lower Morrow zone that  
11 was in the Cities Service well.

12                   When we get to the cross-section, I'll point out  
13 that the well -- or the zone of interest actually  
14 calculates out as productive. The zone was not tested by  
15 Cities Service at the time of drilling the original well.

16                   We have it correlating to the -- being the same  
17 sand as productive in the Topaz 30 Fed Com Number 1 to the  
18 south, but unfortunately we weren't able to get down to  
19 test that zone, and we -- as I mentioned before, we spent  
20 three days doing so.

21                   We felt like, in the interest of not spending any  
22 more money, that it would be in our best interest to go  
23 ahead and kick that well off. We set plugs, and the last I  
24 heard yesterday, we should be kicking that well off today  
25 and directionally drilling to the bottomhole location,

1 which is 1000 feet from the south line, and I believe it's  
2 660 from the west line.

3 Q. Now, Mr. Tinney, looking at your map, you are  
4 moving to the west northwest for your bottomhole location.  
5 You could move to the north or west -- or northwest, to an  
6 orthodox bottomhole location and still encounter what you  
7 hope would be productive sand. Why are you not doing that?

8 A. Well, this is the shortest distance to encounter  
9 the thickest portion of this lower Morrow channel that runs  
10 through here, and in the interest of saving money, we hope  
11 to drill this shorter distance to reach -- and thereby  
12 enhancing chances for a commercial well, getting a thicker  
13 part of the channel.

14 Q. And moving to the west, you hope to encounter  
15 thicker pay than moving directly to the north?

16 A. That's correct. As you can see from the map, we  
17 hope to encounter at least 30-plus feet of lower Morrow  
18 channel.

19 Q. Okay. And so besides the thicker pay, it's also  
20 the economics, the shorter directional drilling?

21 A. Yes, of course. That's correct.

22 Q. Now, you mentioned the cross-section. Why don't  
23 you move on to that and discuss what the old Cities Service  
24 well shows.

25 A. This is Exhibit 11, and you can see on the second

1 well from the left is the Topaz 30 Fed Com Number 1, and  
2 you can see that it correlates across, you can see the  
3 proposed entry between that well and the proposed re-entry  
4 of the Santa Fe Cities Service Government N Number 1 Y.

5 In the Topaz 30 Fed Com Number 1 the perforations  
6 are marked on the cross-section. As you can see, we  
7 perforated just the very top of that sand.

8 I've also noted the water-saturations  
9 calculations. You can see that at the top that we have 28  
10 percent, 18 percent, and as you go lower in the sand you  
11 progressively get higher water saturations.

12 This well has cum'd 900 million cubic feet of gas  
13 plus 52,000 barrels of condensate just out of that foot-  
14 and-a-half perforations.

15 So we hope to, by moving to the north, not only  
16 encounter a thicker sand but also structurally be over 100  
17 feet high to this Topaz 30 Fed Com Number 1.

18 Q. Okay. You mentioned the Cities Service  
19 Government N Y [sic]. You said that did calculate out as  
20 productive in this?

21 A. That's correct, you can see on the cross-section  
22 we calculate -- There's a sonic log. We calculated 10-  
23 percent porosity. Resistivity was 35 ohms, and the water  
24 saturation was 37 percent.

25 Q. Unfortunately, you weren't able to test that

1 again?

2 A. Right. That would have been the optimum  
3 situation. We would have liked to have done that, to be  
4 able to just drill out the plugs, go down and DST that  
5 zone. But unfortunately, because you are dealing with a  
6 well, an older well that's been plugged for quite a while,  
7 we were only able to get down to about 12,500 feet before  
8 we encountered problems.

9 Q. Are there any secondary objectives in this well,  
10 Mr. Tinney?

11 A. Yes, we have secondary objectives in the middle  
12 Morrow sands, Atoka sands, the Bone Springs and Delaware.

13 Q. But obviously, based on the -- your Topaz 30 and  
14 the Sinagua 18 Number 1, the Morrow, lower Morrow, is by  
15 far the primary zone?

16 A. Right, I would say it is really the primary  
17 objective and what we're really after. The Cities Service  
18 well did encounter some shows in the Bone Springs section,  
19 but -- and being this part of New Mexico, moving west, we  
20 could encounter some good things that happen for us.

21 Q. In your opinion, what penalty should be assessed  
22 against any interest owner who goes nonconsent in this  
23 well?

24 A. Cost plus 200 percent.

25 Q. Were Exhibits 8 through 11 prepared by you or

1 under your supervision?

2 A. Yes, they were.

3 Q. And in your opinion, is the granting of this  
4 Application in the interests of conservation and the  
5 prevention of waste?

6 A. Yes, sir.

7 MR. BRUCE: Mr. Examiner, I tender the admission  
8 of Santa Fe Exhibits 8 through 11.

9 EXAMINER CATANACH: Exhibits 8 through 11 will be  
10 admitted as evidence.

11 EXAMINATION

12 BY EXAMINER CATANACH:

13 Q. Mr. Tinney, when you say that that's the only  
14 location, surface location, that you could drill from in  
15 that west half, who's restricting you on that? Is it the  
16 BLM?

17 A. Yes, sir.

18 Q. Have you proposed anything else but a re-entry of  
19 that well to them or --

20 A. Well, we did try to propose some locations in  
21 Section 19, and they basically said that they would approve  
22 this location and then they would approve a location up  
23 there in the very northeast corner, you can see a producing  
24 location. That's also a shallow well in a very -- It  
25 almost looks like it's 330 and 467, maybe. They said they

1 would obviously approve that location.

2 But by re-entering a well there and then having  
3 to drill, obviously, you'd probably end up having to drill  
4 because of that well, is actually still producing, we would  
5 have to drill a vertical well and then kick it off, and the  
6 distance to go to the west is really prohibitive.

7 Q. So you actually originally had the intent of  
8 drilling a well in the west half, a vertical well?

9 A. No, the -- Our whole intention was just to  
10 re-enter the Cities Service well all along, in the west  
11 half of 19.

12 Q. So you never proposed any other locations? I  
13 mean, this was your only plan?

14 A. That's correct, other than we did check into that  
15 one location in the very northeast.

16 Q. So -- I mean, is it possible you could actually  
17 drill a vertical well in the west half of 19?

18 A. Based on a location that I tried to get in  
19 Section 24, the blue square, recently -- if you see that on  
20 that map, on Exhibit 10, the one I'm looking at, if you  
21 look at the isopach, the lower Morrow gross sand -- I ran  
22 into the same problem trying to get a location. And they  
23 would not -- I tried several different locations in that  
24 section, and they would not approve anything other than the  
25 one you see there, which is actually basically a twin to

1 that producing location, or producing well that you see  
2 there.

3 So based on previous experience, it's very  
4 difficult to try to get locations within that potash  
5 boundary.

6 Q. For this re-entry, did you have to notify any  
7 potash companies, or was it just the BLM?

8 A. I'd have to ask my landman about that. I'm not  
9 sure, sir.

10 MR. HAMMOND: As far as notifying potash, no, but  
11 we talked to them.

12 EXAMINER CATANACH: So they were aware?

13 MR. HAMMOND: Oh, yes.

14 EXAMINER CATANACH: Okay.

15 MR. HAMMOND: And isn't it -- isn't the BLM and  
16 the potash people -- I think they are hand in hand, in  
17 getting locations approved also.

18 Q. (By Examiner Catanach) What is the current  
19 producing rate of that south offset?

20 A. Topaz 30 Fed Com Number 1?

21 Q. Yeah.

22 A. Two million a day. And it's still making quite a  
23 bit of condensate too. I'd say -- I don't know the exact  
24 figure, sir, but I'd say in the range of 100 barrels a day  
25 of condensate.



1 Q. And you said -- what was the cumulative  
2 production on that?

3 A. Cumulative production is -- it's on this cross-  
4 section -- 900 million cubic feet of gas, plus 52,000  
5 barrels of oil, and that's a cum to 11-97.

6 Q. Okay. Have you calculated how much further you'd  
7 have to drill to reach a standard bottomhole location? Is  
8 it quite a ways or --

9 A. Yeah, we looked at going basically a 1980-1980,  
10 which is really close to that dry hole that you see due  
11 north of the red square, the re-entry. Okay. And we felt  
12 like that we could move in that direction, but it wasn't an  
13 optimum direction to encounter the thickest portion of the  
14 lower Morrow channel.

15 Q. Okay. Is there -- There's currently no offset  
16 Morrow production in Section 24?

17 A. That's correct, sir.

18 Q. Or 25?

19 A. That's correct, sir.

20 Q. Are there intentions to drill some wells in those  
21 sections?

22 A. Based on what we find out from this re-entry and  
23 directional drilling of this bottomhole location, once we  
24 acquire, obviously, the thickness of the channel at that  
25 bottomhole location, another key piece of information will

1 also be pressure data to determine the effect of the Topaz  
2 30 Fed Com Number 1, because it is producing quite a bit of  
3 gas and condensate out of small perforations, and we feel  
4 like there could be a chance of pressure communication.

5 But once we determine that and be able to  
6 determine drainages, then what we'd like to end up doing  
7 would be drilling in Section 24, that blue square that  
8 we've basically got approved from the BLM and potash  
9 people, and then directionally drill to the north where you  
10 can see that bottomhole location, so that we could try to  
11 optimally drain the reservoir in the north half of 19 and  
12 in 24.

13 Q. Okay. How long before you reach TD on your  
14 directional?

15 A. With a kickoff today, barring no unforeseen  
16 problems, we hope to be there in, say, 10 days, something  
17 like that.

18 Q. What do you consider the risk to be involved in  
19 the drilling of this well, Mr. Tinney?

20 A. The risks involved are, obviously, finding the  
21 lower Morrow channel in the position that we have mapped,  
22 and then also just the fact that -- drilling a directional  
23 hole and getting it to that bottomhole location.

24 Q. Do you believe that justifies the 200-percent  
25 risk penalty?

1           A.    Yes, sir. We drilled the Sinagua 18 Fed Com  
2   Number 2 just south of the Sinagua 18 Fed Com Number 1 that  
3   you see there in Section 18, the one that's a producer. We  
4   drilled that well. It's not really marked on your map;  
5   it's just due south of that gas symbol. It's due south.  
6   And we directionally drilled that well to the southeast.

7           The prior interpretation was that the channel  
8   actually went on the east half of Section 18, and we  
9   weren't successful. The well wasn't -- found a little bit  
10  of lower Morrow, but it was tight, and didn't really find  
11  the thicker portion of the channel. And you can see that's  
12  not very -- you know, very far from a very good well.

13           So when you're dealing with the Morrow and  
14  dealing with a fluvial system, we feel like that there is  
15  enough risk in what we're doing to justify the 200 percent.

16           EXAMINER CATANACH: Okay, I have no further  
17  questions, Mr. Bruce.

18           MR. BRUCE: I have nothing further in this  
19  matter, Mr. Examiner.

20           EXAMINER CATANACH: I will talk to Mr. Stogner  
21  and see if we can get that thing. Are you going to  
22  actually formally resubmit it, or are you just going to  
23  request --

24           MR. BRUCE: I can formally resubmit it.

25           EXAMINER CATANACH: I'm not sure how that would

1 work if you formally submitted it. That might mean  
2 renotification.

3 Maybe it would be good if maybe sometime next  
4 week you came in and we could talk to --

5 MR. BRUCE: Okay.

6 EXAMINER CATANACH: -- Mr. Stogner.

7 There being nothing further in this case, Case  
8 11,888 will be taken under advisement.

9 (Thereupon, these proceedings were concluded at  
10 9:30 a.m.)

11 \* \* \*

12  
13  
14  
15 I do hereby certify that the foregoing is  
16 a complete record of the proceedings in  
the Examiner hearing of Case No. 11888.  
heard by me on 12/4/ 1997.

17 David R. Catanach, Examiner  
18 OH Conservation Division  
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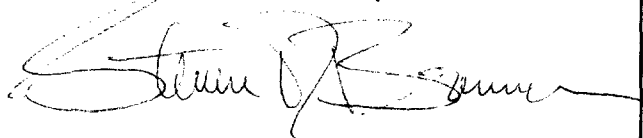
CERTIFICATE OF REPORTER

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 December 7th, 1997.




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STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 1998