

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 SONAT EXPLORATION COMPANY)
FOR BLANKET SURFACE COMMINGLING, EDDY)
AND LEA COUNTIES, NEW MEXICO)

CASE NO. 11,948

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

March 19th, 1998

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, March 19th, 1998, 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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March 19th, 1998
Examiner Hearing
CASE NO. 11,948

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A P P E A R A N C E S

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FOR THE APPLICANT:

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 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:35 a.m.:

3 EXAMINER STOGNER: At this time I will call Case
4 Number 11,948.

5 MR. CARROLL: Application of Sonat Exploration
6 Company for blanket surface commingling, Eddy and Lea
7 Counties, New Mexico.

8 EXAMINER STOGNER: Call for appearances.

9 MR. CARR: May it please the Examiner, my name is
10 William F. Carr with the Santa Fe law firm Campbell, Carr,
11 Berge and Sheridan. We represent Sonat Exploration
12 Company, and I have two witnesses.

13 EXAMINER STOGNER: Any other appearances?

14 Will both witnesses please stand to be sworn at
15 this time?

16 (Thereupon, the witnesses were sworn.)

17 EXAMINER STOGNER: Mr. Carr?

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

21 DIRECT EXAMINATION

22 BY MR. CARR:

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

24 A. Chad R. Shaw.

25 Q. Where do you reside?

1 A. Midland, Texas.

2 Q. By whom are you employed?

3 A. Sonat Exploration Company.

4 Q. Mr. Shaw, what is your position with Sonat?

5 A. I'm a senior landman.

6 Q. Have you previously testified before this
7 Division?

8 A. No, I have not.

9 Q. Could you briefly summarize your educational
10 background for Mr. Stogner?

11 A. Yes. I have a bachelor of business
12 administration degree from the University of Texas at
13 Austin, graduating in 1979, with a specialization in
14 petroleum land management.

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

16 A. I've worked ten years, a little over ten years,
17 for Texas Oil and Gas Corporation, and another three and a
18 half years for Atlantic Richfield Company, ARCO.

19 And then for about the last four years I've been
20 employed either contract or full-time with Sonat
21 Exploration Company.

22 Q. And at all times have you been employed as a
23 petroleum landman?

24 A. Yes, I have.

25 Q. Are you familiar with the Application filed in

1 this case on behalf of Sonat Exploration Company?

2 A. Yes, I am.

3 Q. And are you familiar with the status of the lands
4 in the area which is the subject of this case?

5 A. Yes, I am.

6 MR. CARR: Mr. Stogner, we would tender Mr. Shaw
7 as an expert witness in petroleum land matters.

8 EXAMINER STOGNER: Mr. Shaw is so qualified.

9 THE WITNESS: Thank you.

10 Q. (By Mr. Carr) Could you briefly summarize for
11 the Examiner what Sonat seeks with this Application?

12 A. Yes, we're seeking an exception to Division Rule
13 309.A for authority to blanket lease commingle of
14 hydrocarbon production from the Delaware formation in the
15 Poker lake area within ten federal leases from all existing
16 wells currently and to be drilled in the Delaware
17 formation. That includes acreage in Township 24 South,
18 Ranges 31 and 32 East, of Eddy and Lea Counties, New
19 Mexico.

20 Q. Are you also seeking an exception to the rules to
21 permit allocation of production within the project area
22 without separate metering of production?

23 A. That's right, an exception to Rule 309.B.(5)(b)
24 to permit allocation of production to each well within the
25 project area without separate metering of production.

1 Q. Have you prepared exhibits for presentation here
2 today?

3 A. Yes, I have.

4 Q. Let's go to what has been marked Sonat Exhibit
5 Number 1. Could you identify this and review it for the
6 Examiner, please?

7 A. Yes, Exhibit Number 1 is a -- It's a land plat of
8 this Poker Lake area that depicts the federal oil and gas
9 leases in the area which Sonat owns in, and there's ten
10 federal leases total that's spread across this area that
11 we're interested in today, and they've been so noted in
12 different colors and also with the BLM lease numbers.

13 Q. Now, Mr. Shaw, some of these leases extend beyond
14 the area that is shown on this plat; is that right?

15 A. That's correct.

16 Q. You have just shown the portions of those leases
17 in what we are referring to as the project area?

18 A. Yes.

19 Q. If this Application is not granted and lease
20 commingling approved, Sonat would, in fact, have to
21 maintain separate surface facilities on each of the leases
22 that are shown on this exhibit; is that right?

23 A. That's correct.

24 Q. And they'd be maintaining facilities on leases
25 that are as small as 40 acres?

1 A. That's correct.

2 Q. Let's go to Exhibit Number 2. Will you identify
3 and review that?

4 A. Exhibit Number 2 is a land plat that shows this
5 same area. Where before there were -- the federal leases
6 were designated on this plat, it's the same area with
7 the -- that shows the different operators across the
8 federal leases.

9 In this bright yellow is the Sonat-operated
10 acreage.

11 In the blue color is Pogo Producing Company-
12 operated acreage, and then denoted in the -- with the red
13 boxes in the east half of Section 8 Merit is the operator,
14 and in the northwest quarter of Section 11 Merit is also
15 the operator.

16 In addition, this map shows Sonat's first quarter
17 of 1998 wells with the blue dots and the second quarter of
18 1998 wells with the red dots. It gives you an indication
19 of where on these leases our current operations fall.

20 Q. Mr. Shaw, Sonat is seeking authority for lease
21 commingling for the acreage on this exhibit shaded in
22 yellow; is that correct?

23 A. That's correct, in the bright yellow color.

24 Q. And you're only looking at those tracts that you
25 operate on these federal leases; is that correct?

1 A. Yes.

2 Q. The Merit acreage in the east half of 8 and in
3 the northwest of 11 is outside that area?

4 A. That's correct.

5 Q. And the Pogo-operated acreage in the checkerboard
6 area is also not included in this Application; is that
7 correct?

8 A. That's correct, that's not included in our
9 Application.

10 Q. All right, let's look at Exhibit Number 3. What
11 is this?

12 A. Exhibit Number 3 is a listing of these -- what
13 I'm referring to as the Poker Lake federal leases, insofar
14 as they cover our request for blanket surface commingle.
15 So it goes through the ten federal leases, has the lease
16 numbers, lessor, lessee, their effective dates, the term of
17 the leases, the descriptions, the description insofar as
18 our Application is concerned, and the royalty.

19 Q. Now let's go to Exhibit 4. Would you explain
20 this to Mr. Stogner?

21 A. Yes, Exhibit 4 is kind of a quick cross-reference
22 that shows the federal lease numbers across the top of the
23 page, and down the left-hand margin shows the Sonat-
24 operated wells and how -- the colored block indicates on
25 which leases which wells correspond with.

1 And on the lower part of the page where there's a
2 little solid line across, that shows the new wells, the
3 ones that were depicted on the previous map with the dots.
4 They're the first quarter and second quarter of 1998 wells.

5 Q. If we look at this exhibit, the three leases on
6 the right side of the exhibit show no wells; is that
7 correct?

8 A. That's correct.

9 Q. If we look at the portion of the exhibit below
10 the dark line running across it, those indicate wells that
11 Sonat plans to drill during the first half of this year; is
12 that right?

13 A. That's correct. I mean, we -- The wells below
14 this line are the first-half wells, and as far as the three
15 additional leases that do not have wells planned, we do
16 have plans for those in the future.

17 Q. Is the ownership of the production to be
18 commingled common throughout these leases?

19 A. No, it's not.

20 Q. Let's go to Exhibit Number 5, and I'd ask you to
21 review that for Mr. Stogner.

22 A. Okay. Exhibit Number 5 is a spreadsheet that
23 shows in the left-hand margin all working interest,
24 overriding royalty interest, and royalty interest owners in
25 each one of these ten federal leases. And it shows the

1 lease numbers across the top of the page and shows each
2 party that was -- each party that owns an interest, and
3 gives an indication, as far as a quick glance, as to which
4 leases they own in.

5 Q. Look at the right-hand column on this exhibit.
6 You have three leases that you have grouped together; is
7 that right?

8 A. That's correct.

9 Q. And why is that?

10 A. If you don't mind referring back to Exhibit 1,
11 which was a federal lease map, it will give an indication
12 of why this is set out in this manner.

13 These three leases cover acreage in the west half
14 of Section 15, and up until recently that was a 320-acre
15 federal communitization agreement for the Morrow formation.
16 And our records have been set out in that manner with these
17 three leases being a part of that com unit.

18 And so therefore, that well is now completed,
19 it's called the Lotos "A" Federal Number 1, has been
20 completed to the Delaware formation, and we have shown this
21 for notice purposes of all the parties that own in all
22 three of those leases.

23 Q. So every interest owner in each of those leases
24 is indicated on Exhibit Number 5?

25 A. That's correct.

1 Q. How current is Exhibit Number 5?

2 A. It was taken from information gathered January
3 1st of 1998, but it's been continually updated since then
4 as we have our drilling program underway out in this Poker
5 Lake area.

6 Q. Is Sonat Exhibit Number 5 an affidavit with an
7 attached letter and Application and then return receipts,
8 confirming that each and every individual shown on Exhibit
9 Number 5 has been notified of the hearing for today?

10 A. You mean Sonat -- You mean Exhibit Number 6?

11 Q. Yes, I mean Exhibit 6 is an affidavit showing
12 that everyone on Exhibit 5 has been notified of the
13 hearing?

14 A. That's correct.

15 Q. And we have notified all working interest owners,
16 all royalty interest owners and all overriding royalty
17 interest owners?

18 A. Yes, we have.

19 Q. What response have you received to this notice?

20 A. I have had phone calls from one working interest
21 owner and one overriding royalty interest owner, inquiring
22 about our Application and asking about our intent, and we
23 have addressed those concerns, and at least the one
24 overriding royalty owner has asked for a copy of any order
25 that may come out of the Commission, and we will be happy

1 to provide that to them.

2 Q. Who are the purchasers of production from these
3 leases? You might want to refer to Exhibit Number 7 at
4 this time.

5 A. Exhibit Number 7 shows the four purchasers of
6 Sonat production in the Poker Lake area. They are LG&E
7 Natural Pipeline Company, GPM Gas Corporation, El Paso
8 Marketing, and Texaco Trading and Transportation, Inc.

9 Q. Have you reviewed this proposal with each of
10 these purchasers?

11 A. Yes, we have. We've sent them copies of our
12 Application as well as asked them to sign a waiver letter,
13 and have also verbally talked to each one of the purchasers
14 on the telephone.

15 Q. Is the attachment to Exhibit Number 7 the waiver
16 letter signed by LG&E?

17 A. That's correct.

18 Q. And you are anticipating in the next day or so to
19 receive the waiver letters from the other companies?

20 A. Yes, we are.

21 Q. Have they indicated they are sending them to us?

22 A. Yes, they have.

23 Q. Will you make those available to Mr. Stogner when
24 they are received?

25 A. Yes, I will.

1 Q. Has Sonat reviewed this matter with the Bureau of
2 Land Management?

3 A. Yes, we have. We've had discussions with the
4 BLM's Armando Lopez and David Glass and provided them with
5 a copy of our Application as well as a letter and a plat
6 similar to one of these that we've shown here today. So
7 they are aware of our Application.

8 Q. Have they recently requested some additional
9 information from Sonat concerning this matter?

10 A. They have. They've requested some additional
11 materials similar to what we've provided here today, and
12 we've informed Mr. Glass that we will be sending him this
13 complete package of exhibits from our hearing today.

14 Q. And they asked you to confirm that notice of the
15 case had been provided to all interest owners; isn't that
16 right?

17 A. Yes, that's correct.

18 Q. You were also asked to confirm that Indian and
19 federal royalty would not be reduced by this Application?

20 A. That's correct.

21 Q. Do you anticipate receiving an approval letter
22 from the BLM in the immediate future concerning this
23 Application?

24 A. Yes, we hope to receive that within the next
25 week.

1 Q. And will you provide a copy of that to the
2 Examiner?

3 A. Yes, I will.

4 Q. Does Sonat intend to call an engineering witness
5 to review the technical portions of this Application?

6 A. Yes.

7 Q. Were Sonat Exhibits 1 through 7 either prepared
8 by you or compiled at your direction or under your
9 supervision?

10 A. Yes, they were.

11 MR. CARR: Mr. Stogner, at this time we would
12 move the admission into evidence of Sonat Exhibits 1
13 through 7.

14 EXAMINER STOGNER: Let's go back to Exhibit
15 Number 3.

16 THE WITNESS: Yes, sir.

17 EXAMINER STOGNER: Describe Exhibit Number 3
18 again.

19 THE WITNESS: Exhibit Number 3 is a description
20 of the ten federal leases, only insofar as they cover our
21 Application -- oh --

22 EXAMINER STOGNER: Okay, I think we have a
23 problem here.

24 THE WITNESS: I'm sorry.

25 MR. CARR: You've got two Exhibits 7 and no

1 Exhibit 3.

2 THE WITNESS: Right.

3 MR. CARR: Exhibit Number 3 simply is a
4 description by quarter section of the acreage that's
5 covered by the Application.

6 THE WITNESS: It's intended to correspond with
7 Exhibit Number 2, the plat that shows the Sonat-operated
8 acreage. The intent here is to give a full listing of that
9 bright yellow acreage on a description. You know, it's
10 also described in our Application, but we put it here on a
11 separate sheet to show the leases involved insofar as our
12 Application is concerned.

13 EXAMINER STOGNER: Okay, now on -- Well, first of
14 all, Exhibits 1 through 7 will be admitted into evidence at
15 this time.

16 EXAMINATION

17 BY EXAMINER STOGNER:

18 Q. While we're on Exhibit Number 3, you show
19 different lessees.

20 A. Yes, those were the original lessees of record
21 when the leases were issued by the BLM.

22 Q. And since then Sonat has obtained those; is that
23 correct?

24 A. That's correct. There's -- We acquired interest
25 in this area from the Bettis brothers, and also from C&G

1 petroleum, and they were in many cases successor assignees
2 to these people that you see listed here as the original
3 lessees of record,

4 Q. Okay. Now, the three leases that have no current
5 production -- There's three of them; is that correct?

6 A. Yes, sir.

7 Q. NM-70895, NM-30070, and NM-77047?

8 A. Yes, sir. Yes. I may need to clarify something
9 in that regard. As far as -- If I could just address those
10 in order --

11 Q. Please.

12 A. -- as far as NM -- And you may want to refer to
13 Exhibit 1 again. It may help in my explanation.

14 In the first instance, NM-70895, which is this --
15 I guess it's kind of a peach-colored lease that's in the
16 middle of this block -- there is no existing Delaware,
17 Sonat Delaware operated production on that lease. It is,
18 however -- and therefore, you know, I'm not showing it on
19 here as far as a Sonat-operated Delaware well.

20 There is none on that lease, but that lease does
21 have two other wells on it that are either not in the
22 Delaware formation or are not operated by Sonat Exploration
23 Company. That may explain that situation.

24 Q. Okay, because yes, on Exhibit Number 1 you do
25 show two wells. One appears to be a gas-well emblem, and

1 then the one up in the northwest northwest quarter --

2 A. That's correct

3 Q. -- that's operated by somebody -- Pogo?

4 A. By Pogo, yes, sir, that's correct.

5 In the second instance, this NM-30070, which --
6 that's the brightest-colored yellow lease on there -- this
7 lease currently does not have a well on it. However, up
8 until about November of 1997 it was a part of a Morrow
9 communitization -- a Morrow com unit, which was the west
10 half of Section 15.

11 So it has just recently been in a situation to
12 where it does not have production on it, and we have asked
13 the BLM for a two-year extension in accordance with the
14 dissolved com unit. And we do have plans for this lease,
15 even though it does not have a well on it at this time.

16 The next instance is this last one, NM-77047.
17 Again, in the west half of Section 15, down at the very
18 southwest southwest, this lease appears. It's a 40-acre
19 tract. It was a part of this com unit up until just
20 recently.

21 And we do have plans -- It may be a little bit
22 hard to see, but in the southeast southeast of Section 16,
23 which is a state acreage, Sonat is currently drilling the
24 Sonat Cactus State 16 Number 2 well. So we would hope that
25 if it's successful -- and it's a Delaware test -- that we

1 would, you know, be able to move over and develop this
2 lease.

3 Q. And since that was part of that west half in that
4 Morrow, was it given a two-year extension also?

5 A. We've applied for that at the BLM.

6 Q. Okay. Exhibit Number 5, I show, and I'm going to
7 make sure -- oh, there are -- How many working interests,
8 different working interests, are shown on this exhibit?
9 Just working interests?

10 A. I believe there's just three.

11 Q. Okay, that's Sonat, WTG Exploration --

12 A. Yes.

13 Q. -- and Santa Fe Energy?

14 A. Yes.

15 Q. And those parties were contacted; is that
16 correct?

17 A. Yes, they were. And WTG Exploration did give us
18 a call and talk to us about our Application. And after
19 explanation, they were in favor of -- in support of our
20 Application to commingle.

21 Q. What were their initial concerns?

22 A. They had been a partner in this west half of
23 Section 15 Com Unit, and I think they just wanted to know
24 what we were doing. And David Davis, which is the
25 president of WTG, is the one that I talked to, and -- very

1 friendly gentleman, and he just -- I think he just wanted
2 to touch base and acknowledge that he received our
3 Application and inquire about it.

4 Q. And, let's see, the other two working interests,
5 Sonat and Santa Fe, they participate -- well, obviously,
6 you being the operator. Santa Fe has some present Delaware
7 production; is that correct?

8 A. Yes, Santa Fe -- If you don't mind referring back
9 to Exhibit Number 2, which is the second land plat, if
10 you'll look in the north -- or, I'm sorry, the southwest
11 quarter of Section 11, Santa Fe is a partner with us there
12 in a 40-acre tract. It says Santa Fe 50 percent, Sonat 50
13 percent.

14 And actually -- Actually that particular tract
15 has a Delaware well on it and is not a part of our
16 Application today. But we did notify Santa Fe regardless,
17 but they haven't given us any indication that they had any
18 problem with our Application.

19 The reason that that has been excluded is because
20 it has its own separate facility, which is a 50-50-operated
21 -- or 50-50-owned facility between Sonat and Santa Fe.

22 Q. Okay. So my understanding on that, even though
23 that's part of a lease in which you want included, you want
24 to exclude that particular 40-acre tract from this
25 Application?

1 A. That's correct.

2 Q. So whenever I look at Exhibit Number 2, I just
3 want to look at the brighter yellow-colored areas?

4 A. Yes.

5 Q. Okay. The other -- so -- In fact, you've led up
6 to my next question, which was about that --

7 A. About the 40-acre tract.

8 Q. -- duller yellow. Okay, so it's just the
9 brighter yellow.

10 A. I wish the land situation was a little easier
11 around here, but we tried to depict it in the best possible
12 way we could with the colors and the maps.

13 Q. Is this unusual, like in Section Number 1, where
14 you have that checkerboarded out even though it's one
15 lease, that you have several operators? Is that unusual,
16 or --

17 A. I'd say it's -- I'd say it may be a creative land
18 trade on the part of the company that we purchased this
19 acreage from, as far as that goes. We refer to it as a
20 modified checkerboard, and we did not intentionally make
21 this checkerboard pattern. It was a part of a land trade
22 that was made between the Bettis brothers, Bettis, Boyle
23 and Stovall, and Pogo Producing Company.

24 Q. So Sonat didn't create this. You all purchased
25 it already created?

1 A. But we're living with it, that's correct.

2 Q. Okay. On Exhibit Number 2 -- and I want to make
3 sure that I'm clear on this -- in some of the brightly
4 yellow pieces you have percentages --

5 A. Yes.

6 Q. -- like over in the east half of 12, you have 75
7 and 97 percent --

8 A. Yes.

9 Q. -- on a couple of the 40-acre tracts, and then in
10 Section 18, over there in Lea County, that's 97 percent.

11 A. Yes.

12 Q. What are those figures, again?

13 A. Let me elaborate on that. I'm glad you pointed
14 that out.

15 What those percentages are, especially when
16 there's a slash and there's two numbers, the first number
17 is Sonat Exploration Company's working interest, which in
18 many cases is 75 percent, even on the blue acreage.

19 The second number is -- where there's a slash, is
20 Pogo Producing Company's working interest, which in many
21 cases is 25 percent.

22 It's a little bit unusual situation, in that Pogo
23 Producing Company is operating that acreage with a 25-
24 percent working interest, and Sonat Exploration Company is
25 a nonoperator with 75-percent working interest. But that's

1 just the way that this has developed out here.

2 So that -- What it does is, it gives one an
3 indication by looking at this map as to where Sonat's
4 working interests are and to what extent they are. If it's
5 just a number by itself, you know, that's our working
6 interest, that's Sonat's working interest.

7 Q. And then the other percentage is somebody else's,
8 not necessarily Pogo's?

9 A. Yes, and in those cases -- In most of those cases
10 we have that depicted. You do see some tracts where we
11 have 97 percent, or maybe 75 percent and no other interest.
12 I can tell you that in those instances, the outstanding
13 three or 25 percent is WTG Exploration Company, that we
14 have notified.

15 Q. So even in the blue areas where it doesn't add up
16 to 100, that's not necessarily WTG's but somebody else's?

17 A. In that instance, I think maybe where you're
18 referring to -- It depends on where you are in the
19 position. If you're over there in the east half of 12,
20 that is WTG Exploration Company.

21 If you're on the other side of the position in
22 the east half of Section 8, where our interests are only
23 adding up to roughly 49 percent, there are several other
24 parties involved in that acreage. But that again is not a
25 part of our Application here today.

1 Q. Have you gone through your -- Have you got
2 approval from your bookkeeping department for this? Have
3 you sent them notification?

4 A. This is job security for a landman.

5 EXAMINER STOGNER: I don't have any other
6 questions of Mr. Shaw.

7 MR. CARR: Mr. Stogner, in the Application that
8 we filed -- and it's also attached to Exhibit 6 -- is one
9 single description of the area by 40-acre tracts, so that
10 -- in paragraph 1 of the Application. We've given you kind
11 of a fragmented description in Exhibit 3, but we can follow
12 it in the Application itself.

13 EXAMINER STOGNER: Okay, which --

14 MR. CARR: It's just Exhibit 6, the notice
15 affidavit.

16 EXAMINER STOGNER: Okay.

17 MR. CARR: It's about the third or fourth --
18 maybe the fifth page back, there is a single description of
19 what we're considering the project area, so you don't have
20 to take all of those that are set out in 3 and work with
21 them; you can see it described...

22 EXAMINER STOGNER: Is that this page?

23 MR. CARR: Yes, sir.

24 EXAMINER STOGNER: Did you prepare that?

25 MR. CARR: I also marked Exhibit 3 as Exhibit 7,

1 yes. But I did prepare it, such as it is.

2 EXAMINER STOGNER: Did you describe it in the
3 right order?

4 MR. CARR: I hope.

5 EXAMINER STOGNER: As suggested in the Surveyor's
6 Guidelines of New Mexico? We'll get together if not, and
7 discuss that at a later date.

8 If there's no other questions of Mr. Shaw, he may
9 be excused.

10 Mr. Carr?

11 MR. CARR: Mr. Stogner, at this time I would call
12 Todd Moehlenbrock.

13 EXAMINER STOGNER: Why don't you go ahead and
14 spell that last name while -- Have you got it? Never mind,
15 I've got it.

16 TODD W. MOEHLNBROCK,
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. CARR:

21 Q. Would you state your name for the record?

22 A. Todd W. Moehlenbrock.

23 Q. Will you spell your last name for -- Kate McGraw?

24 A. It's M-o-e-h-l-e-n-b-r-o-c-k.

25 Q. Mr. Moehlenbrock, where do you reside?

1 A. In Midland, Texas.

2 Q. By whom are you employed?

3 A. Sonat Exploration Company.

4 Q. And what is your position with Sonat?

5 A. I'm a senior petroleum engineer.

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

9 A. I have.

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

12 A. Yes, I am.

13 Q. Are you familiar with the Sonat-operated
14 properties in the Poker Lake area?

15 A. Yes, I am.

16 MR. CARR: Are the witness's qualifications
17 acceptable?

18 EXAMINER STOGNER: Yes, they are.

19 Q. (By Mr. Carr) Mr. Moehlenbrock, how many wells
20 does Sonat currently operate in the project area?

21 A. Within the federal leases in the project area,
22 Sonat operates 14 Delaware wells. And we are currently in
23 a development drilling program for 1998, and each of the
24 additional Delaware wells are expected to bring on, on an
25 average, a first-year average daily rate of approximately

1 60 barrels of oil per day, 90 MCF per day, and 100 barrels
2 of water per day.

3 Q. And as you bring these on, what is the basic
4 volume of oil, gas and water that will be affected by this
5 commingling Application if granted?

6 A. Currently, all the wells on the federal acreage
7 are producing approximately 470 barrels of oil per day, 500
8 MCF of gas per day, and 1200 barrels of water per day.

9 Q. Now, are these wells producing from one common
10 source of supply?

11 A. Yes, they are. They are producing from the
12 Delaware formation, which exists below the salt section
13 down to the top of the Bone Springs. That's approximately
14 4300 feet down to, you know, varying where you are, 8200 to
15 8300 feet.

16 And there are three sand members within the
17 Delaware formation -- the Bell, Cherry and Brushy Canyon --
18 but in this area they are all considered a Delaware -- it's
19 all considered a Delaware pool.

20 Q. There are no separate, like, Brushy Canyon Pools
21 within a mile of the project area?

22 A. That's correct, there are no separate sand-member
23 pools within a mile of this area. They're all considered
24 one -- It's all considered one pool.

25 Q. You are commingling production from these same

1 Delaware zones in the area, are you not?

2 A. That's correct, and especially up in Section 1 we
3 have wells producing both Cherry Canyon and Brushy Canyon,
4 and there are no compatibility problems. There are no
5 compatibility problems with the water, we don't see any
6 scaling problems, because the waters are the same, and the
7 crude is approximately the same API gravity, about a 40-API
8 gravity, and by producing them the same you're not reducing
9 the value of the product.

10 Q. Let's go to what has been marked as Sonat Exhibit
11 Number 8. I'd like you to identify this, and first of all
12 I'd like you to explain what is shaded yellow on this
13 exhibit, because it differs from the earlier two.

14 A. Yeah, what Chad has showed you is basically the
15 federal acreage in our -- what we call our Poker Lake
16 Project area. On this map I have included all of the
17 acreage that Sonat has a working interest in, in the Poker
18 Lake area.

19 Of note is two state leases, the Todd 2 State
20 Number 2 lease, in Section 2, and also the Cactus 16 State
21 lease in Section 16.

22 And I haven't divided out our working interest;
23 I've tried to make it as simple as we can, just to kind of
24 show facilities and wells on this map.

25 But of note on this, up to the north, other

1 operators are drilling these Delaware wells on 40-acre
2 proration units, and several sections are full of 40-acre
3 wells.

4 And we are planning to extend this field down
5 into the federal acreage, and our 1998 program has a heavy
6 emphasis in Section 2, because that's contiguous to offset
7 production. And as we develop this field, you know, we
8 plan to move our drilling down into this federal acreage in
9 this open acreage down here.

10 Q. And if your program is successful, the acreage in
11 the project area could be developed like the acreage --

12 A. Absolutely.

13 Q. At the bottom of this exhibit is a legend. Would
14 you review that legend and then relate it back to the plat
15 itself?

16 A. Okay, shown -- It shows the lease batteries that
17 we are currently using to produce our Delaware wells, and
18 the ones that we are concerned with are in Section 1, 12
19 and 9. They are shaded in red.

20 We also have an injection disposal well; it's our
21 Littlefield well, over in Section 11, and that's denoted in
22 blue.

23 And the solid blue dots are wells that we propose
24 to drill in 1998.

25 And then the open dots are wells that are

1 currently producing from the Delaware formation.

2 And also of note is the flow lines indicating
3 where the wells produce, into which battery.

4 Also --

5 Q. Mr. Moehlenbrock --

6 A. Okay.

7 Q. -- when we look at this area, the Oil
8 Conservation Division has approved lease commingling for
9 certain leases; is that not correct?

10 A. That is correct.

11 Q. Could you identify those for the Examiner and
12 provide the order numbers?

13 A. Yes. Over in Section 11 and 12 is New Mexico
14 Leases 64504 and New Mexico Lease 67106, which is in
15 Section 12. There has --

16 Q. And what was the Division order approving?

17 A. It was CTB-426, gave approval for a lease
18 commingle for those two particular leases.

19 Q. What about Section 9?

20 A. And also in Section 9, we also have a lease
21 commingle order, and that is CTB-417, and that involves
22 Federal Leases NM-63757 and NM-29234.

23 Q. Now, you've got three lease batteries on the
24 project area at this time; is that correct?

25 A. That's correct.

1 Q. Let's go to Exhibit Number 9, and could you just
2 briefly identify what Exhibit 9 is?

3 A. Yes, Exhibit 9 is simply a schematic of the
4 facilities as they are currently, and the first facility is
5 what we call our Sotol "A" Federal Tank Battery, which is
6 located in Section 12 of Unit Letter C.

7 And as noted before, we have two wells producing
8 into this particular facility, the Lotos "11 F" Federal
9 Number 2 and the Sotol "A" Federal Number 3, and that -- As
10 mentioned before, these already have a lease commingle
11 order to combine these two wells.

12 And currently we are metering separately the
13 production from both of these wells via these heater
14 treaters, and we do have a thousand barrels of oil storage
15 on the -- for this facility. Now, this facility is only
16 making -- is only producing 20 oil, 40 gas and 150 barrels
17 of water per day.

18 The second facility is our current schematic of
19 our Sotol Federal Tank Battery, which is located up in
20 Section 1, Unit Letter K, and this services all of our
21 Sotol "A" Federal wells. There's no other lease
22 producing -- or well from a different lease producing into
23 this facility. These are producing all the same federal
24 leased wells.

25 And also of note here, we have, you know, 1500

1 barrels of oil storage, we produce approximately 300
2 barrels of oil per day from -- in this facility, and 350
3 MCF and 650 barrels of water. And with those higher
4 volumes we were able to justify installing a vapor recovery
5 unit, and we also have a LACT which sells into Tex New Mex
6 Pipeline.

7 And then the third facility is what we call our
8 Lotos Federal Tank Battery, which is located in Section 9
9 in Unit Letter J. And this is a -- Once again, this has
10 two leases producing into it, which was under the order of
11 CTB-417.

12 And it was noted on here on the bottom, the Lotos
13 C Federal 901 produces into its own heater treater, and it
14 is measured separately from the rest of the Lotos Federal
15 wells, which Number 4, "10" Number 3, and the 801 are on
16 the same lease.

17 And the storage capacity of this facility is 1000
18 barrels of oil, and we do have a LACT unit.

19 Q. Let's go to your Exhibit Number 10, your data
20 sheet, and I would ask you first to refer to the top
21 portion of this exhibit and review for Mr. Stogner how it
22 is that Sonat proposes to install and operate the proposed
23 commingling facility.

24 A. As you saw from the land issue, we're trying to
25 be able to develop these federal leases in a cost-effective

1 manner to increase our recovery of reserves here. And if
2 we are able to do this, we have some proposed installation
3 and operation guidelines that we would follow to operate
4 these commingled facilities.

5 First of all, our stock tank storage capacity, we
6 would design this to have at least 18 hours of storage
7 above our normal high operating level, and this 18 hours is
8 the maximum unattended time that facility would be -- the
9 lease operator, it would see.

10 Q. Mr. Moehlenbrock, as you as add additional wells,
11 you would always stay ahead of this parameter, you would
12 always have storage capacity for at least 18 hours above
13 the normal high for the wells connected to that --

14 A. That's correct --

15 Q. All right.

16 A. -- we would upgrade the facilities to meet this
17 guideline.

18 Q. Okay, what about the test vessels?

19 A. Okay, the test vessels, we would propose to use
20 vertical three-phase heater treaters with separate meters
21 to measure oil, water and the gas.

22 And in terms of, you know, well testing, each
23 well, at a minimum, will be tested through a test vessel
24 for one full 24-hour period each month. And in reality, we
25 will always have a well going through test -- through the

1 test vessel, and we -- each of these wells would more than
2 likely be tested more than a 24-hour period.

3 Q. Now, review your method of allocation.

4 A. Yeah, here's a formula of how we propose to
5 allocate production back to each well, and this is similar
6 to the allocation formula that's in the manual for the
7 installation of commingled facilities, the only difference
8 being R, which is the number of days the well has produced
9 in the month, and basic- --

10 Q. When you use that R, I mean, is that just a daily
11 count, or how accurately can you measure the amount of time
12 a well is not producing?

13 A. Our production allocation system allows us to
14 measure down time in hours, so we are actually able to
15 measure how long a well has been down in hours, and it
16 reports it in fractions of days.

17 And also, we will -- we are installing pump-off
18 controllers on all new Delaware wells, and the lease
19 operator will know exactly when the well -- if for some
20 reason it was shut down, the rods part, we will know when
21 it went down and how long it has been down, and that will
22 be input into our production reporting system.

23 Q. If the Application is approved, there will be
24 benefits, obviously, to Sonat, and I'd like you to
25 summarize those for Mr. Stogner.

1 A. Yes. First of all, by doing such, we would
2 eliminate duplication of facilities. And the potential
3 savings of lease -- of simply the lease commingling would
4 be the reduction of tank battery facilities.

5 Our average cost of a tank battery in this area
6 is approximately \$60,000. The number of federal leases
7 without tank batteries is seven. So we could, at a
8 maximum, see a capital savings of about \$420,000.

9 Now, if we were just to look at a reduced capital
10 outlay for the exception to Division Rule 309.B.(5)(b),
11 which requires each lease to be metered separately, we
12 would reduce the number of heater treaters that would be
13 required by seven, and each one of those costs \$18,000 to
14 install, and with a potential capital savings of \$126,000.

15 Plus, with fewer facilities we would have the
16 reduced man-hours to efficiently operate these facilities,
17 plus less expenses in maintaining them. And we would also
18 see a benefit in our -- of increased hydrocarbon recovery.

19 Q. And how is that?

20 A. We allocate, or we budget, Sonat budgets certain
21 capital for this project, and thereby we are fairly
22 capital-limited in what we can do in this area. Without
23 duplicating facilities, we would be able to use this
24 capital to drill additional Delaware wells and/or
25 recomplete existing wells to add potential Delaware pay.

1 And also another benefit would be that commingle
2 facilities would increase our oil storage at a common
3 point. By doing so, we would be economically justified in
4 installing vapor recovery units to recovery additional
5 hydrocarbons from the oil storage tanks, much as we have
6 done on the Sotol Federal lease.

7 Q. If the Application is approved, will oil be
8 recovered that otherwise would be left in the ground?

9 A. Yes, it will.

10 Q. Will approval of the Application otherwise be in
11 the best interests of conservation and the protection of
12 correlative rights?

13 A. I believe so.

14 Q. Were Sonat Exhibits 8 through 10 prepared by you?

15 A. They were.

16 MR. CARR: At this time, Mr. Stogner, we would
17 move the admission into evidence of Sonat Exhibits 8
18 through 10.

19 EXAMINER STOGNER: Exhibits 8 through 10 will be
20 admitted into evidence at this time.

21 MR. CARR: And that concludes my direct
22 examination of Mr. Moehlenbrock.

23 EXAMINATION

24 BY EXAMINER STOGNER:

25 Q. Mr. Moehlenbrock, when I look at -- or I'm

1 referencing this time the map, Exhibit Number 8, which
2 facility -- Are you going to build a whole new facility, or
3 are you going to expand one and take two others out?
4 How -- What will be the physical make-up?

5 A. Well, if we are able to get a blanket surface
6 commingle for these federal leases, it would allow us to
7 have the flexibility of upgrading existing facilities and
8 also, if required, if we feel that it is operationally
9 prudent, to add a new facility.

10 An example is over in Section 8, we may feel that
11 we can reduce flow line pressures by installing facilities
12 to service those wells in that section.

13 Q. Okay, so that would give you the flexibility to
14 pretty muchly --

15 A. That's right.

16 Q. -- add facilities or subtract -- just do
17 whatever, so there's not going to be the consolidation of
18 these two facilities --

19 A. No, sir.

20 Q. -- at this point? Okay.

21 Let me make sure I get the number of days, your R
22 representative. So if the well produced for 12 hours over
23 a day, that would be shown as .5?

24 A. It would be shown as .5, and in the monthly
25 total, depending on the number of months, if it only was

1 down for 12 hours in a 31-day month, we would show 30.5
2 days that it actually produced.

3 Q. Okay. So not if it produced one hour, it
4 wouldn't get 1; it would get 1/24, it would show a
5 decimal --

6 A. Yes, it certainly would.

7 Q. Okay.

8 A. You know, another benefit here, by doing this we
9 can plan our business to secure right of ways on these
10 federal leases, because we will be crossing quite a few
11 different leases, potentially, with these wells, and you
12 know, right of ways -- if we know what batteries we would
13 be producing into, we could get our archeological surveys
14 and get our right of ways, you know, moving, because that
15 does take time with the BLM.

16 Q. Okay. In looking at Exhibit Number 2 and your
17 Exhibit Number 8, they show some additional wells for 1998
18 that doesn't appear to show up on your Exhibit Number 8.

19 A. I don't have Exhibit Number 2. Well --

20 Q. Like over there in the west half of Section 8...

21 A. Okay, yes, Exhibit 8 is missing that particular
22 location. That would be our 803, the Lotos Federal 803,
23 and I missed that.

24 Q. Okay.

25 A. That should be on --

1 Q. Now, the one over there in the northwest quarter
2 of the southwest quarter, is that your current 802 well, or
3 is that a new proposed well?

4 A. Which --

5 Q. I'm looking at the blue dot over in the west half
6 of Section 8 and then referring to your Exhibit Number 8.

7 A. Okay. Yes, the one in the northwest northwest
8 quarter is an existing well --

9 Q. Northwest southwest quarter?

10 A. Okay, in the northwest southwest quarter Chad had
11 that shown as a proposed -- well, it was a first-quarter
12 well.

13 Q. Okay.

14 A. That well has actually been drilled, and it is
15 producing.

16 Q. Okay, so that's the reason for --

17 A. Yes.

18 Q. -- some of those little discrepancies. And then
19 you show some additional wells that show -- Okay, I've got
20 that straight.

21 These new wells, as they're coming on, like the
22 802, what is the current production, roughly, on those
23 particular wells? What are they coming in at, what are you
24 seeing --

25 A. Yes.

1 Q. -- as initial production?

2 A. We just got the 802 on pump this week, and the
3 first day's test -- Well, after we got some of the load
4 back, it was -- it pumped 99 oil and 250 water and maybe 50
5 MCF of gas.

6 Typically, these Delaware wells, after a fracture
7 treatment, will have a rush of production initially, and
8 they will stabilize at, you know, an average -- a peak
9 average monthly rate of about 80 barrels of oil per day.
10 But the average daily production rate for the first year is
11 approximately 60 barrels of oil per day, and that's the
12 figure that I gave you.

13 They do decline fairly rapidly, initially, but
14 stabilize at about 60 barrels a day.

15 Q. Okay, are these wells going to be treated
16 different than your one test per month, or do you feel
17 that's adequate for these new wells as they're coming on
18 line, as you show that kind of decline?

19 A. Well, we would -- Typically, as I mentioned, we
20 would only -- currently only have four or five wells going
21 into a facility. And what we would do on new wells, we
22 would probably have that through test as many days as we
23 could to monitor its production.

24 The oil wells have been stabilized, we have a --
25 We know what they're producing, and therefore we can

1 monitor these newer wells more frequently through the test
2 separator.

3 Q. So they will be handled differently?

4 A. That's right, yes.

5 Q. Good well, low prices, huh?

6 A. It's tough. I mean, you know, some of the oil
7 prices and things, you know, Sonat's economic hurdles --
8 and this property has a very difficult time meeting our
9 criteria, and we're trying to do everything we can to
10 efficiently develop this property.

11 EXAMINER STOGNER: Is there any other questions
12 of this witness?

13 MR. CARR: No questions.

14 EXAMINER STOGNER: Mr. Carr, I'm going to ask
15 that you, if you could -- because I want to make sure that
16 I cover the -- how would you say? -- ownership situation.
17 Could you provide me a rough draft order --

18 MR. CARR: I'll be happy to, and I would be happy
19 to confer with you on how I describe the property.

20 EXAMINER STOGNER: Okay, we can do that perhaps
21 after working hours.

22 If there's no other questions of Mr.
23 Moehlenbrock, he may be excused.

24 And if there's nothing further in Case Number
25 11,948, this matter will be taken under advisement.

1 MR. CARR: We do need to continue the case to
2 April the 2nd, to correct the legal ad. The notice letters
3 were correct, but the original ad doesn't clearly reference
4 the exemption from the metering requirement. It has been
5 included on the docket for April the 2nd.

6 EXAMINER STOGNER: That is right, this matter was
7 readvertised for April 2nd, and with that, then, this
8 matter will be continued to April 2nd, at which time it
9 will be called and then taken under advisement. And if you
10 can provide me a rough draft of that --

11 MR. CARR: Will do.

12 EXAMINER STOGNER: So I will retract, and this
13 matter will not be taken under advisement until after April
14 2nd.

15 With that, let's take about a ten-minute recess.

16 (Thereupon, these proceedings were concluded at
17 9:28 a.m.)

18 * * *

19
20
21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
the Examiner hearing of Case No. 11948,
heard by me on 19 March 1998.
23 Michael E. Stogner, Examiner
24 Off Conservation Division
25

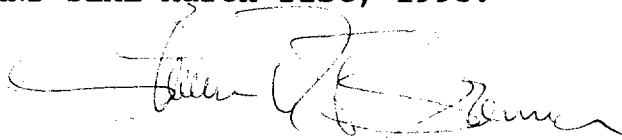
CERTIFICATE OF REPORTER

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 March 21st, 1998.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998