

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 XERIC OIL AND GAS)
CORPORATION FOR COMPULSORY POOLING,)
LEA COUNTY, NEW MEXICO)

CASE NO. 12,088

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

November 19th, 1998

Santa Fe, New Mexico

98 DEC -4 AM 8:46
OIL CONSERVATION DIV

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, November 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.

* * *

I N D E X

November 19th, 1998
 Examiner Hearing
 CASE NO. 12,088

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|------------------------|------|
| REPORTER'S CERTIFICATE | 10 |

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E X H I B I T S

| Applicant's | Identified | Admitted |
|-------------|------------|----------|
| Exhibit 1 | 3 | 7 |

* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
 Attorney at Law
 Legal Counsel to the Division
 2040 South Pacheco
 Santa Fe, New Mexico 87505

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
 117 N. Guadalupe
 P.O. Box 2265
 Santa Fe, New Mexico 87504-2265
 By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 9:05 a.m.:

3 EXAMINER ASHLEY: At this time the Division calls
4 Case 12,088.

5 MR. CARROLL: Application of Xeric Oil and Gas
6 Corporation for compulsory pooling, Lea County, New Mexico.

7 EXAMINER ASHLEY: Call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant.

11 EXAMINER ASHLEY: Any additional appearances?
12 Mr. Kellahin?

13 MR. KELLAHIN: Mr. Examiner, with your
14 permission, I'd like to present this case pursuant to the
15 Division Rule 1207.A.(2), I believe is the number. It has
16 to do with presenting compulsory pooling cases to you when
17 it's known to the Applicant that the parties, despite their
18 best effort, cannot be located. We are allowed the
19 opportunity under that procedure to submit the testimony of
20 the expert witnesses by affidavit.

21 And that is what I have done, and that's what
22 you're seeing when you look at Exhibit 1.

23 This case is virtually identical to the case I
24 presented to Examiner Stogner back on June 26th of 1997.
25 It's Case 11,802. I neglected to bring that order with me

1 this morning, and I will provide it to you following the
2 hearing.

3 MR. CARROLL: What's the order number?

4 MR. KELLAHIN: I've forgotten the order number,
5 Mr. Carroll. I will give that to you after the hearing.

6 But in Case 11,802, you will see this proceeding
7 utilized for the drilling of the Xeric Carter 19 Number 1
8 well. It was and is an oil well on 40-acre spacing, and
9 it's productive from the Abo formation.

10 It may be helpful to turn through Exhibit 1 until
11 we find the plat which is the fourth page back. The Carter
12 Number 2 well that is the subject of this case involves a
13 well in the northwest quarter of the -- I'm sorry, the
14 northwest quarter of the southwest quarter of 19. You can
15 see that the Carter 1 is down in the southeast of the
16 southwest of 19.

17 When you look through the affidavit, you will
18 find that it's organized so that you have the land
19 testimony from Ms. Lisa Snelson, who has gone through her
20 chronology to show you the identity of the parties to be
21 pooled. They appear at the bottom of the chronology.
22 There are four individuals, or heirs of deceased
23 individuals, and you can see their percentages.

24 Then when you turn to the second page -- I'm
25 sorry, you're going to have to turn to the page following

1 the plat I described. It will show the percentages, the
2 parties.

3 And then following that, for Exhibit C, is a
4 four-page document in which she has shown you how she
5 discovered who these people were, here attempts to contact
6 them and the results. In each instance, her attempt is
7 built upon her attempts back in June of 1997 for the first
8 well, and she's gone back, then, and she's used a CD ROM
9 computer program to look for telephone listings in phone
10 directories to update her search.

11 Despite updating her search on all four of these
12 individuals or heirs of these individuals, she still is
13 unsuccessful in identifying their location.

14 When we look at the other documents to which the
15 witnesses have provided an affidavit, you'll see the
16 affidavit of Randy Hall. Mr. Hall is a petroleum
17 geologist. With the assistance of other personnel in the
18 company, he has gone through the other pieces to the
19 procedure, and he's identified for your his recommendation
20 that the overhead rates would be \$4000 a month while
21 drilling and \$400 a month producing, and they're consistent
22 with the last order. You'll find that he has authenticated
23 and verified his AFE for an approximate cost of just under
24 \$400,000.

25 In addition, he's gone through and described his

1 opinion about the maximum risk factor penalty. And you can
2 begin to see that narrative at the bottom of page 2, under
3 subparagraph 7-2, he talks about the risks associated with
4 the well.

5 I wish to bring it to your attention that this
6 well, the Carter 19-2, has in fact now been drilled, and I
7 will remind you that it is the Division's practice not to
8 award the maximum penalty for a well that has been drilled.

9 In association with that risk, though, whatever
10 level of risk you attach to apply as a penalty, Mr. Hall
11 describes for you the fact that he thinks this well is
12 uneconomic. His conclusion is that they have opened the
13 well in the Abo, it produces at a daily rate of
14 approximately 20 barrels of oil a day, but unfortunately
15 that comes accompanied by the production of 100 barrels of
16 water.

17 He says under current oil prices, water-disposal
18 costs and this rate of production, the zone appears to be
19 uneconomic.

20 So when you decide to assess risk, we recognize
21 that it may be less than the 200 percent, but you need to
22 also know that this zone is uneconomic and may not
23 ultimately pay out even its cost, despite any additional
24 penalty.

25 The one thing I see that Mr. Hall has not done

1 for you, sir, is to give you an economic spreadsheet so
2 that you could verify his conclusions about the economics
3 of this wellbore. And I've asked him to do that, and with
4 your permission, then, after the hearing I would supplement
5 the record with that spreadsheet so that you can see what
6 he saw when he got to his conclusion.

7 EXAMINER ASHLEY: Okay.

8 MR. KELLAHIN: I think we've organized the
9 affidavit to cover all the issues set forth in this
10 procedure, and with that explanation and your permission, I
11 would move the introduction of Exhibit Number 1.

12 EXAMINER ASHLEY: Exhibit Number 1 will be
13 admitted as evidence.

14 MR. KELLAHIN: That concludes my presentation.
15 I'll do my best to answer questions, should you have them.

16 EXAMINER ASHLEY: Did I hear you say that the
17 Carter 19 Well Number 2 has already been drilled?

18 MR. KELLAHIN: Yes, sir, it has.

19 EXAMINER ASHLEY: Okay.

20 MR. CARROLL: When was it drilled?

21 MR. KELLAHIN: Mr. Carroll, I cannot tell you
22 that, but I certainly can find out. And it would show up
23 on the economic spreadsheet when we compare production to
24 pricing, and I should have that in the table if you'll let
25 me submit that after the hearing.

1 MR. CARROLL: What were those production figures
2 you mentioned?

3 MR. KELLAHIN: Currently they're producing 20
4 barrels of oil out of the Abo, and that's associated with
5 100 barrels of water.

6 MR. CARROLL: What are water disposal costs? Any
7 idea?

8 MR. KELLAHIN: That's why I've asked him to give
9 us the spreadsheet, because he's left out some details that
10 are of importance.

11 MR. CARROLL: Then you have fractions here.
12 Let's see, they look like about 3 percent, 3 percent, 1.5
13 and 1.5, approximately?

14 MR. KELLAHIN: That's a close approximation,
15 without a calculator, Mr. Examiner.

16 MR. CARROLL: About 9 percent total.

17 That's all I have.

18 EXAMINER ASHLEY: Mr. Kellahin, can you provide a
19 rough draft order?

20 MR. KELLAHIN: Yes, sir, I'd be happy to do that.

21 EXAMINER ASHLEY: In a couple weeks?

22 MR. KELLAHIN: Yes, sir.

23 EXAMINER ASHLEY: Okay.

24 MR. CARROLL: And how soon will that economic --

25 MR. KELLAHIN: Hopefully by early in the week,

1 Mr. Carroll, I should have that. I asked them to do that
2 earlier in the week, and they're preparing it.

3 EXAMINER ASHLEY: Anything else in this case?

4 MR. KELLAHIN: No, sir.

5 EXAMINER ASHLEY: Case 12,088 will be taken under
6 advisement.

7 (Thereupon, these proceedings were concluded at
8 9:15 a.m.)

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I do hereby certify that the foregoing is
a correct and true copy of the proceedings
heard by me on 11-19-98 at 12088
Mark Ashley
Conservation Director

