

OIL CONSERVATION DIV

STATE OF NEW MEXICO

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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. 12,232

APPLICATION OF ELM RIDGE RESOURCES,)
INC., FOR ACREAGE REDEDICATION, FOR)
FORMATION OF TWO NONSTANDARD GAS SPACING)
AND PRORATION UNITS, AND AN UNORTHODOX)
COAL GAS WELL LOCATION, SAN JUAN COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK W. ASHLEY, Hearing Examiner

September 2, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK W. ASHLEY, Hearing Examiner, on Thursday, September 2nd, 1999, 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 2nd, 1999
 Examiner Hearing
 CASE NO. 12,232

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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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* * *

1 WHEREUPON, the following proceedings were had at
2 8:40 a.m.:

3 EXAMINER ASHLEY: The Division calls Case 12,232.

4 MR. CARROLL: Application of Elm Ridge Resources,
5 Inc., for acreage rededication, for formation of two
6 nonstandard gas spacing and proration units, and an
7 unorthodox coal gas well location, San Juan County, New
8 Mexico.

9 EXAMINER ASHLEY: Any additional appearances?
10 Mr. Bruce?

11 MR. BRUCE: Mr. Examiner, Jim Bruce representing
12 the Applicant. I have two witnesses to be sworn.

13 EXAMINER ASHLEY: Will the witnesses please stand
14 and be sworn in?

15 (Thereupon, the witnesses were sworn.)

16 BRIAN WOOD,
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. Would you please state your name for the record?

22 A. My name is Brian Wood.

23 Q. And where do you reside?

24 A. Santa Fe, New Mexico.

25 Q. What is your relationship to Elm Ridge in this

1 case?

2 A. I originally permitted the well for Elm Ridge
3 resources and have subsequently done the research on the
4 adjoining lease ownership and well operatorship.

5 Q. Okay. And you are a consultant for Elm Ridge?

6 A. Yes.

7 Q. Are you familiar with the land matters involved
8 in this Application?

9 A. Yes.

10 Q. And have you previously testified before the
11 Division?

12 A. Yes.

13 MR. BRUCE: Mr. Examiner, I'd tender Mr. Wood as
14 a petroleum landman.

15 EXAMINER ASHLEY: Mr. Wood is so qualified.

16 Q. (By Mr. Bruce) Mr. Wood, would you identify
17 Exhibit 1 and describe the wells and the lands involved in
18 this Application?

19 A. Exhibit 1 is a plat of a portion of Township 29
20 North, Range 13 West. The principal well in question, the
21 Callow Number 7, is just about in the center of the page.

22 If you look at Sections 28 and 33, you'll see
23 that the east half of Section 28 is currently dedicated to
24 the Callow Well Number 6, and the north half of Section 33
25 is currently dedicated to the Callow Well Number 2. Both

1 wells are completed in the Fruitland Coal and are operated
2 by Elm Ridge.

3 Also shown on the plat is the Callow Well Number
4 7, also operated by Elm Ridge. It's located in the
5 northeast quarter of the northwest quarter of Section 33.
6 I think it's important to note that all of Section 28 and
7 the north half of Section 33 are comprised of a single
8 federal lease, Lease Number NM-468126.

9 Q. What is the status of the Callow Number 7?

10 A. It was drilled in early 1999 to test the Pictured
11 Cliff formation. It was not productive in the Pictured
12 Cliff formation and is currently shut in.

13 Q. Would you please now refer to Exhibit 2 and
14 describe what Elm Ridge seeks in this case?

15 A. Elm Ridge seeks several items.

16 First, it seeks to reorient the well unit for the
17 Callow Well Number 6 from a standup unit to a laydown unit
18 comprised of the north half of Section 28.

19 Next, it seeks to change the well unit for the
20 Callow Well Number 2 from the north half of Section 33 to a
21 nonstandard unit covering the southeast quarter of Section
22 28 and the northeast quarter of Section 33.

23 It then seeks to form a nonstandard unit for the
24 Callow Well Number 7. That would be comprised of the
25 southwest quarter of Section 28 and the northwest quarter

1 of Section 33.

2 Finally, Elm Ridge requests an unorthodox
3 location for the Callow Well Number 7. It's located in the
4 northwest quarter of the section, contrary to the pool
5 rules for the Basin-Fruitland Coal Gas Pool.

6 Q. Why is Elm Ridge making all of these requests?

7 A. It will prevent the drilling of another Fruitland
8 Coal well in the southwest quarter of Section 28, and this
9 will prevent further waste. Our next witness will discuss
10 this further.

11 Q. Will anyone in the three well units, all of
12 Section 28 and the north half of Section 33, be adversely
13 affected by this Application?

14 A. No, the 960 acres involved is all one federal
15 lease. The working royalty and overriding royalty interest
16 ownership is common to the Fruitland Coal. Therefore, no
17 one has his interests reduced or affected in any way.

18 Q. Who -- Looking maybe together at Exhibits 3 and
19 4, could you identify the offset interest owners affected
20 by this Application?

21 A. Exhibit 3 shows the actual lease ownership out
22 there, and then Exhibit 4 lists who the lessors, lessees
23 and Fruitland Coal gas operators are out there. There are
24 a total of 20. We have sent notice to all 20.

25 Q. Okay. And where there was a Fruitland Coal well,

1 you sent notice to the operator?

2 A. Yes.

3 Q. And where there was not a Fruitland Coal well,
4 you sent notice to the lessee; is that correct?

5 A. Lessee and lessor.

6 Q. Lessee and lessor, so both. And these are all
7 federal and state leases?

8 A. Correct.

9 Q. So the BLM was notified of this Application?

10 A. Yes.

11 Q. Has the BLM objected, to your knowledge?

12 A. No. In fact, they asked that we submit an
13 affidavit, which was done. They received that on Monday,
14 and I believe that one of their geologists spoke with our
15 other witness.

16 Q. Okay. Were the offset operators, lessees and the
17 lessors notified of this hearing?

18 A. Yes, the notices were sent out July 28th.

19 Q. And is your affidavit of notice with the
20 certified return receipts marked as Exhibit 5?

21 A. Yes.

22 Q. Were Exhibits 1 through 5 prepared by you or
23 under your direction?

24 A. Yes.

25 Q. And in your opinion is the granting of this

1 Application in the interests of conservation and the
2 prevention of waste?

3 A. Yes.

4 MR. BRUCE: Mr. Examiner, I'd move the admission
5 of Elm Ridge Exhibits 1 through 5.

6 EXAMINER ASHLEY: Exhibits 1 through 5 will be
7 admitted as evidence.

8 EXAMINATION

9 BY MR. CARROLL:

10 Q. Mr. Wood, have you had any direct contact with
11 Paramount Petroleum Corporation --

12 A. I believe that --

13 Q. -- other than the signed receipt for the letter?

14 A. No.

15 Q. No. But they did sign for it?

16 A. Yes.

17 MR. CARROLL: That's all I have.

18 EXAMINATION

19 BY MR. ASHLEY:

20 Q. Mr. Wood, the federal lease that you're talking
21 about just includes that 990 acres; is that correct?

22 A. It's actually a little bit larger.

23 Q. It is?

24 A. But the excess is not part of this particular
25 hearing.

1 EXAMINER ASHLEY: Okay, I don't have any other
2 questions. Thank you.

3 DOUG ENDSLEY,

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

6 DIRECT EXAMINATION

7 BY MR. BRUCE:

8 Q. Would you please state your name and city of
9 residence?

10 A. My name is Doug Endsley, I live in Farmington.

11 Q. By whom are you employed and in what capacity?

12 A. I work for Elm Ridge Resources, and I'm the
13 operations manager.

14 Q. By profession, what are you?

15 A. I'm a petroleum geologist.

16 Q. Have you previously testified before the Division
17 as a geologist?

18 A. Yes, I have.

19 Q. And were your credentials as an expert petroleum
20 geologist accepted as a matter of record?

21 A. Yes, they were.

22 Q. And are you familiar with the geology involved in
23 this Application?

24 A. Yes, I am.

25 MR. BRUCE: Mr. Examiner, I tender Mr. Endsley as

1 an expert petroleum geologist.

2 EXAMINER ASHLEY: Mr. Endsley is so qualified.

3 Q. (By Mr. Bruce) Mr. Endsley, this Application was
4 filed because of the results of the Callow Well Number 7,
5 which is in the northwest quarter of Section 33. Could you
6 identify your Exhibit 6 and describe for the Examiner why
7 that well was drilled and what zone it was drilled to test?

8 A. Exhibit 6 is a cumulative production map of the
9 Pictured Cliffs in the area. There's a red dot on the map
10 that represents the Callow 7 location.

11 We drilled the Callow 7 originally as a Pictured
12 Cliff well, because we felt that based on the cumulative
13 production that you see on this map, that we had a better
14 than reasonable shot at making a Pictured Cliff well that
15 would ultimately produce somewhere in the neighborhood of a
16 quarter of a BCF.

17 When we drilled the well and logged it, we found
18 out that the sands were basically gone. We went ahead and
19 attempted a completion anyway, and we perforated the
20 Pictured Cliffs, we broke it down with acid, we established
21 a rate into the zone, and we swabbed it back, shut it in
22 for 14 days, and it had 15 pounds of pressure on it after
23 14 days. So we determined that it was nonproductive.

24 Q. Would you move on to your Exhibit 7, identify
25 that for the Examiner, and then discuss the zones that you

1 perforated originally and subsequently in the well?

2 A. Okay, after we attempted the Pictured Cliffs
3 production -- As you can see on Exhibit 7, it's a log, it's
4 the actual log section from the Callow 7. After we
5 attempted the Pictured Cliffs completion, we set a cast-
6 iron bridge plug with the idea that if we had to we could
7 come back and maybe frac the Pictured Cliff and see if
8 there was anything in it worth saving.

9 But we came on up the hole and perforated the
10 coal section, and you can see on this exhibit where the
11 perforations were, and we went ahead and broke down the
12 Fruitland and tested its potential and determined that it
13 was productive. We flowed it back for a short period of
14 time just to clean it up and then we shut it in, and here
15 we are.

16 Q. So you do believe that the Callow Well Number 7
17 will be productive in the Fruitland Coal?

18 A. Yes, we do. I might, if I can, we were a little
19 bit concerned after we did the Pictured Cliff completion
20 with the sands being pinched out, we were a little
21 concerned that we may or may not have the coal in that
22 well. But as you can see from the log, we do. So we went
23 ahead and attempted it, and we feel like it's productive,
24 so we shut it in.

25 Q. What is Exhibit 8?

1 A. Exhibit 8 is just merely a regional net coal
2 thickness map of the San Juan Basin, and it's designed just
3 to illustrate that we were still within the Fruitland
4 formation outcrop. So, you know, we had a reasonable shot
5 at seeing coals in this well.

6 Q. Okay. So a well -- You know, just based on the
7 mapping, this well, the Callow Well Number 7 in the
8 northwest quarter of Section 33, should have coal, as would
9 a standard location in the southwest quarter of Section 28?

10 A. That's correct.

11 Q. Okay. Now, if you'd refer to Exhibit 9, could
12 you state briefly why Elm Ridge filed this Application?

13 A. Okay, well, Exhibit 9 is the actual costs that we
14 incurred in drilling the Callow 7 in attempting both the
15 Pictured Cliff and the Fruitland completions. We would
16 prefer not to have to expend this kind of money again, to
17 drill another Fruitland well. So this is merely -- This
18 exhibit is merely here to show you what we've spent to date
19 on just the drilling and completion.

20 Q. If you had to shut this well in and drill another
21 well in the southwest quarter of Section 28, what would the
22 cost of that well be?

23 A. It would be, I guess -- Do you want to jump to
24 Exhibit 10?

25 Q. Yeah, why don't you.

1 A. Okay, Exhibit 10, then, that's the cost to drill
2 and complete just the Fruitland well. The difference
3 between the two is that 9, Exhibit 9, shows the incremental
4 increase cost that we incurred to the Pictured Cliffs to
5 attempt that completion. Exhibit 10 is what a typical
6 Fruitland well would cost to drill and complete.

7 Q. And is this cost, \$122,000, comparable for your
8 other Fruitland wells in this immediate area?

9 A. Actually, it's comparable to what other people
10 have spent on Fruitland wells in the area. Our Callow 2
11 and Callow 6 were originally drilled and completed as
12 Pictured Cliff wells by a previous operator, and he went
13 broke and he turned the wells -- We bought the lease from
14 him, and we went ahead and converted them to Fruitland
15 wells. So --

16 Q. So those were less expensive?

17 A. They were less expensive because we were re-
18 entering existing wellbores.

19 Q. And because of the layout of the leases in this
20 particular area and the ownership situation, which is
21 uniform, if this Application is approved, you won't have to
22 spend this extra \$122,000?

23 A. That's correct.

24 Q. Do you foresee any adverse effect on the offset
25 lessees to the west or to the northwest because of the

1 unorthodox location?

2 A. No, we're far enough away from the west line and
3 the south line to keep any kind of adverse effects --

4 Q. I think the Callow Number 7 is -- what? 1780
5 feet from the west line --

6 A. That's correct.

7 Q. -- of the section? And at a standard location in
8 the southwest quarter of Section 28 you could be, what?
9 790?

10 A. 790.

11 Q. So you're actually farther away from the people
12 to the west than you could be at a standard location in
13 Section 28?

14 A. That's correct.

15 Q. Were Exhibits 6 through 10 prepared by you or
16 under your direction?

17 A. Yes, they were.

18 Q. And in your opinion, is the granting of this
19 Application in the interests of conservation and the
20 prevention of waste?

21 A. Yes.

22 Q. One final question, Mr. Endsley. Have you kept
23 the Division's Aztec Office apprised of what you've been
24 doing out here?

25 A. Yes, we have.

1 MR. BRUCE: Mr. Examiner, I'd tender for
2 admission Elm Ridge Exhibits 6 through 10.

3 EXAMINER ASHLEY: 6 through 10 will be admitted
4 as evidence.

5 EXAMINATION

6 BY EXAMINER ASHLEY:

7 Q. Mr. Endsley, what's the status of the Number 7
8 well right now?

9 A. It's currently shut in. After we completed the
10 coal to test its productivity, we shut it in.

11 Q. You mentioned that the other two wells, the
12 Number 6 and the Number 2, were originally drilled as
13 Pictured Cliff wells?

14 A. That's correct.

15 Q. And did they run into a similar situation that
16 you did in the Callow 7?

17 A. Actually, what the Number 2 produced -- The
18 Number 2 is in Section 33. It made a quarter of a BCF out
19 of the Pictured Cliff.

20 The Number 6, which is up in Section 28, the guy
21 that owned this property before us was in the process of
22 attempting a Pictured Cliff completion, and he hadn't
23 drilled the well deep enough, and he had kind of an open-
24 hole situation there that was pretty ugly, and I don't
25 think he was ever going to make a Pictured Cliff well out

1 of it. If you look at the cum on that, it doesn't even
2 show up.

3 But the Callow Number 2 had already made a
4 quarter of a BCF, and when we took the property over, he
5 had already abandoned the Pictured Cliffs zone. So what we
6 did was just decide, well, we had an existing wellbore and
7 it was in an orthodox location, so we attempted a Fruitland
8 Coal completion to see if it would be successful, and it
9 was.

10 I don't know if the -- If I can just add a little
11 bit, the productive -- the rates that the 2 and the 6 are
12 currently making, the 2 is making 154 MCF of gas a day and
13 20 barrels of water on pump, and the Callow 6 is making
14 about 130 MCF a day and 6 barrels of water on a piston
15 lift. And if you get into the reservoir engineering on the
16 thing, they're not draining a very large area to begin
17 with.

18 Q. Do you have any idea what kind of drainage?

19 A. The numbers that we've run, depending on the
20 engineer that you speak with, it runs anywhere from 80
21 acres to 112 acres.

22 Q. That's an average for both of them?

23 A. Yeah, that's kind of an average, I'd say.

24 We did a worst case, best case and most likely
25 case, in which the 80 acres was our best-case scenario, the

1 drainage was small. The worst case was 112 acres, that was
2 the largest drainage area that the engineers came up with.

3 Q. 112?

4 A. Yes, sir.

5 Q. One last question, could you tell me how you
6 spell your last name?

7 A. Sure, it's E-n-d-s-l-e-y.

8 EXAMINER ASHLEY: Thank you very much.

9 THE WITNESS: Thank you.

10 EXAMINER ASHLEY: There being nothing further in
11 Case 12,232, this case will be taken under advisement.

12 (Thereupon, these proceedings were concluded at
13 9:00 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 12232,
heard by me on 9-2 1999.

Mark Ashley, Examiner
Off Conservation Division

