

OIL CONSERVATION DIV.  
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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 SOUTHWESTERN ENERGY )  
PRODUCTION COMPANY FOR COMPULSORY )  
POOLING, EDDY COUNTY, NEW MEXICO )

CASE NO. 12,259

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

October 21st, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, October 21st, 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.

\* \* \*

## I N D E X

October 21st, 1999  
 Examiner Hearing  
 CASE NO. 12,259

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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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FOR CHASE OIL CORPORATION  
and MACK ENERGY CORPORATION:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.  
Suite 1 - 110 N. Guadalupe  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: WILLIAM F. CARR

\* \* \*

1                   WHEREUPON, the following proceedings were had at  
2 10:46 a.m.:

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                  EXAMINER ASHLEY: The Division calls Case 12,259,  
Application of Southwestern Energy Production Company for  
compulsory pooling, Eddy County, New Mexico.

9

                  Call for appearances.

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                  MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,  
representing the Applicant. I have two witnesses to be  
sworn.

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                  MR. CARR: May it please the Examiner, my name is  
William F. Carr with the Santa Fe law firm Campbell, Carr,  
Berge and Sheridan.

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                  I'm entering my appearance today in association  
with Ernest L. Carroll of the Losee, Carson, Haas and  
Carroll law firm in Artesia.

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                  We're appearing on behalf of Chase Oil  
Corporation and Mack Energy Corporation.

21

22

                  EXAMINER ASHLEY: Chase Oil and Mack Energy?

23

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                  MR. CARR: Yes, and I do not have a witness.

                  EXAMINER ASHLEY: Will the witnesses please rise  
and be sworn in?

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                  (Thereupon, the witnesses were sworn.)

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SAMUEL G. THOMPSON,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Samuel Glenn Thompson, Houston, Texas.

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

A. I work for Southwestern Energy Production Company. It's a subsidiary of Southwestern Energy Company. And I'm a petroleum landman.

Q. Have you previously testified before the Division?

A. I have not.

Q. Would you summarize your educational and employment background for the Examiner?

A. I have a bachelor's of business administration from Oklahoma University and a master's of business administration from Oklahoma University. I've got five years of experience with Atlantic Richfield, five years of experience with Santa Fe Energy, and I've been with Southwestern Energy for approximately five years.

Q. As a landman?

A. As a landman.

1 Q. Does your area of responsibility at Southwestern  
2 include southeast New Mexico?

3 A. It does.

4 Q. And are you familiar with the land matters  
5 involved in this Application?

6 A. Yes, I am.

7 MR. BRUCE: Mr. Examiner, I'd tender Mr. Thompson  
8 as an expert petroleum landman.

9 EXAMINER ASHLEY: Mr. Thompson is so qualified.

10 Q. (By Mr. Bruce) Mr. Thompson, could you identify  
11 Exhibit 1 for the Examiner and briefly describe what  
12 Southwestern seeks in this case?

13 A. Exhibit 1 is a plat showing the proposed spacing  
14 unit for the Morrow formation, which would be the north  
15 half of Section 36, Township 17 South, Range 27 East, Eddy  
16 County. We're also pooling the northwest quarter of 36 for  
17 the Wolfcamp in the event that it's gas. In the event it's  
18 oil, it would be spaced on 40 acres, of course.

19 Q. What is the leasehold ownership in the north half  
20 of Section 36? And I would refer you to Exhibit 2?

21 A. Exhibit 2, we own the west half of the northwest  
22 quarter. We have made agreements, letters of intent, with  
23 Atlantic Richfield, which owns 25 percent of the unit. We  
24 have made agreements with the -- Fleming and Walsh and  
25 Jeffers. We have a tentative agreement with Chase on a

1 farmout basis.

2 The only interest we have not committed is Manix  
3 Energy, which has one-eighth of the unit, and we're in  
4 negotiations with them right now.

5 Q. Okay. Now, even though you have tentative  
6 agreements with everyone, these interest owners have not  
7 either signed a farmout or a term assignment or a JOA, have  
8 they?

9 A. No, they have not.

10 Q. So at this time you would seek to pool all of  
11 these interest owners, but you will notify the Division  
12 when they finally sign an agreement?

13 A. Yes, I will.

14 Q. Okay. Now, when you say you have come to terms,  
15 tentatively, with Chase Oil Corporation, that would include  
16 all of the Chase entities or Chase people listed on this  
17 Exhibit 2?

18 A. Yes.

19 Q. Okay. Let's discuss your efforts to obtain the  
20 voluntary joinder of the parties and refer to your Exhibit  
21 3. Before we get into that, the first letter here to the  
22 interest owner is dated August 2nd, 1999. Did you have  
23 contacts with the interest owners preceding this letter?

24 A. Yes, I had several contacts by phone with the  
25 interested parties to see what kind of deal they might want

1 to make or if, in fact, they'd want to join in the Morrow  
2 proposal.

3 Q. When did your contacts first begin with the  
4 interest owners?

5 A. On or about May 15th --

6 Q. Okay, so --

7 A. -- 1999.

8 Q. So about two and a half months or so before this  
9 letter was sent out?

10 A. Yes.

11 Q. And then no agreements have been fixed, so you  
12 sent out this proposal letter to the parties?

13 A. Yes, I did.

14 Q. And the letter enclosed an AFE?

15 A. Yes.

16 Q. Since the date of that letter, could you just  
17 briefly summarize for the Examiner your subsequent contacts  
18 with the parties?

19 A. Since the date of that letter, again, I made a  
20 letter agreement with Atlantic Richfield relative to their  
21 25-percent interest. I got a draft of a farmout agreement  
22 with Chase. I have a letter for a term assignment with the  
23 Jeffers and Walsh group, and I've offered to buy a farmout  
24 or take a term assignment from Manix.

25 Q. Okay. And those letters, either the draft

1 farmouts or the letter agreements, are contained in this  
2 package of correspondence?

3 A. Yes, they are. In fact, the Manix response to  
4 you says that they will either make a trade or participate  
5 for their 12 1/2 percent.

6 Q. Okay. But they have not signed a JOA at this  
7 point?

8 A. No, they haven't.

9 Q. And until they sign that, they are not firmly  
10 committed to the well?

11 A. Exactly.

12 Q. In your opinion, has Southwestern made a good-  
13 faith effort to obtain the voluntary joinder of the  
14 interest owners in this well?

15 A. We think we have.

16 Q. Referring to Exhibit 4, can you identify or  
17 discuss the cost of the proposed well

18 A. That would be the Sepco AFE, which calls for a  
19 dryhole cost, going to 10,125 feet, of about \$470,500,  
20 completion cost of \$290,000, for a total well cost, if  
21 successful, of \$754,500.

22 Q. Are these costs in line with the costs of other  
23 wells drilled to this depth in this area of New Mexico?

24 A. Yes, they are.

25 Q. And does Southwestern request that it be

1 designated operator of the well?

2 A. We do.

3 Q. Do you have a recommendation for the amounts  
4 which Southwestern should be paid for supervision and  
5 administrative expenses?

6 A. Using the COPAS numbers set out of Ernst and  
7 Young, we've chosen \$5500 a month for a drilling well and  
8 \$550 overhead for a producing well.

9 Q. And these amounts are based on Ernst and Young  
10 rates?

11 A. Yes, sir.

12 Q. And are these amounts equivalent to those  
13 normally charged by southwestern and other operators in  
14 this area for wells of this depth?

15 A. Yes, sir.

16 Q. And does Southwestern request that if necessary  
17 these rates be adjusted according to the COPAS accounting  
18 procedure?

19 A. We do.

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

22 A. Yes, they were.

23 Q. And is Exhibit 5 my affidavit of notice with the  
24 notice letter?

25 A. Yes, sir.

1 Q. Were Exhibits 1 through 5 prepared by you or  
2 under your supervision or compiled from company business  
3 records?

4 A. They were.

5 Q. And in your opinion is the granting of  
6 Southwestern's Application in the interests of conservation  
7 and the prevention of waste?

8 A. Yes, sir.

9 MR. BRUCE: Mr. Examiner, I'd move the admission  
10 of Southwestern's Exhibits 1 through 5.

11 EXAMINER ASHLEY: Exhibits 1 through 5 will be  
12 admitted into evidence at this time.

13 Mr. Bruce, you're also wanting to pool 40 acres  
14 for oil?

15 MR. BRUCE: No, not 40 acres, 320 acres for the  
16 deep gas zones and then 160 acres, the northwest quarter of  
17 the section, for 160-acre gas zones, if there are any.

18 The Application does set forth two pools in this  
19 area, the Logan Draw-Wolfcamp Gas Pool, which is spaced on  
20 160 acres, and the Empire-Pennsylvanian Gas Pool, which I  
21 also believe is spaced on 160 acres. Now, there may also  
22 be other Wolfcamp oil pools in this area, but we are not  
23 seeking to pool a 40-acre oil zone.

24 EXAMINER ASHLEY: Okay.

25 THE WITNESS: We own the 40 that we're

1 drilling --

2 EXAMINER ASHLEY: Okay.

3 THE WITNESS: -- a hundred percent.

4 EXAMINATION

5 BY EXAMINER ASHLEY:

6 Q. Mr. Thompson, the primary target, then, is the  
7 Morrow and the secondary would be the Wolfcamp?

8 A. Yes, sir.

9 Q. And what is the proposed TD of this well? Do you  
10 know?

11 A. 10,125 feet.

12 Q. Have there been any other compulsory pooling  
13 orders in this area issued for Southwestern?

14 A. No, sir. This particular 320 is the only acreage  
15 we have in the 320 and the eight offsets. We have no other  
16 acreage.

17 MR. BRUCE: Mr. Examiner, to the north, in the  
18 northern part of this township for -- in certain areas  
19 around 17-27 and 17-28 there have been numerous pooling  
20 orders entered recently.

21 EXAMINER ASHLEY: Say that again. Where was  
22 that?

23 MR. BRUCE: In 17-28, 17 South, 28 East, and I  
24 believe there have been some in 17-27 also. There have  
25 been pooling orders entered, I think, for Yates, Chi Energy

1 and maybe OXY.

2 EXAMINER ASHLEY: You didn't give me a particular  
3 section, you just said township and range.

4 MR. BRUCE: I think you could look at 17-28,  
5 probably Sections 4, 9, 10, maybe 15, 15 and 16.

6 EXAMINER ASHLEY: Okay.

7 Mr. Carr, do you have anything?

8 MR. CARR: I have no questions.

9 EXAMINER ASHLEY: That's all I have, thank you.

10 THE WITNESS: All right, thank you.

11 CHARLOTTE SULLIVAN,

12 the witness herein, after having been first duly sworn upon  
13 her oath, was examined and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. BRUCE:

16 Q. Would you please state your name and city of  
17 residence for the record?

18 A. I'm Charlotte Sullivan. I reside in Houston,  
19 Texas.

20 Q. Who do you work for?

21 A. I work for Southwestern Energy Production  
22 Company.

23 Q. And what's your job with Southwestern?

24 A. I'm staff geologist. My primary areas of  
25 responsibility are New Mexico and West Texas.

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

3 A. No, I have not.

4 Q. Could you summarize your educational and  
5 employment background, please?

6 A. Yes, I have a bachelor's degree in geology from  
7 Arkansas Tech, 1969, a master's degree from the University  
8 of Arkansas, 1972, and a PhD from the University of  
9 Houston, 1989.

10 I worked for Phillips Petroleum out in  
11 Odessa/Midland area for almost five years. Then I worked  
12 for Pennzoil, worked Permian Basin again, west Texas and  
13 New Mexico, for five years. And then I've been with  
14 Southwestern for about a year and a half. Oh, and again,  
15 primary responsibility is New Mexico and west Texas.

16 Q. And with the other companies it sounds like you  
17 worked the Permian Basin also?

18 A. Yes, I did.

19 Q. And are you familiar with the geologic matters  
20 involved in this Application?

21 A. Yes, I am.

22 MR. BRUCE: Mr. Examiner, I'd tender Ms. Sullivan  
23 as an expert petroleum geologist.

24 EXAMINER ASHLEY: Ms. Sullivan is so qualified.

25 Q. (By Mr. Bruce) Would you please identify your

1 Exhibit 6 and discuss the primary zones that you're looking  
2 for in this area?

3 A. Yes. Exhibit 6 shows the production, the deeper  
4 production in the area around the Section 36 in Township 17  
5 South, 27 East, and the map is three sections east-west and  
6 three sections north-south. And in this area -- and this  
7 information is from *Dwight's Production* -- there are three  
8 Morrow wells, two Wolfcamp well and one Penn well.

9 The Morrow well in Section 36 produced 1.4 BCF  
10 and 7 MBO. The Morrow well in Section 1 of 18 South, 27  
11 East, produced .8 BCF and 8 MBO. Then a Morrow well in  
12 Section 6 of 18 South, 28 East, produced 1.7 BCF and 12  
13 MBO.

14 Two Wolfcamp wells, the one in Section 26 of 17  
15 South, 27 East, produced 1.8 BCF and 9 MBO. The Wolfcamp  
16 well in Section 35, then, produced .03 BCF and 11 MBO.

17 And a Penn well produced a small amount in  
18 Section 30 of 17 South, 28, and that one did .1 BCF.

19 Q. Looking at this map, there's not really much deep  
20 production in this immediate area, is there?

21 A. No, there is not.

22 Q. You've got a mark for the well location on here.  
23 What is the footage location of the well?

24 A. That footage location is 660 from the north and  
25 860 from the west.

1 Q. Okay. Let's move on to your Exhibit 7. Could  
2 you identify that for the Examiner?

3 A. Yes, Exhibit 7 is a structure map on an Atoka  
4 marker, and it just shows a gentle monoclinal dip to the  
5 southeast. Structure is not really a critical issue here,  
6 it's a strat trap.

7 Q. Okay. Then let's move on to your Exhibit 8.  
8 What is shown on that map?

9 A. Exhibit 8 is a lower Morrow net sand map that's  
10 porosity greater than 8 percent density porosity. And in  
11 this area the way we've mapped it, we feel that the sand is  
12 trending north-south across Section 36. These sands are  
13 both channel sands and some marine bar sands.

14 Q. Do you believe that your proposed location  
15 affords you a reasonable opportunity to make a well from  
16 this prospect?

17 A. Yes, we do. We're offsetting, again, a well in  
18 the southern half of Section 36 that made 1.4 BCF.

19 Q. But again, there's no Morrow production to the  
20 north -- really, to the north, east or west of your  
21 proposed well?

22 A. No, there is not.

23 Q. Finally, let's move on to your Exhibit 9. Could  
24 you identify that for the Examiner and maybe highlight the  
25 zones that you're hoping to hit in this well?

1           A.    Yes.  This is a stratigraphic cross-section, a  
2 north-south cross-section, and it goes from Section 25 in  
3 17-27, down through the proposed location and then south to  
4 the productive well in Section 36 and then on down south to  
5 the well in Section 1 of 18 South, 27 East.

6                   And the stratigraphic cross-section is hung on  
7 the top of the Morrow clastics.  These are really the  
8 middle Morrow clastics.  The top of the lower Morrow is  
9 located here.  I've also marked the top of the Barnett and  
10 the top of the Mississippi-Chester.

11                   And the zone of interest that we're looking at is  
12 right in here, and there are about three sands here.  In  
13 other wells they may coalesce, but these are -- And again,  
14 these are both the blocky look of channel sands and then  
15 the bar sands.  And the bar sands can have some marine  
16 cements and are generally tighter in this area.  It's  
17 really the channel sands when you're lucky enough to get  
18 them, they're the best producers out there.

19                   EXAMINER ASHLEY:  The lower Morrow that you  
20 said --

21                   THE WITNESS:  That's the lower Morrow.

22                   EXAMINER ASHLEY:  You said "right here", that's  
23 the lower Morrow?

24                   THE WITNESS:  Yes, uh-huh, this is the top of the  
25 lower Morrow here.  And then the Barnett, which is the

1 Mississippi, is here.

2           So you've got this interval right here with the  
3 sands in the upper part, and that lower part tends to be  
4 more shaly.

5           Q.    (By Mr. Bruce)  And as usual with the Morrow,  
6 these sands come and go over a very short area?

7           A.    They really do, they do.

8           Q.    Based on what you've testified, in your opinion  
9 should the maximum cost-plus 200-percent penalty be  
10 assessed against any interest owner who goes nonconsent in  
11 this well?

12          A.    Yes, you've got the risk of the occurrence of the  
13 sands, then of the reservoir quality of the sands, and you  
14 have some mechanical risk in that the Pennsylvanian shales  
15 can slough in this area and even cause you to lose a  
16 wellbore.

17          Q.    Were Exhibits 6 through 9 prepared by you or  
18 under your direction?

19          A.    Yes, they were.

20          Q.    And in your opinion, is the granting of  
21 Southwestern's Application in the interests of conservation  
22 and the prevention of waste?

23          A.    Yes.

24                MR. BRUCE:  Mr. Examiner, I move the admission of  
25 Southwestern's Exhibits 6 through 9.

1 EXAMINER ASHLEY: Exhibits 6 through 9 will be  
2 admitted as evidence.

3 EXAMINATION

4 BY EXAMINER ASHLEY:

5 Q. Ms. Sullivan, on Exhibit 6 --

6 A. Yes.

7 Q. -- in Section 1, you have another well location  
8 in red. Is that a Morrow well?

9 A. It was a Morrow test, but it did not have any  
10 Morrow production.

11 Q. Now is this location mainly based, then, on the  
12 isopach and not necessarily the structure?

13 A. Exactly, yes.

14 Q. What does the Wolfcamp look like out there, as  
15 far as structure and thickness?

16 A. The structure would be the same, and I really  
17 haven't mapped the thickness of the Wolfcamp here.

18 EXAMINER ASHLEY: Okay, I have nothing further.  
19 Thank you.

20 MR. BRUCE: Mr. Examiner, a couple of matters. I  
21 have been contacted by -- If you look at Exhibit 2 on the  
22 land plat, or the land working interest ownership, there  
23 are three interest owners, W.E. Jeffers, Mary Fleming Walsh  
24 and Bessie Massey Fleming. I've been contacted by either  
25 them or their representatives. They own interests in the

1 northeast quarter, and they wanted me to state on the  
2 record that as to their interests we are only force pooling  
3 deep gas zones, the 320-acre zones, which we're glad to do  
4 so just to give them peace of mind.

5 EXAMINER ASHLEY: Okay, I'm not following you on  
6 that.

7 MR. BRUCE: They own interest only in the  
8 northeast quarter --

9 EXAMINER ASHLEY: Okay.

10 MR. BRUCE: -- not where the well is -- not in  
11 the quarter section where the well is located. And so we  
12 would only, of course, be pooling them as to 320-acre gas  
13 zones.

14 EXAMINER ASHLEY: Okay.

15 MR. BRUCE: The other matter is, Mr. Examiner, I  
16 don't know if a readvertisement is necessary. The well  
17 location has changed slightly. The advertisement for the  
18 cases lists the well as being 660 feet from the north and  
19 1350 feet from the west, which is a standard location.

20 The well is now to be located 660 feet from the  
21 north and 860 feet from the west, which is also a standard  
22 location. The zones we are -- or the formation -- or I  
23 should say, the acreage we are seeking to pool remains the  
24 same, 160-acre gas zones or 320-acre gas zones. If it  
25 needs to be readvertised, that's fine with us.

1 EXAMINER ASHLEY: Yes, we'll need to readvertise  
2 that for two weeks, and at that time it can be taken under  
3 advisement.

4 MR. BRUCE: Okay.

5 EXAMINER ASHLEY: Are there any kind of deadlines  
6 for this well --

7 MR. BRUCE: No.

8 EXAMINER ASHLEY: -- any lease expirations or  
9 anything like that?

10 MR. BRUCE: No, no. No real time -- They do want  
11 to drill this well in January, but that's the only  
12 deadline.

13 EXAMINER ASHLEY: Okay, that's fine. We'll  
14 readvertise this for the 4th of November.

15 Thank you.

16 (Thereupon, these proceedings were concluded at  
17 11:08 a.m.)

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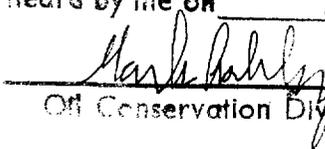
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I do hereby certify that the foregoing  
is a correct record of the proceedings at  
the Examiner hearing of Case No. 2259  
heard by me on 10-21-90  
  
Mark Ashley, Examiner  
Off Conservation Division

## 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 November 1, 1999.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 2002