

STATE OF NEW MEXICO

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. 12,266

APPLICATION OF SANTA FE SNYDER)
CORPORATION FOR APPROVAL OF A UNIT)
AGREEMENT, LEA COUNTY, NEW MEXICO)

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.

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October 21st, 1999
 Examiner Hearing
 CASE NO. 12,266

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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 NEARBURG EXPLORATION COMPANY:

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 10:15 a.m.:

3 EXAMINER ASHLEY: The hearing will now come back
4 to order, and the Division calls Case 12,266, Application
5 of Santa Fe Snyder Corporation for approval of a unit
6 agreement, Lea County, New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing the Applicant. I have two witnesses.

10 EXAMINER ASHLEY: Additional appearances?

11 MR. CARR: May it please the Examiner, my name is
12 William F. Carr with the Santa Fe law firm Campbell, Carr,
13 Berge and Sheridan. We represent Nearburg Exploration
14 Company in this matter, and I have no witnesses.

15 EXAMINER ASHLEY: Will the witnesses please stand
16 to be sworn in?

17 (Thereupon, the witnesses were sworn.)

18 STEVEN J. SMITH,
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. BRUCE:

23 Q. Would you please state your name?

24 A. Steven Smith.

25 Q. Where do you reside?

1 A. Midland, Texas.

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

3 A. I'm a senior staff landman for Santa Fe Snyder
4 Corporation.

5 Q. Have you previously testified before the
6 Division?

7 A. Yes, I have.

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

10 A. Yes, they were.

11 Q. And are you familiar with the land matters
12 involved in this Application?

13 A. Yes, I am.

14 MR. BRUCE: Mr. Examiner, I tender Mr. Smith as
15 an expert petroleum landman.

16 EXAMINER ASHLEY: Any opposition?

17 MR. CARR: No objection.

18 EXAMINER ASHLEY: Mr. Smith is so qualified.

19 Q. (By Mr. Bruce) Mr. Smith, could you refer to
20 Exhibit 1, identify it for the Examiner and describe what
21 Santa Fe seeks in this case?

22 A. Exhibit 1 is a plat representing the land that we
23 propose to include in a voluntary state exploratory unit.
24 The proposed unit will cover the south half of Section 1,
25 the south half of Section 2, all of Section 11 and the west

1 half of Section 12, Township 21 South, Range 34 East, Lea
2 County, New Mexico.

3 Q. Will the unit include all depths?

4 A. It will cover all depths.

5 Q. And what type of lands are these in the unit?

6 A. All of the lands within the proposed unit are
7 State of New Mexico lands.

8 Q. Now, there's a second page to Exhibit 1. What
9 does that show?

10 A. This is a summary of the lands involved, and it
11 shows the working, overriding royalty and royalty ownership
12 throughout all the lands in the proposed unit.

13 Q. What is Exhibit 2?

14 A. Exhibit 2 is the proposed unit agreement. It is
15 the standard State of New Mexico state/fee form. And
16 Exhibit B, again, to this proposed unit is a list of all
17 the land -- the working, royalty and overriding royalty
18 interest owners by tract.

19 Q. Who are the working interest owners within the
20 unit?

21 A. The record owners within the unit are Santa
22 Snyder Corporation, Nearburg Exploration Company and
23 Phillips Petroleum. We are aware of, by conversation and
24 agreement between Southwestern Energy and Phillips, under
25 which Southwestern may be able to earn an interest in

1 Phillips' lands, and based upon that knowledge we proposed
2 the unit to Southwestern as well.

3 Q. As well as to Phillips?

4 A. That's correct.

5 Q. Which of the working interest owners have at this
6 time ratified or signed the unit agreement?

7 A. Santa Fe and Nearburg both have signed or
8 ratified the unit and unit operating agreements.

9 Q. Giving those two signatures, what percentage of
10 the working interest owners are committed to the unit?

11 A. 95 percent.

12 Q. And what about the state royalty interests?

13 A. Well, the State has given preliminary approval to
14 the unit, and they have 100 percent of the leased royalty.

15 Q. Is the State's letter of preliminary approval
16 marked as Exhibit 3?

17 A. Yes, it is.

18 Q. Now, the description in the unit also lists two
19 overriding royalty interest owners in Tract 1, solely in
20 Tract 1. Have either of those agreed to ratify the unit?

21 A. Neither have signed the ratification. I've sent
22 letters and spoken with both -- It's OXY Petroleum and
23 Scott Wilson and Richard [sic] Barr. And Wilson and Barr
24 have indicated verbally they'll probably the join the unit,
25 and I believe OXY is still considering.

1 Q. Well, let's discuss your contacts with these
2 working interest owners. What is Exhibit 4?

3 A. Exhibit 4 are copies of the letters that were
4 sent out notifying everyone of our proposed unit and
5 requesting that they -- or offering the opportunity to
6 join. They were all mailed out October 11th of 1999.

7 Q. And have you had any follow-up discussions with
8 these interest owners?

9 A. I've had numerous phone calls with all the
10 parties, and the -- Phillips and Southwestern are still
11 discussing internally what they're going to do.

12 Q. Is there an upcoming time deadline regarding
13 drilling the first unit well?

14 A. Well, there are really two that we're facing.
15 Our first lease in the proposed unit expires 12-31-99. But
16 our more pressing concern is rig availability. We have a
17 rig that we need to keep busy, and if we let it go we'll
18 lose it with the state of the industry. And we'd like to
19 be able to spud this well by November 7th, and that would
20 allow us to utilize the rig that's available.

21 Q. And therefore you request expedited approval of
22 the unit agreement?

23 A. Yes, we do.

24 Q. Now, this is a voluntary unit as you said,
25 correct, Mr. Smith?

1 A. That's correct.

2 Q. And therefore no one can be ordered into the
3 unit?

4 A. No, and those that don't join will be subject to
5 their own lease terms if they were ever -- a well were
6 drilled involving them. So it's a voluntary unit, no one
7 would...

8 Q. What are Santa Fe's plans for the initial unit
9 well?

10 A. The initial well is scheduled to be a Morrow
11 well. We want to drill it in the southwest southwest of
12 Section 12. And again, we'd like to spud the well on or
13 before November 7th.

14 Q. What is Exhibit 5?

15 A. Exhibit 5 is the AFE that was sent out to the
16 potential working interest owners.

17 Q. And this is for the initial unit well?

18 A. It is. It's for a 13,600-foot Morrow test. We
19 have an estimated dryhole cost of \$1,171,000 and a
20 completed well cost of \$1,403,000.

21 Q. Does Santa Fe request that it be designated
22 operator of the unit?

23 A. Yes, we are the largest working interest owner,
24 we'd like to be the operator.

25 Q. Although no one can be forced into the unit, were

1 the working interest owners notified of this hearing?

2 A. Yes, they were.

3 Q. And is Exhibit 6 my affidavit of notice?

4 A. Yes, it is.

5 Q. And in your correspondence with the interest
6 owners in Exhibit 4, did you also inform all the interest
7 owners of the hearing date?

8 A. Yes, I did.

9 Q. Were Exhibits 1 through 6 prepared by you or
10 under your supervision or compiled from company business
11 records?

12 A. Yes, they were.

13 Q. And in your opinion is the granting of this
14 Application in the interests of conservation and the
15 prevention of waste?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I move the admission of
18 Santa Fe Exhibits 1 through 6.

19 EXAMINER ASHLEY: Exhibits 1 through 6 will be
20 admitted into evidence.

21 EXAMINATION

22 BY EXAMINER ASHLEY:

23 Q. Mr. Smith, you said Santa Fe and Nearburg have
24 signed the unit agreement?

25 A. Unit and unit operating agreement.

1 Q. Okay. And what percentage does that represent?

2 A. 95 percent of the working interest ownership.

3 Q. And so Phillips represents five percent of that?

4 A. They're the record title owner. I am aware of an
5 agreement between Phillips and Southwestern. I have not
6 seen it and don't know the specific terms, but I am of the
7 understanding that Southwestern has the right to explore on
8 this property. So Southwestern has expressed some interest
9 in joining, but I don't know their capacity yet. We're
10 still going to leave the door open to them to join, if they
11 can work out whatever it is, the trade they have with
12 Phillips.

13 Q. So Phillips hasn't signed anything yet?

14 A. Phillips has indicated they're not interested in
15 joining. But again, I don't know what the relationship, or
16 the obligations there are between Phillips and
17 Southwestern. I don't have privy to that agreement.

18 Q. Now, tell me again about these two deadlines.

19 You've got one on the 31st of December?

20 A. That's the first expiring state lease, and we
21 must drill by then to save that lease.

22 But our more pressing concern is that we have a
23 rig that we will be able to move onto this location on or
24 about November 7th. And with rig availability as it is, if
25 you don't keep it's lost to you and you may never get it

1 back.

2 We are preparing to spud by November 7th.

3 Q. Okay. And this unit is for --

4 A. The outland -- It's a proposed Morrow test, but
5 it will cover all depths.

6 EXAMINER ASHLEY: Okay. I have nothing further,
7 thank you.

8 MR. HULKE: If it would be helpful, I'll put
9 these exhibits up on the wall, if you're rather look at
10 them --

11 EXAMINER ASHLEY: Are they fairly long?

12 MR. HULKE: Yeah, this one is.

13 EXAMINER ASHLEY: Yeah, that would be fine, you
14 can put it up.

15 STEVE HULKE,

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

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

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

22 A. My name is Steve Hulke. I'm from Midland, Texas.

23 Q. Who do you work for?

24 A. I work for Santa Fe Snyder Corporation.

25 Q. What's your job with them?

1 A. I'm a senior staff geologist.

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

4 A. No, I haven't.

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

7 A. I received a bachelor's degree from Carleton
8 College in 1970, a master's degree from the University of
9 Texas in Austin, 1978. I worked for Turk, Keahle and
10 Associates in Austin in 1974 to 1980, Anadarko Production
11 Company in Midland from 1980 to 1981, 1981 to 1983 was
12 Heritage Resources in Midland, 1983 to 1985 Woods Petroleum
13 in Midland, 1985 to 1997 Hunt Oil Company in Midland and
14 Dallas, 1997 to the present for Santa Fe Snyder.

15 Q. And were your positions with those companies as a
16 geologist?

17 A. They were as exploration geologist, everyone
18 except for Woods, where I was an exploration manager.

19 Q. And does your area of responsibility at Santa Fe
20 include Southeast New Mexico?

21 A. Yes, it does.

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

24 A. Yes, I am.

25 MR. BRUCE: Mr. Examiner, I'd tender Mr. Hulke as

1 an expert petroleum geologist.

2 EXAMINER ASHLEY: Mr. Hulke is so qualified.

3 Q. (By Mr. Bruce) Mr. Hulke, could you identify
4 your Exhibit 7, describe it for the Examiner and discuss
5 the primary zones of interest for the initial unit well?

6 A. Exhibit 7 is a stratigraphic cross-section of the
7 Morrow Section in the proposed Outland Unit area. The
8 stratigraphic cross section is hung on a datum, which is
9 the top of the middle Morrow Clastics. The primary sands
10 of interest are the Morrow C sand and the Morrow CB sand,
11 colored yellow and orange.

12 The three maps I've prepared are a structure map
13 on the top of the middle Morrow C sand, the yellow sand,
14 and I have porous sand maps on the C and the CB.

15 Q. And the middle Morrow is the primary zone of
16 interest?

17 A. That's correct.

18 Q. Would you identify your Exhibit 8, I believe, and
19 describe how the boundaries of the unit were established?

20 A. Exhibit 8 is a structure map on the middle Morrow
21 C. Again, that's the yellow horizon, the top of that sand.

22 This map depicts the structure on the top of the
23 middle Morrow C, and in essence there are three dip panels
24 or fault blocks on this map. There's an eastern block,
25 which is very high. There is a western block, which is

1 very low.

2 And in between, the intermediate fault block is
3 our prospective fault block. It's bounded to the east by a
4 down-to-the-west fault, it's bounded on the west by a down-
5 to-the-west fault, and the fault on the east boundary is
6 significantly larger than the fault on the west, and I have
7 those two faults merging together south of the proposed
8 unit. The unit outline basically follows section and half-
9 section lines to coincide with those faults.

10 Q. Is the faulting based on well control, Mr. Hulke?

11 A. Yes, the faulting is based on well control. At
12 the north end of the map it's very clear that -- For
13 instance, in Section 36 of 20 South, 35 East, there is
14 about 1700 feet between wells on the east side of the
15 section and a well on the west side.

16 Additionally, in Sections 35 and 34 there's 600
17 feet of structural relief between wells on the east and the
18 west of that interpreted fault.

19 On the south end of the map, in Section 21 South,
20 34 East, there's a similar faulting geometry. The top of
21 the sand drops about 900 feet across to the east-bounding-
22 fault, and then the top of the C sand drops another 300
23 feet to Section 21. So I have good well control at the
24 north end and the south end of the structure map to
25 interpret the faults. In between, there's not very much

1 data, or there's no data, and that's where the prospect
2 resides.

3 Q. So the unit outline itself is based solely on the
4 structure map here?

5 A. That's correct.

6 Q. That is not how the initial well location was
7 chosen; is that correct?

8 A. No, the initial well location is chosen in the
9 prospective fault block where we believe we have the
10 highest probability of finding sand in the C and B zones --
11 C and CB zones.

12 Q. Why don't you refer to your Exhibits 9 and 10
13 together and discuss the reason for the initial well
14 location?

15 A. First, if you look at the cross-section, the
16 yellow horizon, the middle Morrow C sand, is present in
17 every well, and it's relatively thick. And if you look at
18 my porous sand map on the middle Morrow C, you'll see that
19 it's present nearly everywhere and it's relatively thick.

20 However, the CB sand, the orange sand, is present
21 everywhere, but in many of the wells it's very thin and
22 tight. There are two key wells on the cross-section: the
23 Wilson Deep Unit Number 1, which is in Section 13 just
24 south of our proposed location, which has very nice thick
25 sands in both the C and the CB, and in fact it made 5 BCF

1 out of the CB sand.

2 The State R well in Section 1 is the closest well
3 in our prospective fault block that has -- well, it's the
4 closest well in the prospective fault block, and it has a
5 very thick C sand and a very thin and tight CB sand.

6 Our location is chosen where we have the highest
7 probability of finding thick sands in the C and the CB,
8 which is close to the Wilson Deep Unit well in Section 13.

9 So we're in a separate fault block from the
10 Wilson Deep Unit well, but we hope to find the same two
11 sands.

12 Q. Looking at your Exhibits 9 and 10, it looks like
13 it's easier to find the C sand, and maybe the location is
14 more based on hitting the main zone in the CB sand?

15 A. Well, we want to find both. And that's correct,
16 there's lower risk of finding thick sand in the C, it's
17 substantially higher risk finding the CB. If you look at
18 the porous sand map on the CB in the Section 13 well, we
19 have 12 feet of porosity, of porous sand. But all of the
20 other wells around it are very thin.

21 So it's clear that the best chance of finding
22 thick CB sand is in the -- getting as close as possible to
23 the Section 13 well, and we want to find both.

24 Q. And Mr. Hulke, all of these exhibits you've
25 presented today have been presented to the State Land

1 Office?

2 A. Yes, that's correct.

3 Q. Were Exhibits 7 through 10 prepared by you or
4 under your direction?

5 A. Yes.

6 Q. And in your opinion is the granting of this
7 Application in the interests of conservation and the
8 prevention of waste?

9 A. Yes, it is.

10 MR. BRUCE: Mr. Examiner, I'd move the admission
11 of Santa Fe's Exhibits 7 through 10.

12 EXAMINER ASHLEY: Exhibits 7 through 10 will be
13 admitted as evidence.

14 EXAMINATION

15 BY EXAMINER ASHLEY:

16 Q. Mr. Hulke, what field is this that's just to the
17 southeast of the proposed unit? The wells that are in
18 Section -- like 23 and Section 13?

19 A. Oh, those are shallow Yates and Seven Rivers
20 wells in the Wilson field. On these maps, the deep wells
21 have circles around them. My cutoff depth is 11,000 feet,
22 and there's data posted at each of those wells, each of the
23 deep locations, with the exception of a well in the
24 southwest quarter of Section 24 where there was no log
25 available.

1 All of the other wells without circles are
2 basically Yates-Seven Rivers.

3 Q. Okay.

4 A. 3000 feet, plus or minus.

5 Q. Now, the well in Section 13 --

6 A. Yes, sir.

7 Q. -- that's the one that's produced 5 BCF?

8 A. Yes, sir.

9 Q. And which well is that? The --

10 A. The Wilson Deep Unit well.

11 Q. Okay, yeah. And once again, the dotted area is
12 Santa Fe acreage, and then the outlined area is the
13 proposed unit, and that's based solely on structure; is
14 that --

15 A. Yes. We want to be in that intermediate fault
16 block.

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

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

21 EXAMINER ASHLEY: There being nothing further in
22 this case, Case 12,266 will be taken under advisement.

23 (Thereupon, these proceedings were concluded at
24 10:44 a.m.)

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 November 1st, 1999.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002