

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:)

CASE NO. 12,323

APPLICATION OF OCEAN ENERGY RESOURCES,)
 INC., FOR A NONSTANDARD SUBSURFACE GAS)
 WELL LOCATION/PRODUCING AREA, LEA COUNTY,)
 NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

January 20th, 2000

Santa Fe, New Mexico

OIL CONSERVATION DIV
 00 FEB - 7 PM 4:42

OIL CONSERVATION DIV

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, January 20th, 2000, 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

January 20th, 2000
 Examiner Hearing
 CASE NO. 12,323

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* * *

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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Attorney at Law
Legal Counsel to the Division
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Santa Fe, New Mexico 87505

FOR THE APPLICANT:

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P.O. Box 1056
Santa Fe, New Mexico 87504

FOR DAVID H. ARRINGTON OIL AND GAS, INC.:

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

* * *

1 WHEREUPON, the following proceedings were had at
2 8:53 a.m.:
3
4

5 EXAMINER ASHLEY: The Division calls Case 12,323.

6 MR. CARROLL: Application of Ocean Energy
7 Resources, Inc., for a nonstandard subsurface gas well
8 location/producing area, Lea County, New Mexico.

9 EXAMINER ASHLEY: Call for appearances.

10 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
11 representing the Applicant. I have three potential
12 witnesses to be sworn.

13 EXAMINER ASHLEY: Additional appearances?

14 Will the witnesses please rise to be sworn in?

15 (Thereupon, the witnesses were sworn.)

16 DEROLD MANEY,
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 and city of
22 residence for the record?

23 A. Derold Maney, Houston, Texas.

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

25 A. Ocean Energy Resources as senior staff landman.

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

3 A. No, I have not.

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

6 A. I graduated from the University of Texas at El
7 Paso, I have 26 years in the business.

8 I started out in 1973 with El Paso Natural Gas
9 Company, through various mergers ended up as Burlington
10 Resources.

11 I left Burlington Resources in 1988, then went to
12 work for Seagull Energy, who became Ocean Energy through
13 merger, and I've been there to the present time.

14 Q. So for the last, what, 12 years?

15 A. Yes.

16 Q. And does your area of responsibility at Ocean
17 include southeast New Mexico?

18 A. Yes, it does.

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

21 A. Yes, I am.

22 MR. BRUCE: Mr. Examiner, I tender Mr. Maney as
23 an expert petroleum landman.

24 EXAMINER ASHLEY: Mr. Maney is so qualified.

25 Q. (By Mr. Bruce) Mr. Maney, what does Ocean Energy

1 seek in this case?

2 A. We seek to drill the Panther Martin State Com
3 Number 1 well at an unorthodox bottomhole location.

4 Q. Would you refer to Exhibit 1 and describe Ocean's
5 well proposal in a little more detail?

6 A. Exhibit 1 is a land plat of the area around the
7 proposed well. The well is in Section 3, 16 South, 35
8 East.

9 We plan to re-enter the Chevron State Number 1
10 well, which is located 2310 feet from the south line and
11 1650 feet from the west line, and directionally drill the
12 well to a bottomhole location 2040 feet from the south line
13 and 2280 feet from the west line.

14 Section 3 is an irregular section, and the unit
15 is comprised of lots 11 through 14 in the southwest
16 quarter.

17 Q. So it's roughly the southwestern third of that
18 section, is the well unit?

19 A. Yes.

20 Q. What is the target zone for this well?

21 A. It will be a Morrow test at a depth of 12,250
22 feet.

23 Q. What pool is the well in?

24 A. The Townsend-Morrow Gas Pool, which is spaced on
25 statewide rules.

1 Q. Okay.

2 A. And therefore the well is too close to the
3 quarter-section line and too close to the outer boundary of
4 the well unit.

5 Q. What is the basis for the location?

6 A. It's based on geological reasons, and another
7 witness will further explain that.

8 Q. What is the estimated cost of this well?

9 A. \$1,265,714.

10 Q. Now, looking at your Exhibit 1 again, who is or
11 are the offset operators?

12 A. Arrington is the offset operator in the 320-acre
13 unit to the east, and it's dedicated to the Parachute Adams
14 State Com Number 1 well, and it's also completed in the
15 Morrow formation.

16 Q. Okay. So even though it's not marked on this
17 Exhibit 3 that I have, there is an offsetting well unit to
18 the east of your proposed well?

19 A. Yes, sir. Yes, sir.

20 Q. And that's operated by, I believe, David H.
21 Arrington Oil and Gas, Incorporated?

22 A. Yes, sir.

23 Q. Was Arrington notified of this Application?

24 A. Yes, he was.

25 Q. And is Exhibit 2 my affidavit of notice, with the

1 notice letter and certified return receipt?

2 A. Yes.

3 Q. What is Exhibit 3?

4 A. When Arrington received our notice letter, they
5 mailed a copy of the letter to the working interest owners
6 in the Parachute Adams well, and they probably did this
7 since the owners in both wells are the same, that owns an
8 interest in both wells.

9 Q. So the working interest owners in the Arrington
10 offset well are the same as the working interest owners in
11 your proposed well?

12 A. Yes, sir.

13 Q. Okay. What is Exhibit 4?

14 A. It's a letter signed by David Arrington waiving
15 objection to the unorthodox location.

16 Q. And were Exhibits 1 through 4 prepared by you or
17 under your direction or compiled from company business
18 records?

19 A. Yes, they were.

20 Q. One final thing, Mr. Maney. Is there a timing
21 issue regarding the drilling of this well?

22 A. Yes, we have some lease expirations. Arrington
23 Oil and Gas has lease expirations on their leases that we
24 need to get in there and drill before they expire.

25 Q. Okay. Are there any other issues, like rig

1 availability?

2 A. Rig availability is a problem. We do have a rig
3 that's not drilling now. It will be in the next several
4 days at a location in the neighborhood, and when it's
5 finished drilling we plan to move on to this location.

6 And prior to moving onto the location, we need to
7 put on a workover rig, and determine the condition of the
8 hole to make sure that we can use that existing wellbore.
9 If that's not possible, we will drill a new well at that
10 location with the same directional procedure.

11 Q. And once again, Mr. Maney, like a couple years
12 ago, rig availability has become a problem, has it not?

13 A. They're very difficult to get.

14 Q. In your opinion, is the granting of this
15 Application in the interests of conservation and the
16 prevention of waste?

17 A. Yes, sir.

18 MR. BRUCE: Mr. Examiner, I'd move the admission
19 of Ocean Energy Exhibits 1 through 4.

20 EXAMINER ASHLEY: Exhibits 1 through 4 will be
21 admitted as evidence.

22 EXAMINATION

23 BY EXAMINER ASHLEY:

24 Q. Mr. Maney, you said it was a rush order because
25 of lease expiration?

1 A. There's a lease expiration problem, yes, sir.

2 Q. Can you give me a date?

3 A. April 1st.

4 Q. And you said the working interests in both wells
5 are the same --

6 A. Yes.

7 Q. -- in the Arrington well, the Parachute Adams?

8 A. Yes, sir.

9 EXAMINER ASHLEY: The Parachute Adams, okay.

10 I have nothing further. Thank you.

11 MR. BRUCE: Call Mr. Huck to the stand.

12 MR. OWEN: Excuse me, Mr. Examiner. May it
13 please the Examiner, at this time -- You asked for
14 appearances earlier. At this time I would like to enter my
15 appearance on behalf of David Arrington Oil and Gas
16 Company.

17 EXAMINER ASHLEY: Okay.

18 MR. OWEN: Paul Owen of the Santa Fe law firm of
19 Campbell, Carr, Berge and Sheridan.

20 EXAMINER ASHLEY: Do you have any witnesses?

21 MR. OWEN: No, no witnesses.

22 EXAMINER ASHLEY: Do you have any questions for
23 Mr. Maney?

24 MR. OWEN: I do not.

25 EXAMINER ASHLEY: Okay, thank you.

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JAMES D. HUCK,

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 for the record?

A. James David Huck, Littleton, Colorado.

Q. And who do you work for and in what capacity?

A. I'm currently employed by Ocean as a consulting
geophysicist.

Q. Have you previously testified before the
Division?

A. Yes, I have.

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

A. Yes.

Q. And are you familiar with the geophysical matters
involved in this Application?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I'd tender Mr. Huck as
an expert geophysicist.

EXAMINER ASHLEY: Mr. Huck is so qualified.

Q. (By Mr. Bruce) Mr. Huck, could you identify
Exhibit 5 for the Examiner and discuss the primary zone of

1 interest for the proposed well?

2 A. Exhibit 5 is a sand isopach, a net sand isopach
3 of what we call the Mesa sand in the area. Mesa sand is
4 defined in the Mesa Townsend State Number 1 well. It has
5 six feet of sand. This isopach is constructed from well
6 control and has no seismic guidance to it. Also on the map
7 you will see a cross-section, A-A'. The red numbers
8 outside the larger well symbols there are the thicknesses
9 of the sand, in some cases zero, all the way up to 11 feet.

10 Q. Now, looking at this map, other than the zero
11 lines around the outside of this little reservoir, there's
12 not a lot of well control inside, is there?

13 A. No, there isn't. I believe that there's -- We
14 have five wells inside the zero line that we actually have
15 a net footage assigned.

16 Q. Okay. Now, looking at your proposed well that's
17 being directionally drilled to the southeast, and your
18 target zone is that little red boxed area?

19 A. Correct.

20 Q. Okay. Now, looking at this alone, it wouldn't
21 support the unorthodox location; is that correct?

22 A. Correct. This map is just strictly drawn from
23 well control and has no seismic influence to it.

24 Q. Okay. Now, you hope to get -- I notice that the
25 Bridge Chevron State Number 1, the well you hope to re-

1 enter, had two feet of sand; is that correct?

2 A. Right, yes.

3 Q. You hope to get more sand than that at your
4 bottomhole location?

5 A. Yes, we do.

6 Q. But just because of the lack of well control in
7 here, you can't really tell exactly how much is there?

8 A. Correct.

9 Q. Okay. What do you hope to get as far as sand
10 thickness at your well?

11 A. I would hope that we get at least four feet and
12 greater.

13 Q. Okay, equivalent to the Arrington Parachute
14 Adams?

15 A. Yeah, Parachute Adams or possibly greater.

16 Q. Okay. Well, to support this unorthodox location,
17 then, what is really needed? And I refer you to your
18 Exhibit 6?

19 A. Okay, Exhibit 6 is a structure map on the Morrow
20 Lime constructed from well control and seismic, the
21 interpretation off the seismic, and converted to depth.

22 What you see here is that the proposed bottomhole
23 -- or the target location, we are in a structural low
24 approximately, I believe, 55 feet downdip from the Chevron
25 Bridge State Number 1 well.

1 We also see that the Parachute Adams Number 1 and
2 the Yates Petroleum Field APK Number 3 are also in
3 structural lows, and that sets up our -- primarily
4 exploration strategy for looking for these deeper sands.

5 Q. Okay. So what's really important in this case is
6 drilling at a structural low?

7 A. Yes.

8 Q. And that is the reason for the unorthodox
9 location?

10 A. Yes, sir.

11 Q. Let's move on to your Exhibit 7, the cross-
12 section, and show the Examiner what you hope to encounter
13 in this well.

14 A. Exhibit 7 is the cross-section A-A', which you
15 can reference back to the previous map that starts to the
16 north in Section 3, the Townsend Mesa State Number 1.

17 We have six feet of the Mesa sand colored in red.
18 It progresses down to the Bridge Chevron State Number 1
19 well. We have two feet of sand in there, and below the log
20 you also see a corresponding mud log which we had a gas
21 increase and sand in the sample log also.

22 Just off to the -- or right of that, Chevron
23 State Number 1 well, would be our vertical projection of
24 our target location.

25 Further to the east we have the Arrington Oil and

1 Gas Parachute Adams Number 1, which we have four feet of
2 sand in the Mesa. The Yates Petroleum APK Number 3, in
3 which we have 11 feet of sand. And then finishing the
4 cross-section the farthest to the east is the Ocean Energy
5 Townsend State Number 2, and it did not have any Mesa sand
6 in it.

7 Q. Now, did the Bridge Chevron State Number 1
8 produce from the Mesa sand?

9 A. No, they did not produce that well.

10 Q. Now, is this a horizontal well, or is it a
11 directional well?

12 A. It's a directional well. We plan to attempt to
13 re-enter the Bridge Chevron State Number 1 and kick off, I
14 believe, up in the Wolfcamp with approximately, I think,
15 10,500 feet and deviate the well to the target location.

16 Q. Is Exhibit 8 a copy of the drilling plan,
17 directional plan for this well?

18 A. Yes, Exhibit 8 is our deviation plan for this
19 well, with the kickoff point at 10,550 feet and the target
20 intersection at 12,333 measured depth.

21 Q. Could you discuss production from the Mesa sand
22 from the Morrow in this particular area? And I'd refer you
23 to Exhibit 9.

24 A. Exhibit 9 is our cumulative production map on the
25 Mesa sand. The Mesa Townsend State Number 1, which I

1 believe was completed in 1985, has produced 1.44 billion
2 cubic feet of gas, 186,600 barrels of oil and 343 barrels
3 of water.

4 To the southeast we have the Arrington Parachute
5 Adams well which was completed, I believe, in September of
6 1999. It has cum produced 23 1/2 thousand -- or 63
7 million, excuse me, cubic feet of gas, and 9504 barrels of
8 oil.

9 To the east in Section 2, the Yates Petroleum
10 Field APK Number 3 has produced 239 million cubic feet of
11 gas, 20,066 barrels of oil, and that well was completed, I
12 believe, in February of 1999.

13 Q. Okay. Now, maybe looking at Exhibit 6 and 9
14 together, Mr. Huck -- Let's start with the Yates. Now,
15 this Mesa well was drilled -- What did you say? In 1985?

16 A. 1985, yes.

17 Q. And until -- The next well drilled and completed
18 in this sand is the Yates Field APK Number 3 well; is that
19 correct?

20 A. Yes.

21 Q. Which went on production -- What, about a year
22 ago?

23 A. About a year ago, I believe.

24 Q. So for almost 15 years there had been no
25 drilling --

1 A. Right.

2 Q. -- to this sand in this area?

3 A. Yes.

4 Q. Does Ocean own an interest in that APK Number 3
5 well?

6 A. Yes, we do.

7 Q. Who was responsible for selecting the location of
8 that well?

9 A. Ocean Energy was responsible in selecting that
10 location. Part of our agreement with Yates.

11 Q. And it was based, looking at Exhibit 6, on that
12 structural low that you have at that location?

13 A. Yes.

14 Q. Then next the Arrington Parachute Adams well was
15 drilled; is that correct?

16 A. Yes.

17 Q. And again, Ocean owns an interest in that well?

18 A. Yes, we do.

19 Q. And that well location was also selected based on
20 a structural low; is that correct?

21 A. Yes.

22 Q. So you had success on these two wells, selecting
23 them on structural lows?

24 A. Yes, we have.

25 Q. Looking at Exhibit 6, then, will your proposed

1 location give you what you need as far as a structural low
2 to go along with sufficient sand thickness to hit, you
3 hope, a productive well?

4 A. Yes, we believe that that location would give us
5 that structural low that would be the ultimate location.

6 Q. And like you say, in this area the structural low
7 is highly critical?

8 A. Yes, we think that enhances the thickness of the
9 sand.

10 Q. Looking back at your Exhibit 7, the Chevron
11 Bridge State, there were gas shows in there, were there
12 not?

13 A. Yes. Yes, there was a gas show at the -- what we
14 call the Mesa sand, at 12,158. On the mud log, down below
15 the electric log, you can see a gas increase at that depth.
16 And also on the sample log, you see an increase in the
17 amount of sand.

18 Q. Okay. But that is fairly structurally higher
19 than your proposed location?

20 A. Right, yeah, that's quite a bit higher than what
21 our target location is.

22 Q. Which is probably why it wasn't produced in that
23 well?

24 A. Probably one of the good reasons, as well as, you
25 know, whenever that well was drilled, they may not have

1 considered it economic.

2 Q. So in short, Ocean has been responsible for
3 selecting the other two wells, which look to be economic in
4 this pool?

5 A. Yes.

6 Q. Other than the old Mesa Townsend State well?

7 A. Right.

8 Q. And based on the results of these two wells, it's
9 really imperative that you have this unorthodox location,
10 is it not?

11 A. Yes, it is.

12 Q. And based on the new pool rules or the new
13 statewide rules, this is relatively unorthodox?

14 A. Yes, by 300 feet, I believe.

15 Q. By about 300 feet. But once again, the
16 structural low really dictates this location?

17 A. Yes.

18 Q. Were Exhibits 5 through 9 prepared by you or
19 under your direction or compiled from company business
20 records, Mr. Huck?

21 A. Yes, they were.

22 Q. And in your opinion, is the granting of this
23 Application in the interests of conservation and the
24 prevention of waste?

25 A. Yes.

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

3 EXAMINER ASHLEY: Exhibits 5 through 9 will be
4 admitted as evidence.

5 EXAMINATION

6 BY EXAMINER ASHLEY:

7 Q. Mr. Huck --

8 A. Yes.

9 Q. -- on Exhibit 5, you have a box there. You call
10 that a target location?

11 A. Yes.

12 Q. Can you explain a little more to me what that is?

13 A. Okay, that target location is from the mapping
14 that I have done on the seismic, and the interpretation of
15 the seismic and doing a structural interpretation on that,
16 and coming up with the mapped low in the Morrow lime and
17 other formations in there. And that's primarily how I came
18 up with that target location, is mapping the seismic to
19 come up with a structural low and using the offsetting
20 Bridge Chevron State Number 1 well with the gas show in it,
21 and then all the previous knowledge that we've developed in
22 here in terms of our exploration model and the Parachute
23 Adams well and the APK Number 3 well.

24 Q. So that would be your target TD?

25 A. That would be the target for the Mesa sand. The

1 TD, if you would refer to Exhibit 8, you can see that our
2 target location is a red line drawn horizontally at a TVD
3 of 12,157. The TD of the well would be the -- on the
4 Exhibit 5 or Exhibit 6 is the circle to the far east, just
5 west of the half-section line. But our target location
6 would be within that target box. The TD would be to go to
7 a deeper zone, as well as to get additional depth in that
8 well for logging and other purposes.

9 Q. So this target intersection, that's where you
10 anticipate to intersect the Mesa sand?

11 A. Yes.

12 Q. Now, are Exhibits 5 and 6 based on well control
13 and seismic?

14 A. Exhibit 5 is based just strictly on well control.
15 Exhibit 6 is on seismic and well control.

16 Q. On Exhibit 6 you show your structural low.

17 A. Yes.

18 Q. Is any part of that structural low within the
19 window of a standard location?

20 A. Probably the extreme western part of that low
21 would be within a standard location.

22 Q. If that was drilled at a standard location, would
23 there be any difference, since it looks to me like you're
24 in the same low there?

25 A. I believe that we would have a higher risk of

1 having a thinner sand, or maybe losing the sand. We would
2 have to move approximately 300 feet to the west. So I
3 believe that would increase our risk.

4 At the Bridge well we have two feet of sand, and
5 I would like to see four feet. So I believe that that
6 would increase our risk of finding, you know, a thickness
7 of sand that we could economically produce.

8 Q. Is any part of this target window within the
9 boundaries of a standard location?

10 A. No, I don't believe so.

11 Q. Looking at Exhibit 5 on the isopach map, the way
12 you have that mapped it looks like you would be
13 encountering somewhere between two and three feet of sand?

14 A. Yes, and from the isopach map I just contoured
15 that strictly from well control and didn't try to influence
16 with any type of seismic knowledge.

17 Q. When was the Bridge Chevron State completed?

18 A. That well was -- I believe it was completed as a
19 dry hole, and unfortunately I don't have that information
20 right now.

21 EXAMINER ASHLEY: Okay, I have nothing further.
22 Thank you.

23 MR. BRUCE: Mr. Examiner, I have nothing further
24 in this matter.

25 EXAMINER ASHLEY: Mr. Owen?

1 MR. OWEN: Mr. Examiner, on behalf of David
2 Arrington Oil and Gas Company I would like to state that
3 Arrington supports the Application filed in this case. And
4 Arrington has several leases which are set to expire in the
5 near future, in the very near future, and requests that
6 this order in this case be expedited.

7 EXAMINER ASHLEY: Anything further?

8 MR. BRUCE: No, sir.

9 EXAMINER ASHLEY: There being nothing further,
10 Case 12,323 will be taken under advisement.

11 (Thereupon, these proceedings were concluded at
12 9:20 a.m.)

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17 I do hereby certify that the foregoing is
18 a complete record of the proceedings in
19 the Examiner hearing of Case No. 12323,
20 heard by me on 1-20 at 2000.
21 Mark Bentley, Examiner
22 Off Conservation Division
23
24
25

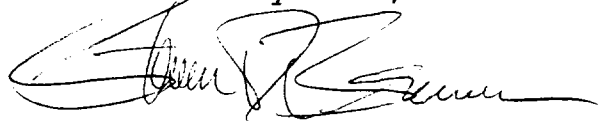
CERTIFICATE OF REPORTER

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 January 24th, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002