

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 PENWELL ENERGY, INC.,)
FOR AN UNORTHODOX WELL LOCATION,)
SANDOVAL COUNTY, NEW MEXICO)

CASE NO. 12,335

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 3rd, 2000

Santa Fe, New Mexico

CO FEB 17 AM 9:00

OIL CONSERVATION DIV

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 3rd, 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.

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Examiner Hearing
CASE NO. 12,335

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A P P E A R A N C E S

FOR THE DIVISION:

LYN S. HEBERT
 Legal Counsel to the Division
 Energy, Minerals and Natural Resources Department
 2040 South Pacheco
 Santa Fe, New Mexico 87505

FOR THE APPLICANT:

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 8:23 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 12,335.

5 MS. HEBERT: This is the Application of Penwell
6 Energy, Inc., for an unorthodox well location, Sandoval
7 County, New Mexico.

8 EXAMINER CATANACH: Call for appearances in this
9 case.

10 MR. CARR: May it please the Examiner, my name is
11 William F. Carr with the Santa Fe law firm Campbell, Carr,
12 Berge and Sheridan. We represent Penwell Energy, Inc., in
13 this matter, and I have one witness.

14 EXAMINER CATANACH: Any additional appearances?
15 Will the witness please stand to be sworn in?
16 (Thereupon, the witness was sworn.)

17 BILL PIERCE,

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

20 DIRECT EXAMINATION

21 BY MR. CARR:

22 Q. Would you state your name for the record, please?

23 A. My name is Bill Pierce. I work for Penwell
24 Energy, Incorporated, in Midland, Texas, as a petroleum
25 engineer.

1 Q. And how do you spell your last name?

2 A. P-i-e-r-c-e.

3 Q. By whom are you employed?

4 A. Penwell Energy.

5 Q. And what is your position with Penwell?

6 A. Petroleum engineer.

7 Q. Have you previously testified before this
8 Division and had your credentials as an expert witness in
9 petroleum engineering accepted and made a matter of record?

10 A. I have.

11 Q. Are you familiar with the Application filed in
12 this case on behalf of Penwell?

13 A. Yes, sir.

14 Q. Have you made an engineering study of the area
15 involved in this case?

16 A. Yes, I have.

17 Q. Are you prepared to share the results of your
18 work with Mr. Catanach?

19 A. Yes.

20 MR. CARR: We tender Mr. Pierce as an expert
21 witness in petroleum engineering.

22 EXAMINER CATANACH: Mr. Pierce is so qualified.

23 Q. (By Mr. Carr) Initially, would you just
24 summarize what it is that Penwell Energy, Inc., seeks with
25 this Application?

1 A. We seek an unorthodox well-spacing location for
2 an oil well, which will be a wildcat Entrada well, located
3 in Sandoval County, New Mexico?

4 A. The name of the well?

5 A. -- is the Eagle Springs "8" Federal Number 1.

6 Q. And what is the proposed unorthodox location for
7 that well?

8 A. It will be located 263 feet from the north line,
9 2548 feet from the east line of Section 8, Township 19
10 North, Range 4 West, in Sandoval County.

11 Q. Mr. Pierce, would you go to the packet of
12 exhibits prepared for this hearing and identify and review
13 what has been marked as Penwell Exhibit Number 1?

14 A. Exhibit Number 1 is the administrative
15 application coversheet with attached documents that were
16 first submitted for an administrative NSL for this
17 location.

18 Q. And when was this Application filed?

19 A. It was filed in December, December 13th.

20 Q. And what action was taken by the Division on the
21 Application?

22 A. It was processed by Mr. Stogner, and he rejected
23 it for a couple of reasons. One, he said he didn't feel
24 like that notice was given to all operators, and also he
25 could not determine from the seismic why we could not drill

1 it at a standard 40-well [sic] spacing location.

2 Q. And is the Division's letter denying the
3 administrative location attached as a last document in
4 Exhibit Number 1?

5 A. Yes, sir, it is.

6 Q. Let's go to what's been marked as Penwell Energy,
7 Inc., Exhibit Number 2. Will you identify and review that?

8 A. Yes, Number 2 is a land map of the area.
9 Everything located in yellow -- or colored yellow on the
10 map, belongs to Penwell Energy and is operated by us.

11 Q. And the spacing unit for the proposed well is the
12 northwest of the northeast in Section 8?

13 A. That is correct.

14 Q. To whom is notice required -- To whom does the
15 Division require notice to be provided under Rule 1207.A?

16 A. Well, offset operators, if there are any, other
17 than the operator, but in this case we own all of the
18 acreage surrounding this particular well.

19 Q. You are the offset operator?

20 A. That is correct.

21 Q. Are there any other working interest owners,
22 other than those in Section 8 -- I mean, are they identical
23 in the offsetting Section 5?

24 A. Everyone located in yellow are offsetting.

25 Q. What about royalty owners? Are they identical?

1 A. Yes, sir, that's correct.

2 Q. Has the BLM been advised of this Application?

3 A. Yes, they have.

4 Q. Is Exhibit Number 3 a copy of Penwell's letter to
5 the BLM advising them of this quest for an unorthodox
6 location?

7 A. That's correct.

8 Q. What is the primary objective in this well?

9 A. It's the Entrada sand.

10 Q. And is this a wildcat well, or is there an
11 established pool?

12 A. This is a wildcat well.

13 Q. So it will be operated under statewide oil
14 spacing rules?

15 A. That's correct.

16 Q. And what is the standard setback under those
17 rules?

18 A. 330.

19 Q. Are there any secondary objectives in the well?

20 A. None.

21 Q. Would you identify what has been marked as
22 Penwell Exhibit Number 4?

23 A. Exhibit Number 4 is the State Form C-102, showing
24 the exact location of the well as staked.

25 Q. Let's now go to the seismic information that

1 supports this location. Let's first go to Penwell Exhibit
2 Number 5. Identify that for Mr. Catanach and review the
3 information on this exhibit.

4 A. Exhibit Number 5 was generated from a 3-D seismic
5 that we ran across the area. The area inside the black-
6 outlined barrier is what we refer to as the dune structure.

7 Q. Let's go now to Exhibit Number 6. Review this,
8 please.

9 A. Exhibit Number 6 is also the same area, except in
10 this instance the 3-D structure shows the brighter the
11 color, and in this instance either rose or magenta, however
12 you refer to it, shows the crown or the very top of the
13 dune structure.

14 Q. What is the reservoir drive mechanism in this
15 particular reservoir?

16 A. This is a bottom water drive reservoir.

17 Q. For that reason, you need to locate as -- clear
18 to the top of the structure as possible?

19 A. That is correct.

20 Q. All right. Let's go to what has been marked
21 Penwell Exhibit Number 7, and again I'd ask you to review
22 this for Mr. Catanach.

23 A. Number 7 is the exact same map as Exhibit 6,
24 except in this instance we have drawn in 40-acre standard
25 spacing units on the particular seismic map.

1 Q. Has Penwell drilled other Entrada wells in the
2 area?

3 A. Yes, we have.

4 Q. Have you drilled those wells based on a similar
5 seismic interpretation?

6 A. Yes, we have.

7 Q. And have you been successful in that effort?

8 A. Yes, sir.

9 Q. What conclusions have you reached from your study
10 of this area?

11 A. Based on 3-D and plus studying current and past
12 production histories of all the Entrada fields -- Snake
13 Eyes, Paper Wash, Eagle Mesa -- the best wells are always
14 the wells located nearest to the crown of the structure.

15 Q. Is the proposed location, in your estimation, the
16 best possible place to drill an Entrada well in the north
17 half of Section 8?

18 A. Yes, it is.

19 Q. No correlative rights will be impaired by the
20 drilling of this well?

21 A. No, they well not.

22 Q. If you're unable to drill this well, is it
23 possible that hydrocarbons in the Entrada formation will be
24 left in the ground and therefore wasted?

25 A. That is correct.

1 Q. In your opinion, will approval of this
2 Application otherwise be in the best interest of
3 conservation?

4 A. Yes, it will.

5 Q. Were Penwell Exhibits 1 through 7 either prepared
6 by you or compiled under your direction?

7 A. They were.

8 MR. CARR: Mr. Catanach, at this time we would
9 move the admission into evidence of Penwell Exhibits 1
10 through 7.

11 EXAMINER CATANACH: Exhibits 1 through 7 will be
12 admitted as evidence.

13 MR. CARR: And that concludes my direct
14 examination of Mr. Pierce.

15 EXAMINATION

16 BY EXAMINER CATANACH:

17 Q. Mr. Pierce, is this a federal lease?

18 A. Yes, this is a federal lease.

19 Q. And is the lease in Section 8 different than the
20 lease in Section 5?

21 A. From the standpoint of a federal lease number,
22 yes, it is. That's correct.

23 Q. But all of the interest owners are common between
24 those two leases?

25 A. That is correct.

1 Q. Okay. Do you know where the closest Entrada
2 production is to your --

3 A. Yes, the closest Entrada -- closest production is
4 the Eagle Mesa field, located approximately four miles east
5 southeast of us.

6 Q. That's the Eagle Mesa Entrada?

7 A. Yes.

8 Q. But is it your opinion that this is not connected
9 to that?

10 A. That's correct, it is not. These are strictly
11 dune structures, Mr. Catanach, with spacing. There will be
12 -- Some are relatively close together, but others may be
13 several miles apart, but they are not connected.

14 Q. Not having drilled into this reservoir, how do
15 you infer that it's a water-drive reservoir?

16 A. Well, all the studies in the existing Entrada
17 field show them to be bottom water drive reservoirs. At
18 least that's the existing data that we have available to us
19 today.

20 Q. Is your location actually on a seismic line?

21 A. Yes, it's located on an actual 3-D seismic line,
22 that is correct.

23 Q. And these were run in what direction?

24 A. Northeast-southwest.

25 Q. Can you estimate from your seismic data how much

1 structure you're gaining at the proposed location, as
2 opposed to a standard location?

3 A. A standard location, the geophysicist estimates
4 we're gaining anywhere between 8 and 12 feet at this
5 location.

6 Q. Doesn't seem like very much. Does that make a
7 big difference in this --

8 A. Well, when you're about a structure of this size,
9 Mr. Catanach, it can be substantial reserves, that is
10 correct.

11 Q. So you've drilled Entrada wells in this area
12 previously?

13 A. That's correct. And they were also based on 3-D
14 seismic.

15 Q. Where have you drilled them? In the Eagle Mesa
16 field?

17 A. No, sir, another wildcat well located
18 approximately five miles northeast of this particular
19 prospect.

20 Q. And you had basically the same kind of 3-D
21 seismic data?

22 A. Yes, sir, it was all part of the same shoot.

23 Q. Do you have any estimation, based on your
24 previous knowledge, of where the oil-water contact might be
25 in this reservoir?

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 February 5th, 2000.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002