

STATE OF NEW MEXICO

OIL CONSERVATION DIV.

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT 5:11

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
 THE OIL CONSERVATION DIVISION FOR THE)
 PURPOSE OF CONSIDERING:) CASE NO. 12,380
)
 APPLICATION OF NADEL AND GUSSMAN)
 PERMIAN, L.L.C., FOR COMPULSORY POOLING,)
 EDDY COUNTY, NEW MEXICO) ORIGINAL
)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

April 20th, 2000

Santa Fe, New Mexico

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

* * *

5:15 PM APR 21 2000

OIL CONSERVATION DIV.

I N D E X

April 20th, 2000
Examiner Hearing
CASE NO. 12,380

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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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FOR THE APPLICANT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 10:52 a.m.:

3 EXAMINER ASHLEY: This hearing will now come back
4 to order, and the Division calls Case 12,380.

5 MS. HEBERT: Application of Nadel and Gussman
6 Permian, L.L.C., for compulsory pooling, Eddy County, New
7 Mexico.

8 EXAMINER ASHLEY: Call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe.
10 I have two witnesses to be sworn.

11 EXAMINER ASHLEY: Call for additional
12 appearances.

13 Will the witnesses please rise to be sworn in?
14 (Thereupon, the witnesses were sworn.)

15 SAM H. JOLLIFFE, IV,
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 Sam Jolliffe. I'm a resident of
23 Midland, Texas.

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

25 A. I work for Nadel and Gussman Permian, and I'm

1 their land manager.

2 Q. Have you previously testified before the Division
3 as a petroleum landman?

4 A. Yes, I have.

5 Q. And were your credentials as an expert accepted
6 as a matter of record?

7 A. Yes, they were.

8 Q. And are you familiar with the land matters
9 involved in this Application?

10 A. Yes, sir.

11 MR. BRUCE: Mr. Examiner, I tender Mr. Jolliffe
12 as an expert petroleum landman.

13 EXAMINER ASHLEY: Mr. Jolliffe is so qualified.

14 Q. (By Mr. Bruce) Mr. Jolliffe, could you identify
15 Exhibit 1 for the Examiner and describe what Nadel and
16 Gussman seeks in this case?

17 A. Yes, sir, Exhibit 1 is a land plat highlighting
18 the north half of Section 34, Township 24 South, Range 28
19 East in Eddy County. We seek an order pooling the north
20 half of 34 to the base of the Atoka formation for all pools
21 or formations spaced on 40, 160 and 320 acres.

22 The northeast quarter of the northeast quarter
23 will be dedicated to the well 40-acre units, and the
24 northeast quarter will be dedicated, the well, for any
25 formations spaced on 160 acres.

1 The proposed well, as you can see on your plat,
2 is located 660 feet from the north line and 860 feet from
3 the east line of Section 34. The well will be drilled to a
4 depth approximately 12,200 feet.

5 MR. BRUCE: Mr. Examiner, one thing before we go
6 on. The case was advertised as pooling to the base of the
7 Morrow formation. It will only be to the base of the
8 Atoka.

9 Q. (By Mr. Bruce) Let's move on to Exhibit 2, and
10 could you describe the land ownership in the north half of
11 Section 34?

12 A. Yes, sir. We have got approximately 13 --
13 Including ourselves, we have 13 working interest owners
14 under that north half, ourselves, Matador Petroleum,
15 Hallwood Petroleum, Central Resources, Toreador
16 Exploration, RKC, Inc., Roden Participants and Associates,
17 Childress Royalty Company, Exxon Mobil Corporation, Mr.
18 A.L. Peters, Mr. Robert Enfield, and Mrs. Mona Enfield.

19 Q. Other than Nadel and Gussman, which of these
20 interest owners have voluntarily joined in the well by
21 signing an AFE and a JOA?

22 A. Okay, as far as an assigned AFE and JOA signature
23 page, Roden Participants and Associates have signed. Their
24 cumulative interest is 1.722 percent.

25 Q. Okay. And so at this point, other than those

1 parties, you seek to pool everyone on this list; is that
2 correct?

3 A. Yes, that's correct.

4 Q. Now, there are some preliminary agreements with
5 certain of these parties which we'll go into, but they have
6 not finally signed an agreement with you?

7 A. No, the letter agreements, but not the actual
8 assignments.

9 Q. Okay. Let's move on to your Exhibit 3 and really
10 just briefly describe the course of events over the past
11 several months in getting these parties to join in, and
12 then maybe go down briefly on Exhibit 2 and tell the status
13 of each of these working interest owners.

14 A. Okay. We sent out our original AFE and JOA in
15 November of 1999 and got some response. Some of the
16 response we got, people questioned their interest. We went
17 back and revisited the title and cleared these interest
18 discrepancies up and then repropose the well February of
19 2000.

20 Q. And then enclosed in this exhibit package is all
21 of your written correspondence with the parties?

22 A. Yes, that's correct.

23 Q. And also in here toward the end are -- I believe
24 there are some phone notes that you have had with the
25 participants or the interest owners in this well?

1 A. That's correct, once we got down to the last few
2 weeks and we had sent our order out, or our notice of the
3 Application, we were applying for force pooling, I
4 documented my phone conversations with these people, and
5 particularly the ones that looked like they weren't going
6 to go along with us.

7 Q. Okay, why don't you switch back to Exhibit 2 and
8 then maybe go down, starting with Matador, and state --

9 A. Okay.

10 Q. -- briefly the current status of each interest?

11 A. Sure. Matador Petroleum has advised they will
12 participate. They have sent us a signed AFE, but they have
13 not provided us with an executed JOA signature page yet.

14 Hallwood Petroleum is going to actually sell us
15 their interest.

16 Central Resources, we don't know what they're
17 going to do. They won't get back to us, so...

18 Toreador Exploration and Production has agreed to
19 farm out to us. There again, we have not received the
20 executed assignment from that but should receive that any
21 day.

22 RKC, Inc., we cannot find them.

23 As I mentioned, Roden Participants and Associates
24 have signed the AFE and JOA signature page.

25 Childress Royalty has agreed to farm out to us.

1 Exxon Mobil has advised me that they are not
2 going to do anything.

3 Mr. A.L. Peters out of Roswell is going to farm
4 out to us.

5 And then Mr. and Mrs. Enfield said they would
6 farm out, but they are not on reasonable terms.

7 Q. Okay.

8 A. And that's --

9 Q. So at this point, other than the two Roden
10 entities, you do need to force pool all of these interest
11 owners?

12 A. Yes, sir.

13 Q. And at such time as they sign a farmout or a JOA,
14 you will notify the Division that they are no longer
15 subject to a pooling order?

16 A. Yes.

17 Q. In your opinion, have you made a good faith
18 effort to obtain the voluntary joinder of these interest
19 owners in the well?

20 A. Yes, sir.

21 Q. Would you identify your Exhibit 4 and discuss its
22 contents for the Examiner?

23 A. Okay, Exhibit 4 is our most recent AFE for the
24 proposed well. It has an estimated dryhole cost of
25 \$624,069 and a completed well cost of \$304,610.

1 Q. Or the completion cost, correct?

2 A. Yes, sir, completion cost, excuse me.

3 Q. So the total is over \$900,000?

4 A. Yes.

5 Q. Is this cost in line with the cost of other wells
6 drilled to this depth in this area of Eddy County?

7 A. Yes, sir.

8 Q. Does Nadel and Gussman request that it be
9 designated operator of the well?

10 A. Yes.

11 Q. Do you have a recommendation for the amounts
12 which should be paid for supervision and administrative
13 expenses?

14 A. Yes, we do. We request that \$5000 per month be
15 allowed for a drilling well rate and \$500 per month be
16 allowed for a producing well rate.

17 Q. And are these amounts equivalent to those
18 normally charged by Nadel and Gussman and other operators
19 in this area for wells of this depth?

20 A. Yes, sir.

21 Q. Would you also ask that these overhead rates be
22 adjusted according to the COPAS accounting procedure?

23 A. Yes.

24 Q. Okay. Finally, Mr. Jolliffe, were the
25 nonconsenting interest owners notified of this Application?

1 and the east half of the northwest. That's how we get our
2 50 percent working interest.

3 Q. Okay.

4 A. We have 100 percent of that federal lease.

5 Q. Okay. And did I miss what you said you were
6 going to be pooling, or you wanted to pool for the 40
7 acres, as well?

8 A. Yes, sir.

9 Q. And you don't own 100 percent of that?

10 A. No, no, by virtue of these farmouts we have
11 committed, that will give us probably about around 40
12 percent of that northeast quarter, or the northeast of the
13 northeast. And then the northeast itself, we would, of
14 course, have 50 percent by virtue of our west half,
15 northeast ownership.

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

18 THE WITNESS: Thank you.

19 SCOTT H. GERMANN,

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

22 DIRECT EXAMINATION

23 BY MR. ASHLEY:

24 Q. Will you please state your name for the record?

25 A. Scott Germann.

1 Q. Where do you reside?

2 A. Midland, Texas.

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

4 A. Nadel and Gussman Permian, L.L.C. I'm their
5 exploration manager.

6 Q. Have you previously testified before the Division
7 as a petroleum geologist?

8 A. Yes, I have.

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

11 A. Yes, they were.

12 Q. And are you familiar with the geology involved in
13 this case?

14 A. Yes, sir.

15 MR. BRUCE: Mr. Examiner, I tender Mr. German as
16 an expert petroleum geologist.

17 EXAMINER ASHLEY: Mr. German is so qualified.

18 Q. (By Mr. Bruce) What is the primary zone of
19 interest for your proposed well?

20 A. The Atoka formation.

21 Q. Would you refer to your Exhibit 6 and discuss the
22 Atoka in this area?

23 A. Yes, I will. Exhibit 6 is an Atoka net isopach,
24 a particular horizon that we colloquially just call the
25 orange zone. This is a net isopach showing production from

1 the existing formation, with the orange circles, and it has
2 footages, both gross and net beside those, each well. And
3 also the cumulative BCF to date.

4 For example, the wells there in 22, Section 22,
5 one well made 9.5 BCF and has 14 foot of gross and 14 foot
6 of net.

7 Going further south on the same trend, there's a
8 well proposal there that we're discussing in the northeast
9 quarter of 34 that we think will be in the fairway of the
10 sand channel trend for this particular Atoka formation.

11 Also illustrated there, there's a four well -- or
12 three-well cross-section going through the proposed
13 location, which is Exhibit 7.

14 Q. Why don't you move on to your Exhibit 7 and
15 discuss the zones of interest you're looking for in this
16 well?

17 A. This is a stratigraphic cross-section, again
18 shown there in 6. Starting to the north on the left side,
19 going to the south, to the right, the first well there is
20 located in Section 27, which is a 2.7 BCF Atoka formation
21 producer, going through the proposed location down to the
22 southeast of 34 and then into Section 2.

23 You'll notice again, the orange sand, we've
24 labeled there and colored for you. There's a resistivity
25 plot and a porosity plot for each well to help you identify

1 the sand. This is datum'd on the base of that lime
2 producer there in purple, and again showing how the orange
3 sand, we believe, goes through our location, through the
4 other three wells also.

5 Q. Are any of these other zones, other than the
6 Atoka orange sand, prospective?

7 A. Yes, what we call the Atoka lime bank producer
8 there in the blue might also have some potential, as well
9 as some other stray Atoka sands. You can see on the very
10 far right there in the Section 2 well, there's a second
11 Atoka sand that comes in, that we'll be looking out for all
12 those.

13 Q. Okay. Why don't we move on to your Exhibit 8 and
14 maybe discuss some other producing zones in this area?

15 A. Sure. This is, again, the north half of 34 is
16 highlighted with the proposal in the northeast.

17 Now, as you know, many of these Atoka zones are
18 all lumped together for regulatory purposes. So on this
19 particular map, the Delaware is green, Morrow is yellow,
20 Atoka is orange, the Bone Spring is blue. And again, you
21 can observe around the proposed location that most of the
22 producers are orange producers. There is a little cluster
23 of Delaware producers over to the far right and a few Bone
24 Spring producers over to the left.

25 These reserves are mostly pretty marginal and

1 would only be considered a bail-out or secondary.

2 Q. Okay. And obviously you hope to make a good
3 well, but you are -- what? -- moving about three-quarters
4 of a mile away from any established Atoka well?

5 A. Yes, sir. Yes. And also, this is a mature Atoka
6 area, so the other risk, not only do you find the Atoka
7 orange sand but also for drainage, as we find many places
8 in southeast New Mexico.

9 Q. And this is what? A 12,200-foot well?

10 A. Yes, sir.

11 Q. And there's always the risk of mechanical
12 problems with a well like that?

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

14 Q. In your opinion, what penalty should be assessed
15 against any interest owner who goes nonconsent in this
16 well?

17 A. Cost plus 200 percent.

18 Q. Were Exhibits 6 through 8 prepared by you or
19 under your direction?

20 A. Yes, sir, they were.

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

24 A. Yes, sir, they are.

25 MR. BRUCE: Mr. Examiner, I'd move the admission

1 of Nadel and Gussman Exhibits 6 through 8.

2 EXAMINER ASHLEY: Exhibits 6 through 8 will be
3 admitted into evidence at this time.

4 EXAMINATION

5 BY EXAMINER ASHLEY:

6 Q. Mr. Germann, the Delaware and the Bone Springs
7 were your secondary objectives?

8 A. Yes, sir. There are some other stray Atoka zones
9 and Strawn zones that we'll be looking at, that produce in
10 the area. But this is by far our primary objective. But
11 we will also be evaluating through normal procedures
12 mudloggers, drill stem tests, as we proceed down through
13 the section, through the Delaware and the Bone Spring.

14 One note, sir, the Morrow is really not very
15 productive in this area. That's one of the reasons we
16 decided not to proceed down to the Morrow. It also takes
17 an intermediate string, so your \$900,000 price tag goes up
18 to over a million dollars, and for the economics we just
19 couldn't go any deeper.

20 Q. What kind of drainage do these wells usually
21 have?

22 A. Well, it is a thin sand, sir, and you can see
23 that from the cross-section. So we've worked on that a
24 little bit, and I did not prepare that as an exhibit, but
25 we could -- Shall we send that up separately, or do you

1 want me just to --

2 MR. BRUCE: Why don't you discuss it verbally?

3 EXAMINER ASHLEY: Yeah, you can just --

4 THE WITNESS: About 160 acres to -- you know.

5 And of course, it depends how the sand is oriented. And
6 also, of course, the cum. I might note that the 9 BCF
7 wells up there, you can see in the same Section 22 there's
8 a 4.2 BCF well and a 9.5 BCF well in the same section, in
9 Section 22.

10 Q. (By Examiner Ashley) Just north?

11 A. Yeah, just north of us there. There's a 9.5 in
12 the southeast and there's a 4.2 in the northwest of 22.
13 And then there's a 5.4 and 15. So when you start getting
14 in the 10- to 15-foot range, you can see it's very
15 prolific. So you have three wells there that all made over
16 5 BCF in basically a mile and a half. So, you know -- But
17 then again, the pressure will be drawn down in our
18 location.

19 Q. This well will be in the Salt Draw-Atoka Gas
20 Pool, that's the closest pool to this well?

21 A. I'm not sure that I -- I can look just real quick
22 to see --

23 Q. Okay.

24 A. That well in 34 -- I'm going to look to see which
25 pool it's in, sir, if you bear with me just a moment. Yes,

1 sir, exactly right. The well in 34 J is in the Salt Draw-
2 Atoka field, and so we'd be applying for the same field
3 rules, that's correct.

4 EXAMINER ASHLEY: Okay, I have nothing further.
5 Thank you.

6 MR. BRUCE: I have nothing further in this
7 matter, Mr. Examiner.

8 EXAMINER ASHLEY: There being nothing further in
9 this case, Case 12,380 will be taken under advisement.

10 (Thereupon, these proceedings were concluded at
11 11:15 a.m.)

12 * * *

13
14
15
16 I do hereby certify that the foregoing is
17 a complete record of the proceedings in
18 the Examiner hearing of Case No. 12380,
19 heard by me on 4-20 ~~4-20~~ 2000.
20 Mark Ashley, Examiner
21 Of Conservation Division
22
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 May 1st, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002