

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. 12,426

APPLICATION OF SOUTHWEST ROYALTIES,)
INC., FOR A NONSTANDARD GAS SPACING)
AND PRORATION UNIT AND AN UNORTHODOX)
GAS WELL LOCATION, LEA COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

July 13th, 2000

Santa Fe, New Mexico

OIL CONSERVATION DIV.
00 JUL 27 AM 5:02

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner on Thursday, July 13th, 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

July 13th, 2000
Examiner Hearing
CASE NO. 12,426

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESS:	
<u>CLIFTON MARTIN "MARTY" BLOODWORTH, (Engineer)</u>	
Direct Examination by Mr. Carr	4
Examination by Examiner Ashley	18
REPORTER'S CERTIFICATE	24

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	9	17
Exhibit 2	9	17
Exhibit 3	11	17
Exhibit 4	11	17
Exhibit 5	14	17
Exhibit 6	15	17
Exhibit 7	15	17

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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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 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 10:58 a.m.:

3 EXAMINER ASHLEY: The Division calls Case 12,426,
4 Application of Southwest Royalties, Inc., for a nonstandard
5 gas spacing and proration unit and an unorthodox gas well
6 location, Lea County, New Mexico.

7 Call for appearances.

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

12 Additional appearances?

13 Will the witness please rise to be sworn in?

14 (Thereupon, the witness was sworn.)

15 CLIFTON MARTIN "MARTY" BLOODWORTH,
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. CARR:

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

21 A. My name is Clifton Martin Bloodworth. I go by
22 Marty, nickname.

23 Q. Where do you reside?

24 A. I reside in Midland, Texas.

25 Q. Mr. Bloodworth, by whom are you employed?

1 A. I'm employed by Southwest Royalties, Inc.

2 Q. And what is your position with Southwest
3 Royalties?

4 A. In regards to this case, area supervisor.

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

7 A. Yes, I have.

8 Q. At the time of that testimony, were your
9 credentials as an expert witness in petroleum engineering
10 accepted and made a matter of record?

11 A. Yes.

12 Q. Are you familiar with the Application filed in
13 this case?

14 A. Yes.

15 Q. Are you familiar with the status of the lands
16 which are involved in this Application?

17 A. Yes.

18 Q. Mr. Bloodworth, have you made a technical study
19 of the area which is involved in this case?

20 A. Yes, I have.

21 Q. And are you prepared to share the results of your
22 work with Mr. Ashley?

23 A. Yes.

24 MR. CARR: We tender Mr. Bloodworth as an expert
25 witness in petroleum engineering.

1 EXAMINER ASHLEY: Mr. Bloodworth is so qualified.

2 Q. (By Mr. Carr) Would you briefly summarize for
3 the Examiner what it is that Southwest Royalties, Inc.,
4 seeks with this Application?

5 A. Southwest Royalties, Inc., is seeking an
6 Application for an order approving a 200-acre nonstandard
7 gas spacing unit comprised of the south half, northeast
8 quarter; northeast quarter, southeast quarter; and south
9 half of the southeast quarter, Section 30, Township 26
10 South, Range 37 East, Lea County, New Mexico, and an
11 unorthodox oil well location -- excuse me, unorthodox gas
12 well location for our Eaves "B" Well Number 20, located
13 in -- excuse me, the first word should have been "oil",
14 located at an unorthodox gas well location 1440 feet from
15 the south line, 1429 feet from the east line, Unit Letter
16 I, Section 30.

17 MR. CARR: Mr. Examiner, there was an error in
18 the legal ad for this case. The ad indicates that there
19 are 280 acres in the nonstandard unit. However, it is a
20 200 unit, and the acreage is correctly describe, so I don't
21 believe there's any need for any further advertisement in
22 this matter. The quarter section is correctly described in
23 that ad.

24 Q. (By Mr. Carr) Mr. Bloodworth, is the Eaves "B"
25 Well Number 20 an existing well?

1 A. Yes, it is.

2 Q. And you're proposing to recomplete it?

3 A. Yes, sir.

4 Q. What is the current status of that well?

5 A. The well is currently temporarily abandoned.

6 Q. And in what pool is it currently completed?

7 A. Scarborough-Yates-Seven Rivers. The Seven Rivers
8 completion is temporarily abandoned.

9 Q. And when it's recompleted, it will be in the
10 Scarborough-Yates-Seven Rivers Pool; is that correct?

11 A. Yes, sir, that is correct.

12 Q. Can you explain how this pool was actually
13 created?

14 A. Yes, I can. The rules governing the Scarborough-
15 Yates-Seven Rivers Pool were set forth in Order R-2999,
16 dated November 23rd, 1965. The Commission found that the
17 Scarborough Pool was a separate source of common supply
18 from the Jalmat Gas Pool and contracted the boundaries of
19 the Jalmat Pool to create a new pool. The subject acreage
20 is in that new pool.

21 The Commission provided for oil wells to be
22 spaced on 40-acre units, no nearer than 330 to a quarter-
23 quarter line, gas wells to be spaced on 640-acre units no
24 nearer than 330 to a quarter-quarter line or 1980 to a
25 section line.

1 The Commission further provided special rules for
2 this pool for nonstandard units. In order to qualify for
3 an exemption for a nonstandard unit, the quarter-quarter
4 sections or lots had to be contiguous, the nonstandard unit
5 had to be wholly within a governmental section, offset
6 operators were to give them proper notice of the
7 nonstandard unit. The required 1980 feet, or 330 for a gas
8 well, could be waived if the unorthodox location resulted
9 from an existing well that was drilled to a deeper horizon.

10 Q. Now, when we look at this Application, what
11 you're proposing is a nonstandard spacing or proration unit
12 comprised of contiguous sections?

13 A. That's correct.

14 Q. So you meet that criteria?

15 A. Yes, sir.

16 Q. They're all within a single governmental section?

17 A. That's correct.

18 Q. So you meet that criteria?

19 A. Yes, sir.

20 Q. Notice has been given to all the affected
21 parties?

22 A. Yes, sir.

23 Q. So that criteria is met?

24 A. Yes, sir.

25 Q. And you have met the criteria for the unorthodox

1 location --

2 A. Yes, sir.

3 Q. -- is that not right?

4 Now, did you state -- Is this a prorated pool?

5 A. No, it is not.

6 Q. If we look at the Eaves "B" Well Number 20, I
7 believe you testified you're producing from a deeper zone,
8 and it's an oil well?

9 A. It was originally an oil well, yes, sir.

10 Q. And you're going to come back up and recomplete
11 in the Yates?

12 A. Yes, sir.

13 Q. Let's go to what has been marked as Southwest
14 Royalty Exhibit Number 1. Would you identify that for the
15 Examiner?

16 A. Yes, sir. Exhibit 1 is my original
17 administrative application for this proposal, dated
18 February 10th of 2000.

19 Q. And this matter was ultimately set for hearing?

20 A. Yes, sir, I received a letter from the Division
21 on May the 1st of 2000, setting the case for hearing.

22 Q. And is a copy of that letter what has been marked
23 as Southwest Royalty, Inc., Exhibit Number 2?

24 A. Yes, sir.

25 Q. And what were the reasons that were given for

1 requiring a hearing on this Application?

2 A. The reasons given for the hearing were the close
3 proximity to the original Jalmat Gas Pool. The stated
4 reason was, there was variance between the special pool
5 rules for the Scarborough Pool and the Jalmat Pool, and
6 because of the developing controversy on rule
7 interpretation in the Jalmat Gas Pool, the problem being
8 there a question of 80 acres, 40-acre units for gas wells
9 skewing the acreage to get more gas wells than what they're
10 really allowed.

11 Q. When you filed the administrative application,
12 did you provide notice to all affected operators in
13 accordance with Oil Conservation Division rules?

14 A. Yes, sir.

15 Q. Was that provided by certified mail?

16 A. Yes, sir.

17 Q. Was notice provided to all the operators of
18 record of the tracts toward whom the well was being moved?

19 A. Yes, sir.

20 Q. Was notice also provided to all the operators in
21 Section 30, the subject --

22 A. Yes, sir.

23 Q. -- section that are being excluded by virtue of
24 the nonstandard unit?

25 A. Yes, sir.

1 Q. Was any objection received to your proposal?

2 A. None.

3 Q. Let's go to what has been marked Exhibit Number
4 3. Are these copies of the return receipts, confirming
5 that notice of your original Application was provided to
6 all these interest owners?

7 A. Yes, sir.

8 Q. Mr. Bloodworth, is the primary objective in this
9 rule the Scarborough-Yates-Seven Rivers Pool?

10 A. Sir?

11 Q. Your primary objective --

12 A. Yes, sir.

13 Q. -- the Scarborough-Yates-Seven Rivers Pool?

14 A. That's correct.

15 Q. Are there secondary objectives?

16 A. There are none.

17 Q. Let's go to what has been marked Southwest
18 Royalties Exhibit Number 4. I'd like you to first explain
19 what it is and then review the information on the exhibit.

20 A. This is a map of the area showing the three main
21 pools in the area, showing the well activity and the pools.
22 I'll explain a little bit later what the bottom is, but the
23 uppermost blue is the Jalmat Gas Pool, the orange to the
24 east is the Rhodes Gas Pool, and the pink coloration is the
25 Scarborough-Yates Pool that we're talking about here today.

1 Q. How close is the proposed well to the Jalmat Gas
2 Pool?

3 A. The proposed well is in Section 30 and has a red
4 circle around it. It's four miles from the Jalmat Pool.

5 Q. And what else is shown on this exhibit?

6 A. Southwest Royalties' acreage on the Eaves "B"
7 lease is shown in yellow. You'll note there's 280 acres in
8 yellow, but based on the pool provision that it has to be
9 contiguous, we've excluded a noncontiguous 40, and the
10 original designation of the Scarborough Pool did not
11 include that other quarter section there, that's shown.

12 Q. The well location is indicated on that acreage
13 with a red circle around it?

14 A. That is correct.

15 Q. And it is encroaching on Section 29, 31 and 32?

16 A. That is correct.

17 Q. Those are the owners to whom you provided notice?

18 A. That's correct.

19 Q. To the west of the proposed location and outside
20 the pool are a number of wells. What are those?

21 A. Those wells have all been plugged. There are no
22 active wells here now. Southwest Royalties maintains the
23 lease rights on those.

24 Q. Were they original attempts to complete in this
25 interval?

1 A. They were originally Seven Rivers oil
2 completions.

3 Q. And do they predate the formation of this pool?

4 A. They do.

5 Q. Standard spacing and proration units in this pool
6 are 640 acres?

7 A. That's correct.

8 Q. To your knowledge, are there any standard spacing
9 or proration units in this pool?

10 A. The way the Scarborough field has been laid out,
11 there's no opportunity for one well on 640. As you can see
12 on the map, there's not a full 640 included.

13 Q. South of the subject well there's a tier of
14 irregular sections. Why is that?

15 A. The irregular sections there in 31, 32 and 33
16 indicate the state boundary.

17 Q. So the south of this exhibit is actually the
18 state line?

19 A. That is correct.

20 Q. Would you go to the information set out in
21 tabular form on the bottom of the exhibit and review it for
22 Mr. Ashley?

23 A. On the bottom we set forth a table identifying
24 the production of the gas wells. Along the left side of
25 this exhibit is a number that matches the well dots here.

1 What we're attempting to show in the offset 29, there are
2 more than one gas well completion in the 640.

3 Particularly of note is the well marked Number 29
4 in the upper corner. That well has produced 12 BCF from
5 the Yates interval we're interested in. And we also show
6 additional gas well completions in that section.

7 And also into Section 32 we show a total of eight
8 gas completions, the significance there being, the original
9 made over 700 million feet, and additional wells recovered
10 additional gas. It's all tabulated here.

11 Q. If we look at the well, the gas well in the
12 northwest of Section 29, how much did you say that well had
13 produced?

14 A. That well has produced 12 BCF, and it is still
15 producing.

16 Q. And how much acreage is dedicated to that well?

17 A. Currently 40.

18 Q. Let's go to what has been marked as Southwest
19 Exhibit Number 5. Would you identify and review that for
20 Mr. Ashley?

21 A. Exhibit 5 is a letter in response to a
22 conversation with Mr. Stogner, requesting additional
23 information on my original request. He asked for me to
24 locate and provide him additional information on wells that
25 were completed on less than a standard unit, and this

1 letter indicates the information I found in the Commission
2 files at Hobbs and provided to Mr. Stogner in response to
3 his request.

4 Q. Let's go to Exhibit Number 6, your structure map
5 on top of the upper Yates, and I'd like you to explain the
6 information on that for the Examiner.

7 A. We prepared a structure map to see where our
8 location fell as regards to the good wells in Section 32
9 and also in 29.

10 We also noted that the structure map pretty well
11 follows what they set out as the Scarborough Pool. Our
12 structure and the Scarborough Pool are pretty close to the
13 same.

14 When we look at Section 30, we find a high that
15 our well is in, and we feel like this would be a good
16 location. As we go to the west we don't feel there's a
17 good location, and as you go to the east we're at the
18 section line.

19 We've marked on this exhibit a cross-section
20 notation of A-A'. We have that cross-section and we'll
21 show it shortly.

22 Q. Let's go to the cross-section, and if you'll
23 start with the well at A and review the information on the
24 exhibit for Mr. Ashley.

25 A. The well shown at the start of our cross-section

1 at A is the well in Section 29. It's Parker Number 1,
2 originally drilled by El Paso Natural Gas, currently
3 operated by Gruy Petroleum Management. This is the well
4 that's produced 12 BCF from this upper Yates.

5 On this map we have a dark green -- or cross-
6 section -- dark green and a light green. Dark green
7 represents the upper Yates, and the light green is the
8 lower Yates. The interval we're particularly interested in
9 is the dark green, the upper Yates.

10 As we go across the cross-section, the second
11 well is Southwest Royalties Eaves "B" 20, which was drilled
12 by Hal Rasmussen Operating in 1997. It's the well that
13 Southwest currently operates.

14 The next well is the State "O" in Section 32, "O"
15 Number 6, then "O" Number 5. These are the wells in
16 Section 32 that were completed in 320-acre sections.

17 And also at the bottom we've noted the Parker
18 well has produced 12 BCF, the first State "O" well has made
19 150 million, and the second State "O" has made 228 million
20 feet, the third one is 782 million feet, and the fourth is
21 695. This is all coming from a half section.

22 Q. Mr. Bloodworth, in your opinion, would approval
23 of this Application and the re-entry of the proposed well
24 enable you to most effectively and efficiently produce the
25 remaining Yates-Seven Rivers reserves --

1 A. Yes, sir.

2 Q. -- under the subject acreage?

3 If the Application is denied and this re-entry is
4 disallowed, in your opinion could reserves be wasted?

5 A. Yes, sir, they will be.

6 Q. Have all operators who could be affected by this
7 Application been advised of your proposal?

8 A. Yes, they have.

9 Q. Have you received any objection --

10 A. No, sir.

11 Q. -- to your proposal?

12 A. No objection has been received.

13 Q. In your opinion, will granting the Application
14 otherwise be in the best interests of conservation?

15 A. Yes, sir, it would.

16 Q. Were Exhibits 1 through 7 prepared by you or
17 compiled under your direction and supervision?

18 A. Yes, they were.

19 MR. CARR: At this time, Mr. Ashley, we move the
20 admission into evidence of Southwest Royalties, Inc.,
21 Exhibits 1 through 7.

22 EXAMINER ASHLEY: Exhibits 1 through 7 will be
23 admitted as evidence.

24 MR. CARR: And that concludes my examination of
25 Mr. Bloodworth.

EXAMINATION

BY EXAMINER ASHLEY:

Q. Rule 3 says a well needs 640 acres to be committed to that, and you stated that there are no wells currently out there that have 640 acres committed to them?

A. That's correct.

Q. In the whole pool?

A. If you'll look at that production map --

Q. Which exhibit is that?

A. Exhibit Number 4.

Q. Okay.

A. If you'll look at the pink area, there's not a complete 640 in the pink, and several of those units are cut up by ownership, but there's not even a full 640 in the Scarborough Pool.

Q. Now, the wells adjacently north, immediately adjacent north and south of this proposed -- are those oil wells? I'm looking at Exhibit 4.

A. Southwest Royalties operates a majority of this pink area, and we have the one well that's producing gas only. The majority are producing high water cut of oil.

Q. And those that are producing oil, are they producing mainly from the Seven Rivers or both?

A. Seven Rivers only. The Eaves "B" 20 was originally drilled as a modern completion. The lease was

1 developed in the 1930s, 1940s, 1950s, 1960s. The "B" 20
2 was put in its location to be a modern completion, to try
3 to tap the oil reserves. That's the only modern location I
4 have in that section.

5 Q. And you said something about the two wells in
6 Section 29?

7 A. The ones that are marked 24 and 23 are also
8 classed as gas wells.

9 Q. Okay.

10 A. We don't have the ownership shown on here, but
11 the ownership is in 40- and 80-acre tracts through there.

12 Q. What's the largest dedicated acreage there is to
13 a gas well out here? Do you know which one has the --

14 A. In Sections 29 and 32 there's 80.

15 Q. And that's it?

16 A. There was originally a 160, but they've cut that
17 down.

18 We have one remaining high-water-cut well on this
19 "B" lease, and we plan to shut it down, should this be
20 successful. If the permit's not granted, we plan to shut
21 it down and plug out the lease.

22 Q. Which well is that?

23 A. It's the "B" Number 8.

24 Q. Okay, and where is that?

25 A. In the dot immediately south of the "B" 20. It's

1 an oil well.

2 Q. And can you tell me which operator you're
3 encroaching upon, which operators you're encroaching upon
4 in the cross-section? Is that in one of the exhibits that
5 I haven't seen?

6 A. Section 30, the topmost is Southwest Royalties'
7 Eaves "A" lease. The other area in there is Conoco deep
8 rights. In Section 30, Conoco maintains the deep rights,
9 Southwest has obtained the shallow rights and maintains two
10 leases there. Gruy and -- Gruy is in Well Number 1,
11 Section 29. Dallas McCasland is in Section 29, and I
12 believe he's also in Section 32. Conoco is also listed as
13 the operator of record in Section 31, and Southwest Royalty
14 operates the leases in Section 24 and 25 also.

15 Q. Do you have any idea what kind of drainage radius
16 there is for these wells?

17 A. We've not tried to calculate it, but based
18 empirically on what we've seen in 32, a 40-acre unit could
19 support economic gas production.

20 Q. Would there be more than one gas well in this
21 nonstandard proration unit?

22 A. No, there would not. We'll assign all the
23 available acreage to the gas completion, and we have no
24 plans to do others. The other wells were drilled in the
25 1960s.

1 Q. How much acreage is -- Oh, I think I've got it
2 here. The Number 21 in Section 29 that produced 12 BCF is
3 40 acres and been dedicated to that?

4 A. Originally it was 80, now it's down to 40.

5 Q. When did that change?

6 A. I don't know when it changed, but the ownership
7 map shows Gruy having 40 acres only. The original is in
8 the packet of information that we marked Exhibit 5.

9 Q. Okay.

10 A. It would be the third page back, Exhibit 5. El
11 Paso Natural Gas, Parker Number 1, asks for an 80-acre
12 unit.

13 Q. Now, what is this page?

14 A. Back one more. There's a cover letter, a
15 table --

16 Q. Oh, okay.

17 A. -- and then an Oil Conservation Commission
18 document.

19 Q. Okay.

20 A. The document is New Mexico Oil Conservation - El
21 Paso Natural Gas Parker Number 1, December 29th of 1953.
22 That would be the well at the start of your cross-section,
23 at A.

24 Q. Okay, what about the other wells in the cross-
25 section? Are they on this list too, this Exhibit 5?

1 A. "O" 6 is the next page, and it was given a 40-
2 acre unit.

3 Q. Okay.

4 A. Let's see, the next page would be -- There's an
5 "F" Number 1 also in that section that's not shown on our
6 cross-section. It was originally given a 160-acre unit.

7 Excuse me, I skipped Section 29. That 160-acre
8 unit was in Section 29.

9 And I've skipped back to the O lease again, State
10 "O" Number 4, was given a 40-acre unit.

11 Q. That's on the cross-section, isn't it?

12 A. I believe so. Yes, sir, it's at the A' marking
13 on the cross-section.

14 And also in the packets, "O" 5 was given a 40-
15 acre unit. The "O" grouping of wells was developed on 40s.

16 Q. Excuse me?

17 A. This grouping of the "O" wells was developed on
18 40s, is what I found in the records. And they each seemed
19 to recover economic gas.

20 Q. And all the other wells in your proposed unit are
21 producing oil from the upper Yates?

22 A. Seven Rivers.

23 Q. Okay, and you're going to be producing this in
24 the upper Yates?

25 A. Upper Yates, yes, sir.

1 EXAMINER ASHLEY: Nothing further, thank you.

2 Mr. Carr, can you provide a draft order?

3 MR. CARR: I can.

4 EXAMINER ASHLEY: Mr. Carr, can you give me a
5 time frame for a draft?

6 MR. CARR: I'll try and get it Monday or Tuesday.

7 EXAMINER ASHLEY: Is there anything further in
8 this case?

9 MR. CARR: Nothing further in this case.

10 EXAMINER ASHLEY: There being nothing further,
11 Case 12,426 will be taken under advisement.

12 (Thereupon, these proceedings were concluded at
13 11:28 a.m.)

14 * * *

15
16
17
18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
the Examiner hearing of Case No. 12426,
20 heard by me on 7-1-00 19
Mark R. Kelly, Examiner
21 Of Conservation Division
22
23
24
25

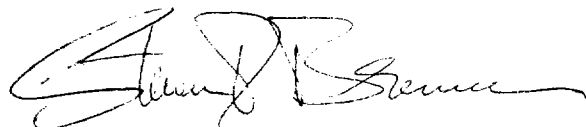
CERTIFICATE OF REPORTER

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 July 17th, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002