

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 SANTA FE SNYDER)
 CORPORATION FOR COMPULSORY POOLING,)
 LEA COUNTY, NEW MEXICO)

CASE NO. 12,442

ORIGINAL

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OIL CONSERVATION DIV.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

June 29th, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, June 29th, 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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I N D E X

June 29th, 2000
Examiner Hearing
CASE NO. 12,442

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>STEVEN J. SMITH</u> (Landman)	
Direct Examination by Mr. Kellahin	5
Examination by Examiner Stogner	12
<u>STEVEN D. HULKE</u> (Geologist)	
Direct Examination by Mr. Kellahin	15
Examination by Examiner Stogner	22
REPORTER'S CERTIFICATE	24

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	12
Exhibit 2	8	12
Exhibit 3	-	12
Exhibit 4	11	12
Exhibit 5	17	22
Exhibit 6	19	22
Exhibit 7	19	22
Exhibit 8	19	22

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
 117 N. Guadalupe
 P.O. Box 2265
 Santa Fe, New Mexico 87504-2265
 By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 9:29 a.m.:

3 EXAMINER STOGNER: This hearing will come to
4 order. At this time I'll call next case, Number 12,442,
5 which is the Application of Santa Fe Snyder Corporation for
6 compulsory pooling in Lea County, New Mexico.

7 At this time I'll call for appearances.

8 MR. SMITH: Mr. Examiner, we're here but our
9 counsel is indisposed, I guess.

10 EXAMINER STOGNER: Okay, is Marathon here?
11 Yates?

12 Marbob?

13 MR. MILLER: We lost our counselor too.

14 EXAMINER STOGNER: Come get me when you're all
15 ready.

16 (Off the record at 9:29 a.m.)

17 (The following proceedings had at 9:32 a.m.):

18 EXAMINER STOGNER: Hearing will come to order.

19 Call the next case, Number 12,442, which is the
20 Application of Santa Fe Snyder Corporation for compulsory
21 pooling, Lea County, New Mexico.

22 At this time I'll call for appearances.

23 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
24 the Santa Fe law firm of Kellahin and Kellahin, appearing
25 on behalf of the Applicant, and I have two witnesses to be

1 sworn.

2 EXAMINER STOGNER: Any other appearances?

3 Will the witnesses please stand to be sworn?

4 (Thereupon, the witnesses were sworn.)

5 EXAMINER STOGNER: Mr. Kellahin?

6 MR. KELLAHIN: Thank you, Mr. Examiner.

7 Mr. Examiner, our first witness is Mr. Steve

8 Smith. Mr. Smith is a petroleum landman with the

9 Applicant, Santa Fe Snyder Corporation.

10 STEVEN J. SMITH,

11 the witness herein, after having been first duly sworn upon

12 his oath, was examined and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. KELLAHIN:

15 Q. For the record, sir, would you please state your
16 name and occupation?

17 A. Steven Smith, I'm a landman for Santa Fe Snyder
18 Corporation.

19 Q. And where do you reside, sir?

20 A. Midland, Texas.

21 Q. Has it been your responsibility for your company
22 to identify the various interest owners that would
23 participate in the subject well?

24 A. Yes, it has been.

25 Q. In addition, has it been your responsibility to

1 contact those individuals or parties in an effort to reach
2 a voluntary agreement?

3 A. Either I would contact them or someone in my hire
4 would do so.

5 MR. KELLAHIN: Mr. Examiner we tender Mr. Smith
6 as an expert petroleum landman.

7 EXAMINER STOGNER: Mr. Smith is so qualified.

8 Q. (By Mr. Kellahin) Mr. Smith, let's take a moment
9 and identify for the Examiner what Santa Fe Snyder
10 Corporation proposes to accomplish with this Application.
11 If you'll turn to Exhibit 1, identify that for me.

12 A. Exhibit 1 is a Santa Fe Snyder plat. It is a
13 photocopy of a Midland map showing Santa Fe's acreage in
14 the very northeastern corner of Township 21 South, 34 East.
15 You'll note that the sections in that township have
16 irregular sections along the northern boundary.

17 We are proposing to drill a 13,400-foot Morrow
18 test in the middle 320 of Section 1. We are proposing that
19 the proration unit to be established would consist of Lots
20 9 through 16, being the middle 320, and the plat shows the
21 proposed location of the well, which is 3300 feet from the
22 south and 990 from the west boundary of the section.

23 Q. When we look at Section 1, the middle third,
24 which is the proration unit you're seeking to establish,
25 consists of 320 acres?

1 A. That's correct.

2 Q. And it will be lots number 9 through 16 of this
3 irregular section?

4 A. That's correct.

5 Q. For purposes of a pooling, are you seeking to
6 pool any other spacing configurations, other than 320 acres
7 for any gas production that is subject to being developed
8 on that spacing pattern?

9 A. No.

10 Q. Let's look at the plat for a moment and have you
11 explain the color code. When we see the red square, what
12 does that signify?

13 A. That is the -- The red is around the proposed
14 location of the well.

15 Q. In the southwest quarter of the spacing unit, is
16 that an area with 100 percent controlled by Santa Fe Snyder
17 Corporation?

18 A. That's correct, or its partners.

19 Q. When we look in the southeast portion of the
20 spacing unit, there is a 40-acre tract that's shaded in
21 pink?

22 A. That's correct.

23 Q. What does that represent?

24 A. That represents a 40-acre tract owned by Phillips
25 Petroleum Company.

1 Q. When we turn to the attachment to the plat, what
2 are you presenting here?

3 A. Basically a summation of the ownership of the
4 lands within the anticipated proration unit, giving state
5 lease numbers where applicable, and Lot 16 being fee
6 acreage. It just identifies it as fee minerals, so --

7 Q. All right, it would afford the opportunity to
8 anyone that cared to do the math and figure out who has
9 what portion of what?

10 A. That's correct.

11 Q. The only party, then, you're seeking to have
12 pooled is Phillips Petroleum Company?

13 A. That's correct. All the other parties have
14 voluntarily participated.

15 Q. Do you have an exhibit that demonstrates to the
16 Examiner that you have made a well proposal to Phillips and
17 have done so in writing with the appropriate AFE?

18 A. Yes, I do. It's, I believe, Exhibit 2.

19 Q. Identify and describe Exhibit Number 2, please.

20 A. It would be my letter to Mr. Randy Lewicki at
21 Phillips Petroleum. It's a letter dated May 22nd. In that
22 letter we identify the proposed well location, tell
23 Phillips what we think they own. We request that they
24 either participate or, in the alternative, grant us a term
25 assignment of their interest, and provide them with the

1 letter, a copy of the AFE cost estimate for the well.

2 Q. Okay. Following your Exhibit Number 2 letter,
3 did you have a further communication with Phillips
4 concerning the well location?

5 A. Yes, shortly after the well was proposed we
6 determined that there was a pipeline right of way that
7 would prevent us from drilling at that location, and in an
8 effort to stay legal we moved the location 330 feet to the
9 east and notified Phillips of such by a letter dated June
10 7th.

11 Q. You're still in the same 40-acre tract portion of
12 the spacing unit where the well was proposed?

13 A. Correct.

14 Q. All right. At this point in time, Mr. Smith, has
15 Phillips objected to the AFE?

16 A. No, they have not.

17 Q. Did they file any objection with regards to
18 changing the location?

19 A. None at all.

20 Q. Have they objected to any of the terms and
21 conditions by which you propose to drill this well?

22 A. No, we're still negotiating with Phillips to
23 secure either their participation or trade.

24 Q. All right. At this point have you successfully
25 accomplished all the necessary documentation in order to

1 have Phillips' interest voluntarily committed to the well?

2 A. No, we have not.

3 Q. Do you have any time constraints on you with
4 regards to commencing this well?

5 A. Yes, we do. The well is physically located on
6 Lots, I believe, 13 and 14. That 80 acres is a state lease
7 that will expire July 1 of 2000. And so we are hoping to
8 expedite the process, and we're preparing to move a spudder
9 on and commence drilling to hold the lease.

10 Q. Do you have a recommendation to Examiner Stogner
11 for overhead rates on a monthly basis for a drilling well
12 and then a producing well?

13 A. Yes, we would propose the overhead rates in this
14 case be the same as that in the voluntary agreement, and
15 that would be a \$6000 drilling and a \$600 producing rate
16 with the right to escalate per COPAS.

17 Q. All right. You refer to an agreement. What
18 agreement is that, Mr. Smith?

19 A. We have an operating agreement in place between
20 Santa Fe Snyder and Nearburg, the November of 1996 model
21 form -- well, it's a 1982 model form agreement that was
22 entered into in November of 1996, and it covers the acreage
23 shown on the plat.

24 Q. So Nearburg has agreed to those overhead rates?

25 A. Yes, they have.

1 Q. And they would be participating pursuant to their
2 elections and opportunities under that operating agreement?

3 A. That's correct.

4 Q. So the only missing working interest owner at
5 this point is Phillips Petroleum Company?

6 A. Correct.

7 MR. KELLAHIN: Mr. Examiner, that concludes my
8 examination of Mr. Smith. In addition to introducing his
9 Exhibits 1 through 3, we have in the order of sequence of
10 exhibits my Exhibit 4, which is the certificate of
11 notification of this hearing, which was sent to Phillips
12 Petroleum Company, and at this point it was also sent to
13 Southwestern Energy.

14 Q. (By Mr. Kellahin) For the record, Mr. Smith,
15 does Southwestern Energy Production Company have any
16 interest in the spacing unit?

17 A. No, we notified Southwestern because of an
18 unrecorded exploration agreement between Southwestern and
19 Phillips, and we've been provided evidence that this
20 acreage is not subject to that agreement and therefore
21 would excuse Southwestern.

22 Q. All right, sir. So again, the only party you'd
23 be pooling would be Phillips Petroleum Company?

24 A. Correct.

25 MR. KELLAHIN: That concludes my examination of

1 Mr. Smith, Mr. Stogner.

2 We move the introduction of Exhibits 1 through 4.

3 EXAMINER STOGNER: Exhibits 1 through 4 will be
4 admitted into evidence.

5 EXAMINATION

6 BY EXAMINER STOGNER:

7 Q. Let me make sure I've got the location right.
8 That's 3300 from the south line and 990 from the west line,
9 that's your planned drilling spot?

10 A. Yes.

11 Q. Okay. And it was Phillips that notified you of
12 the pipeline?

13 A. No, our permitting consultant apparently
14 discovered it and brought it to our attention, and we
15 notified all parties that the location had to be moved
16 accordingly.

17 Q. Now, have you talked to Mr. Lindicke over the
18 phone?

19 A. Lewicki? Yes.

20 Q. Lewicki --

21 A. Lewicki, yes.

22 Q. -- that's L-e-w-i-c-k-i?

23 A. I spoke with him several times the first part of
24 this week, and we are having what I would characterize as
25 promising negotiations with Phillips, and we will endeavor

1 to continue with them to reach an agreement and would be
2 glad to notify you immediately upon striking such an
3 agreement.

4 Q. Now, that 80 acres that you said was expiring on
5 July the 1st, that was that 80 acres comprising Lots 13 and
6 14?

7 A. The drill-site 80, that's correct.

8 Q. And how about the expiration dates on the other
9 leases?

10 A. The lots due north of the expiring 80 are HBP'd.
11 We have until -- one of the -- would be Lots 10 and 15,
12 moving eastward, are also HBP'd, but we have a term
13 assignment on those that go through next year. It's not
14 posted on the map there.

15 And we have until 2003 on the 40-acre tract,
16 being Lot 16. It's really just the drill-site 80 that is
17 in jeopardy.

18 Q. And those two portions, are they a single lease,
19 or are they part of those other two leases? I can't really
20 tell by looking at --

21 A. Well, the drill-site 80 is part of the 80 -- It
22 would be the equivalent of the west half, southwest, in the
23 southern 320.

24 That acreage is in our outlined unit, and strict
25 segregation makes the 80 outside stand on its own and

1 expire July 1.

2 Q. Okay, so that lease is sort of an upside-down L?

3 A. That's correct.

4 Q. Okay. I don't have any other questions of Mr.
5 Smith, and I will expedite it as all possible on this
6 matter, pursuant to the expiration date of July the 1st.
7 That's how many hours away?

8 A. Not many.

9 Q. Not many hours away.

10 A. We've made application through the State to
11 invoke our -- paragraph 14, drill across and -- We're going
12 to put a spudder on it and hopefully get an expedited order
13 and move a rig on it.

14 Q. Okay, and I guess that expires on Mountain
15 Daylight Savings Time; is that correct?

16 A. I would believe so.

17 Q. Okay, good deal. Just be aware, that's a
18 different time than you're on in Odessa.

19 A. Let me note that real quick.

20 Q. Or Midland, rather.

21 A. That's correct.

22 EXAMINER STOGNER: Mr. Kellahin?

23 MR. KELLAHIN: Thank you, Mr. Examiner.

24 Our next witness is Santa Fe Snyder Corporation's
25 petroleum geologist, Steve Hulke.

1 STEVEN D. HULKE,

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

4 DIRECT EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Mr. Hulke, for the record, sir, would you please
7 state your name and occupation?

8 A. My name is Steven D. Hulke. I'm a senior staff
9 geologist for Santa Fe Snyder in Midland, Texas.

10 Q. Are you the geologist with Santa Fe Snyder
11 Corporation responsible for recommending to your company
12 the drilling of this well and its location?

13 A. That's correct.

14 Q. As part of your analysis, were you able to reach
15 an opinion concerning an appropriate risk factor penalty in
16 this case?

17 A. Yes.

18 Q. And have you been able to do so based upon your
19 study of all the available data?

20 A. Yes.

21 MR. KELLAHIN: Mr. Examiner, we tender Mr. Hulke
22 as an expert petroleum geologist.

23 EXAMINER STOGNER: Mr. Hulke is so qualified.

24 Q. (By Mr. Kellahin) Mr. Hulke, let's take a moment
25 and have you conclude for me what in your opinion is an

1 appropriate percentage of risk to associate with the force-
2 pooling order to be entered by the Division in this case.

3 A. I understand that the maximum penalty is cost
4 plus 200 percent.

5 Q. Yes, sir, and what would you recommend?

6 A. I believe that's appropriate in this risky Morrow
7 sand prospect.

8 Q. Before we look at the details of the display, can
9 you summarize for me the reasons that cause you to reach
10 that opinion?

11 A. Yes, the nearby well control to the north is
12 either a dry hole or uneconomic well, marginally economic
13 well, and in three directions there is no offset control.
14 So basically we're not offsetting a good well.

15 Q. When you look at possible targets to penetrate
16 and test, your primary zone of interest would be the Morrow
17 formations?

18 A. That's correct, middle Morrow formation.

19 Q. Is there any pool names associated with this area
20 that you're aware of, Mr. Hulke?

21 A. Yes, one proration unit to the north, the State R
22 Number 1 well, is in the Osudo West field.

23 Q. All right, let's use Exhibit 5 as a locator map,
24 then, so we don't lose track of what you're saying. If
25 you'll turn to Exhibit 5, we'll talk about the details in a

1 moment, but find for us on that plat the well you've just
2 identified.

3 A. It's in the north 320 of Section 1 --

4 Q. All right, sir, and --

5 A. -- right in the middle of the map.

6 Q. -- what pool is that?

7 A. That's the Osudo West.

8 Q. And that's a Morrow pool?

9 A. That's correct.

10 Q. All right, sir. Are there any other pools
11 associated with the other Morrow wells shown on your
12 display?

13 A. Yes, Wilson-Penn Field.

14 Q. It's the Wilson-Morrow Gas Pool?

15 A. Yes, sir.

16 Q. And where is that?

17 A. Immediately to the south in Section 12, both of
18 those wells, both of those gas wells.

19 Q. Let's look at Exhibit 5 for a moment and have you
20 identify for the Examiner those wells that were dry holes
21 that formed part of your basis of your risk-factor penalty.
22 Where are they, or how are they identified?

23 A. In Section 2, northwest of the proposed location,
24 there's a dry hole that was drilled by Phillips.

25 Q. The Morrow gas well penetrations will be dryhole

1 symbols, then, with a circle around them?

2 A. That's correct. The circle indicates that the
3 wells got to at least 11,000 feet.

4 Q. Okay.

5 A. There are other wells on the map which are
6 shallow, which only went to about 3500 feet, did not
7 penetrate the Morrow.

8 Q. Is structure a component of analyzing where to
9 place this well?

10 A. Structure is a component. I don't believe it is
11 the most important component, but it is a factor.

12 Q. Okay. When you're looking primarily at the
13 Morrow formations, are there any secondary objectives at
14 any other depth?

15 A. Yes, sir, on the way to the Morrow we will
16 penetrate the Delaware and Bone Spring, which are oil
17 objectives. Additionally, the Strawn and the Atoka are gas
18 objectives.

19 Q. So for purposes of the pooling, we're
20 concentrating, then, only on the 320-acre formations, which
21 would be those below the top of the Wolfcamp?

22 A. That's correct.

23 Q. Among that population of formations, is this
24 Morrow formation your best opportunity?

25 A. Yes, it is.

1 Q. Let's look individually, then, within the Morrow
2 and have you describe for us your objectives. If you'll
3 turn to Exhibit Number 6, it's out of sequence in the
4 exhibits, but it's the cross-section. If you'll unfold the
5 cross-section for us, on Exhibit 6 you have vertically
6 identified and segregated, if you will, on the display some
7 various portions of the Morrow. Describe for us what you
8 believe to be your best opportunities.

9 A. Our best opportunities are in the middle Morrow
10 "CB" sand and immediately below that the middle Morrow "C"
11 sand.

12 The middle Morrow "CB" is colored in orange on
13 the cross-section, and there is a porous sand map, Exhibit
14 8, on that sand.

15 The yellow sand on the cross-section is the
16 middle Morrow "C" sand. Exhibit 7 is a porous sand map of
17 the middle Morrow "C".

18 Q. All right, let me direct your attention to the
19 risk associated with the middle Morrow "C", and let's use
20 Exhibit 7 to illustrate your comments.

21 Your proposed location anticipates the
22 opportunity to access that sand, true?

23 A. That's correct.

24 Q. What is the risk associated with that sand?

25 A. I would say it is less risky than the middle

1 Morrow "CB", simply because the well immediately to the
2 north, the State R Number 1, has 36 feet of porous middle
3 Morrow "C" sand.

4 Q. Would the risk associated with the middle Morrow
5 "C" sand be less than the maximum percentage risk of 200
6 percent?

7 A. Would you please restate that?

8 Q. Yes, sir. You said the middle Morrow "C" was
9 slightly less risky than the middle Morrow "CB" sand.

10 A. Slightly more risky.

11 Q. Slightly more risky?

12 A. Yes, sir.

13 Q. All right, sir, so the Morrow "C" is the riskier
14 of the two?

15 A. The Morrow "C" is -- Perhaps I've gotten
16 confused.

17 Q. Yes, sir, tell me again.

18 A. The middle Morrow "C" is less risky than the
19 middle Morrow "CB".

20 Q. All right, so when I look at the middle Morrow
21 "C", is that reduced risk such that the Examiner should
22 reduce the risk factor penalty to less than the maximum?

23 A. I understand now. No, it is not, because
24 unfortunately in the middle Morrow "C" I would call it an
25 underachiever sand. The middle Morrow "C" in the State R,

1 36 feet, looks absolutely delicious. That well has only
2 made slightly less than a half a BCF in a couple of years.
3 It is typically not a great sand. Thickness -- It's very
4 thick, but it's not a great reservoir, it's not a great
5 producer.

6 So geologically it's lower risk than the CB.
7 Regrettably, the deliverability of that sand is not great.

8 Q. Okay, let's turn to Exhibit 8 and have you
9 address your comments about the risk associated with the
10 middle Morrow "CB" sand.

11 A. The middle Morrow "CB" is a much riskier sand,
12 because the two wells north of the proposed location only
13 have one foot of porous middle Morrow "CB" and two feet,
14 which is clearly inadequate for production, and to the
15 south there is no control for a mile and a half. We
16 finally get to a thick well, a recent completion, our
17 Outland State Unit Number 1.

18 So there is very little control on my contours on
19 the "CB" zone.

20 Q. By combining the opportunity for the Morrow "C"
21 and the Morrow "CB", does that combination cause you to
22 conclude that the risk factor penalty should be less than
23 the maximum?

24 A. No, it does not. It is somewhat less because we
25 have stacked opportunities here, but they're still both

1 risky zones.

2 Q. And in your opinion would that justify the
3 maximum penalty?

4 A. Yes, it does.

5 MR. KELLAHIN: That concludes my examination of
6 Mr. Hulke, Mr. Examiner. We move the introduction of his
7 Exhibits 5 through 8.

8 EXAMINER STOGNER: Exhibits 5 through 8 will be
9 admitted into evidence at this time.

10 EXAMINATION

11 BY EXAMINER STOGNER:

12 Q. Okay, Mr. Hulke, let me make sure I get this
13 straight. Which is the more delicious sand and which is
14 the underachiever sand?

15 A. The underachiever sand is the yellow sand on the
16 cross-section.

17 Q. Okay.

18 A. The "C". The delicious sand is the "CB", the
19 orange sand. Ten feet of "CB" and we're going to feel
20 good. If it's less than ten feet, and even with the "C"
21 sand, I'm going to be worried about the economics of that
22 well.

23 EXAMINER STOGNER: It's clear to me, Mr.
24 Kellahin.

25 MR. KELLAHIN: All right, sir.

1 EXAMINER STOGNER: Mr. Hulke, do appreciate it.
2 No questions.

3 MR. KELLAHIN: That concludes our presentation,
4 Mr. Examiner.

5 EXAMINER STOGNER: Is there anything further in
6 Case Number 12,442? If not, then this matter will be taken
7 under advisement, and I'll see that expedited off my desk,
8 Mr. Kellahin.

9 MR. KELLAHIN: Thank you, Mr. Examiner.

10 (Thereupon, these proceedings were concluded at
11 10:04 a.m.)

12 * * *

13
14
15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
17 the Examiner hearing of Case No. 12442,
18 heard by me on July 1, 1966.
19 [Signature], Examiner
20 Of Conservation Division
21
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 1st, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002