

1 NEW MEXICO OIL CONSERVATION DIVISION

2 STATE LAND OFFICE BUILDING

3 STATE OF NEW MEXICO

4 CASE NO. 10410

5
6 IN THE MATTER OF:

7 The Application of Mewbourne Oil
8 Company for Compulsory Pooling and
9 an Unorthodox Gas Well Location, Eddy
10 County, New Mexico.

11
12
13 BEFORE:

14 DAVID R. CATANACH

15 Hearing Examiner

16 State Land Office Building

17 November 7, 1991

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22 REPORTED BY:

23 CARLA DIANE RODRIGUEZ
24 Certified Shorthand Reporter
for the State of New Mexico

25
ORIGINAL

A P P E A R A N C E S

FOR THE NEW MEXICO OIL CONSERVATION DIVISION:

ROBERT G. STOVALL, ESQ.

General Counsel
State Land Office Building
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

THE HINKLE LAW FIRM
500 Marquette N.W., Suite 800
Albuquerque, New Mexico 87102
BY: JAMES G. BRUCE, ESQ.

FOR CHEVRON U.S.A.:

CAMPBELL, CARR, BERGE & SHERIDAN, P.A.
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Santa Fe, New Mexico 87504-2208
BY: WILLIAM F. CARR, ESQ.

FOR CONOCO, INC.:

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Post Office Box 2265
Santa Fe, New Mexico 87504-2265
BY: W. THOMAS KELLAHIN, ESQ.

I N D E X

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Appearances

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WITNESSES FOR THE APPLICANT:

1. D. PAUL HADEN

Examination by Mr. Bruce

4

Examination by Mr. Catanach

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2. J. DAVID OVERTON

Examination by Mr. Bruce

14

Examination by Mr. Catanach

20

Certificate of Reporter

24

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Exhibit No. 1

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Exhibit No. 2

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Exhibit No. 3

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Exhibit No. 4

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Exhibit No. 5A

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Exhibit No. 5B

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Exhibit No. 6

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Exhibit No. 7

11

Exhibit No. 8

12

Exhibit No. 9

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Exhibit No. 10

16

Exhibit No. 11

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1 EXAMINER CATANACH: Call Case 10410.

2 MR. STOVALL: Application of Mewbourne
3 Oil Company for compulsory pooling and an
4 unorthodox gas well location. Eddy County, New
5 Mexico.

6 EXAMINER CATANACH: Are there
7 appearances in this case?

8 MR. BRUCE: Mr. Examiner, Jim Bruce of
9 the Hinkle Law Firm in Albuquerque for the
10 Applicant. I have two witnesses to be sworn.

11 EXAMINER CATANACH: Other appearances?

12 MR. CARR: May it please the Examiner,
13 William F. Carr with the Santa Fe law firm
14 Campbell, Carr, Berge & Sheridan. I make my
15 appearance today for Chevron USA, and I have no
16 witnesses.

17 MR. KELLAHIN: Mr. Examiner, I'm Tom
18 Kellahin of the Santa Fe law firm Kellahin,
19 Kellahin & Aubrey, appearing on behalf of Conoco,
20 Inc.

21 EXAMINER CATANACH: Will the witnesses
22 please stand to be sworn in.

23 D. PAUL HADEN

24 Having been first duly sworn upon his oath, was
25 examined and testified as follows:

EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name for the record.

A. My name is Paul Haden.

Q. Where do you reside?

A. I reside in Midland, Texas.

Q. What is your occupation and who is your employer?

A. Petroleum landman. I am employed by Mewbourne Oil Company.

Q. Have you previously testified before the Division as a petroleum landman and had your credentials as an expert accepted as a matter of record?

A. Yes, I have.

Q. Are you familiar with the land matters involved in this case?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, are the witness's credentials acceptable?

EXAMINER CATANACH: They are.

Q. Mr. Haden, briefly state what Mewbourne seeks in this case.

A. Mewbourne seeks an order pooling all

1 mineral interests from the base of the Abo
2 formation to the base of the Morrow formation,
3 underlying the west half of Section 16, Township
4 18 South, Range 27 East, for all pools,
5 formations, spaced on 160 and 320 acres.

6 Mewbourne also requests approval for an
7 unorthodox gas well location.

8 MR. BRUCE: Mr. Examiner, we had
9 originally requested force pooling of 40-acre
10 units, but due to the interests Mewbourne now
11 controls, we no longer need that.

12 Q. Mr. Haden, referring to Exhibit 1, what
13 is the proposed location of the Mewbourne well?

14 A. The proposed location is 1980 feet from
15 the west line and 990 feet from the south line of
16 Section 16.

17 Q. Will Mr. Overton, the geologist,
18 discuss the need for the unorthodox location?

19 A. Yes, he will.

20 Q. Who are the parties Mewbourne seeks to
21 force pool?

22 A. Exxon Company USA, and Chevron USA.

23 Q. Now, referring to Exhibit No. 2, right
24 at the top there are letters regarding Conoco.
25 What is the current status of the Conoco interest

1 in this unit?

2 A. We have entered into a farmout
3 agreement with Conoco. Therefore, we hereby
4 dismiss Conoco.

5 Q. Referring to Exhibit No. 2, would you
6 identify it for the Examiner and discuss your
7 efforts to obtain the voluntary joinder of Exxon
8 and Chevron in this well?

9 A. Exhibit No. 2 are our letters to Exxon
10 and Chevron. We've attempted to obtain a farmout
11 from Exxon since October 10, 1990. Numerous
12 letters have transpired between the two
13 companies. We have yet been unable to reach a
14 formal farmout agreement with them.

15 However, my office called Mr. Bruce's
16 office yesterday and they say they are willing to
17 farm out. However, we've not seen a farmout
18 agreement so therefore we will have to keep them
19 under the pooling provisions until we obtain such
20 an agreement.

21 Q. If you subsequently come to terms with
22 Exxon, will the OCD be notified?

23 A. Yes, they will be properly notified,
24 under the terms of the pooling.

25 Chevron, we have communicated with them

1 since January 17, 1991--still are communicating
2 with them. Thus far we have not reached a formal
3 executed farmout agreement with them.

4 However, we plan to continue
5 negotiations with them until such time as we do
6 come to a farmout agreement with them.

7 Q. And does Exhibit 2 contain all of your
8 correspondence with both Exxon and Chevron?

9 A. Yes, it does.

10 Q. Were there also phone calls from you to
11 Exxon and Chevron?

12 A. Numerous phone calls since these dates
13 which I previously mentioned.

14 Q. In your opinion have you made a
15 good-faith effort to obtain their voluntary
16 joinder?

17 A. Yes, I have.

18 Q. Does Mewbourne request that it be named
19 operator of the well?

20 A. Yes.

21 Q. Referring to Exhibit 3, what acreage
22 does Mewbourne control in this unit?

23 A. Currently, under Exhibit 3, Mewbourne
24 controls the southeast quarter of the southwest
25 quarter, the southeast quarter of the northwest

1 quarter, and also the southwest quarter of the
2 northwest quarter.

3 Q. Referring to Exhibit 4, would you
4 discuss the proposed well costs?

5 A. Exhibit 4 is an authorization for
6 expenditure. It's an estimate of the well cost.
7 We estimate the dry-hole cost of \$408,070; total
8 completed cost of \$733,853.

9 Q. Is this well cost in line with those
10 normally encountered in drilling wells to this
11 depth in Eddy County?

12 A. Yes, we believe it is.

13 Q. Do you have a recommendation as to the
14 amounts Mewbourne should be paid for supervision
15 and administration expenses?

16 A. For drilling well rate, \$5,500 per
17 month, and for a producing well rate per month,
18 \$550.

19 Q. Are these amounts normally charged by
20 Mewbourne and other operators of wells of this
21 type in this area?

22 A. Yes, they are.

23 Q. Are they in line with Mewbourne's
24 Federal S well immediately to the southeast?

25 A. That is correct. That is in Section

1 21, by the way.

2 Q. What penalty do you recommend against
3 the nonconsenting interest owners?

4 A. Well costs plus 200 percent risk
5 penalty.

6 Q. Will the geologist further testify in
7 this matter?

8 A. Yes, sir. The geologist will discuss
9 the reasonableness of the proposed penalty.

10 Q. Referring to Exhibits 5A and 5B, would
11 you please identify them for the Examiner?

12 A. Exhibit 5A is a listing of the tract
13 ownership that we believe could be affected by
14 our proposed well.

15 Q. By the unorthodox location?

16 A. By the unorthodox location, that's
17 correct.

18 Q. And 5B, what does that list?

19 A. 5B is the map, tract ownership map,
20 describing the tracts offsetting our acreage.

21 Q. And referring to Exhibit 6, would you
22 identify what those represent?

23 A. Exhibit No. 6 is a letter dated October
24 10th sent to all of the offset owners that were
25 listed in this tract ownership, and Exhibit No.

1 5A, describing what we are seeking, requesting
2 them to give us a waiver; that is, an okay for us
3 to drill our well at an unorthodox location.

4 Q. Have you received any waivers?

5 A. Yes, I have. That is in Exhibit No. 7.

6 Q. To the best of your knowledge, does
7 anyone object to the unorthodox location?

8 A. Thus far there have been no objections
9 to our proposed location.

10 Q. In your opinion, is the granting of
11 this application in the interests of
12 conservation, the prevention of waste and the
13 protection of correlative rights?

14 A. Yes, that's correct.

15 Q. Were Exhibits 1 through 7 prepared by
16 you or under your direction?

17 A. That is also correct.

18 MR. BRUCE: Mr. Examiner, at this time
19 I would move the admission of Exhibits 1 through
20 7.

21 MR. STOVALL: Question before you
22 respond to that, Mr. Examiner.

23 Exhibit 2 contains some correspondence
24 with Conoco, also. I assume that package was put
25 together before the agreement with Conoco was

1 reached?

2 MR. BRUCE: That is correct. The
3 agreement with Conoco was finalized yesterday, I
4 believe.

5 MR. STOVALL: So, for the purpose of
6 Exhibit 2, you really are just talking about the
7 Exxon and Chevron correspondence being the
8 relevant documents?

9 MR. BRUCE: That's correct.

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

12 MR. BRUCE: And, Mr. Examiner, I would
13 also move the admission of Exhibit 8, which is
14 the Affidavit of notice regarding the compulsory
15 pooling portion of the application. Exhibit 6 is
16 the notice regarding the unorthodox location.

17 EXAMINER CATANACH: Exhibit 8 will be
18 admitted as evidence.

19 Any questions of the witness?

20 MR. CARR: No questions.

21 MR. KELLAHIN: [Indicated.]

22 EXAMINATION

23 BY EXAMINER CATANACH:

24 Q. Mr. Haden, it's my understanding you
25 have reached an agreement with Conoco?

1 A. That is correct, as of yesterday.

2 Q. And Exxon may farm out to you. Is that
3 correct?

4 A. They have indicated they will farm out;
5 however, I personally have not seen any terms as
6 to their proposed farmout. Nothing has been
7 signed.

8 Q. As far as Chevron's interest is
9 concerned, you're at an impasse with them?

10 A. Currently that is correct. However, we
11 plan to come to an agreement with them in the
12 eleventh hour of the expiration period of the
13 order in which they can deliver a farmout
14 agreement to us.

15 Q. Has Mewbourne drilled Morrow wells in
16 this area?

17 A. Yes, we have.

18 Q. Currently operate some?

19 A. Currently operate some. Section 21,
20 north half, our Federal S #1 well is currently a
21 Morrow producer.

22 Q. These drilling costs are in line with
23 current costs out there?

24 A. That's correct.

25 EXAMINER CATANACH: I have nothing

1 further. The witness may be excused.

2 J. DAVID OVERTON

3 Having been first duly sworn upon his oath, was
4 examined and testified as follows:

5 EXAMINATION

6 BY MR. BRUCE:

7 Q. Would you please state your name and
8 city of residence?

9 A. J. David Overton, and I live in Midland
10 Texas.

11 Q. What is your occupation?

12 A. I'm a petroleum geologist for Mewbourne
13 Oil Company.

14 Q. Have you previously testified before
15 the OCD as a petroleum geologist?

16 A. Yes, sir, I have.

17 Q. Were your credentials accepted as a
18 matter of record?

19 A. Yes, sir, they were.

20 Q. Are you familiar with the geology
21 involving this prospect?

22 A. Yes, sir, I am.

23 MR. BRUCE: Mr. Examiner, I tender the
24 witness as an expert geologist.

25 EXAMINER CATANACH: He is so qualified.

1 Q Mr. Overton, referring to Exhibit 9,
2 would you describe its contents for the Examiner
3 and the purpose for which Mewbourne seeks the
4 unorthodox location?

5 A. Exhibit No. 9 is a Pennsylvanian gas
6 production study for the area surrounding the
7 proposed unorthodox location. And the well we
8 would like to drill is our Red Lake State No. 1
9 in Section 16 of 18-27.

10 The map shows all the producing
11 Pennsylvanian horizons, mostly Morrow in the
12 area. There are three colors given to Morrow
13 production, being gray, which is the lower
14 Morrow, lowermost sand interval, brown, which is
15 above that one, orange which is above brown, and
16 green, which we call a Middle Morrow sand.

17 In the specific area of the well we're
18 proposing, we have production from orange, brown
19 and green; however, the Middle Morrow green sand
20 producer in Section 16 was making 1 Mcf per day
21 in July of 1991. We don't feel like it's
22 contributing a whole lot nor is it a real viable
23 economic target.

24 The brown sand produces in Section 22
25 and was productive in Section 17. In 22, that

1 well's last production was 8/90. The well had
2 made 1 Bcf. The well in 17, the zone was
3 abandoned in 1972 and made just short of 1-1/2
4 Bcf.

5 In our minds, our well, we're looking
6 for the orange sand which is currently producing
7 in our Federal S #1 in Section 21.

8 Q. That's the well in the northeast
9 quarter of the northeast quarter?

10 A. That's correct. And we're making just
11 short of a million cubic feet a day as of August,
12 for that well.

13 Q Please move on to Exhibit 10.

14 A. Exhibit 10 is a cross-section of the
15 key wells for the prospect. It's a Morrow
16 stratigraphic cross-section, B - B'. It starts
17 to the left-hand side with the well in Section
18 17, the Humble Oil & Refining Company, Chopped
19 Left Draw Unit C #1. It shows the perforated
20 intervals as being orange and brown.

21 And then from there we correlate across
22 to the Oryx Energy Company Skoggin-Draw State Com
23 C #1 in Section 16, which was not perforated in
24 either orange and brown but rather in the green
25 sand.

1 You'll note on the completion card on
2 that well their initial shut-in bottom hole
3 pressure was 879 pounds, which shows some
4 definite drainage effects, and we feel like it's
5 connected to a trend to the west of us, and will
6 probably drain throughout the area.

7 Our well, the Federal S #1 in Section
8 21 is the next one. We have an orange interval
9 which we are producing out of that well. In six
10 months it had totaled just short of 180 million
11 cubic feet of gas.

12 And the well on the far right-hand side
13 of the cross-section is the Sun Exploration and
14 Production Company, since renamed Oryx
15 Skoggin-Draw A Federal #1, which is perforated in
16 the gray, the orange and the green sand, all of
17 those being fairly thin stringers.

18 If you will note, it's seldom that
19 anybody perfs in the same horizon. There are
20 perforations throughout but they're always in
21 combination with something else, outside of our
22 Federal S #1 and the green sand perforations in
23 the Oryx well.

24 That tends to show quite a bit of
25 geological risk involved. You do the best you

1 can to find the target and drill it. You're not
2 really sure what you're going to run into.

3 Q. Would you please discuss Exhibit 11 for
4 the Examiner.

5 A. Exhibit 11 is a Lower Morrow structure
6 map in dashed lines. It shows a regional dip to
7 the southwest, and also a Lower Morrow orange
8 sand isopach map. The solid line is showing two
9 channel trends on the map; the northern one is
10 the one of significance to us here.

11 We're projecting that our proposed
12 location will have about 10 feet of sand with
13 porosity greater than eight percent which we use
14 as a lower limit.

15 If you would note the small X just
16 north of the proposed location, which is at a
17 legal location, it falls completely outside of
18 our trend. In our mind, this orange sand is
19 really the only economic target in the proposed
20 well, and we have moved it just trying to reduce
21 our geological risk. Our production in the area
22 raises economic risk considerably at today's gas
23 prices.

24 Q. You're hoping to duplicate the results
25 of your Federal S well?

1 A. Yes, sir, we are.

2 Q. In your opinion, what penalty should be
3 assessed against any nonconsenting interest
4 owners in this case?

5 A. I feel like 200 percent plus cost is
6 reasonable.

7 Q. You think it's reasonable based on the
8 geologic risk of this prospect?

9 A. Yes, sir, I do. I think there's a
10 significant amount of geological risk and
11 economic risk, even if you hit the target.

12 Q. Were Exhibits 9, 10 and 11 prepared by
13 you or under your direction?

14 A. Yes, they were.

15 Q. In your opinion, is the granting of
16 this application in the interests of
17 conservation, the prevention of waste and the
18 protection of correlative rights?

19 A. Yes, sir, they are.

20 MR. BRUCE: Mr. Examiner, I move the
21 admission of Exhibits 9 through 11.

22 EXAMINER CATANACH: Exhibits 9 through
23 11 will be admitted as evidence.

24 Gentlemen, any questions?

25 MR. CARR: No questions.

1 MR. KELLAHIN: No, sir.

2 EXAMINATION

3 BY EXAMINER CATANACH:

4 Q. Mr. Overton, there's a dry hole marker
5 in the southwest-southwest of 16. Do you know if
6 that well was a deep well?

7 A. No, sir, it wasn't. It was a shallow
8 well. All deep wells in the area are shown by
9 the circles around the well marker symbol.

10 Q. Okay.

11 A. That's denoting all Morrow penetrations
12 on the maps.

13 Q. According to your exhibit, the Oryx
14 well in the east half of 16 has no potential in
15 the Lower Morrow?

16 A. No, sir, it doesn't.

17 Q. It's got some sand but no porosity?

18 A. That's correct. The brown sand that's
19 colored or marked in there is apparently wet, in
20 that they didn't test it and the log calculations
21 would indicate it to be wet, even though there is
22 some porosity development in it which is denoted
23 by the red shadings of the porosity curves. But
24 the resistivity curve shows it to be tight and
25 probably wet.

1 Q. Now, is it my understanding that really
2 the only potential in this well is the orange
3 sand?

4 A. That's what we feel, that the orange is
5 really our only target potential.

6 Q. Do you know what the Oryx Energy has
7 cum'd out of the green sand up there?

8 A. Yes, sir, that's on the production
9 map. They made 46 million cubic feet of gas, 20
10 barrels of oil in one year. Currently, or as of
11 July, it was producing 1 Mcf a day. It's not an
12 economic well at all.

13 Q. Do you feel like you'll encounter some
14 of that sand?

15 A. We'll probably have that sand but, as I
16 previously said, we feel like it's drained since
17 their well has a really good looking sand on the
18 logs but only had 879 pounds of reservoir
19 pressure on completion.

20 Q. Did you say you think you'd encounter
21 10 feet--is that net sand?

22 A. It's net sand with porosity greater
23 than eight percent. We feel like 10 feet is kind
24 of a lower limit to attempt to drill for.

25 Q. Is that east half currently dedicated

1 to that Oryx well?

2 A. Yes, sir, it is. Our unorthodox
3 location is not encroaching upon them at all,
4 being it's 660 off the side boundary to the east
5 on a stand-up unit. Actually, in moving to the
6 south from a legal location, we're encroaching
7 upon ourselves, if anybody.

8 Q. You've just basically used well control
9 to plot this sand out?

10 A. Yes, sir. Any other methods--in other
11 words, seismic would not work for seeing a sand
12 of this thickness. We're talking about a sand
13 that might be 20-feet thick at 10,000 feet,
14 roughly, and seismic doesn't have the ability to
15 define that.

16 Q. What about up-hole potential in any
17 other zones? Do you have some of that?

18 A. No, sir, we really don't feel like the
19 area is--our Federal S #1 well really didn't
20 encounter anything of great significance.

21 There is one Strawn well that Yates
22 made in Section 21 in the southeast of the
23 northwest, and that well's cum was plugged in 11
24 of 86 and its cumulative production from the
25 Strawn was 27 million, and 338 barrels of oil.

1 They tried it for nine years. That's pretty
2 slim.

3 EXAMINER CATANACH: I believe that's
4 all I have. The witness may be excused.

5 Is there anything further in this
6 case?

7 MR. BRUCE: No, sir.

8 EXAMINER CATANACH: There being nothing
9 further, Case 10410 will be taken under
10 advisement.

11 (And the proceedings concluded.)
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19 I do hereby certify that the foregoing is
20 a complete record of the proceedings in
the Examiner hearing of Case No. 10410,
heard by me on November 7, 1991.

21 David R. Catanch, Examiner
22 Oil Conservation Division
23
24
25


CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Carla Diane Rodriguez, Certified
Shorthand Reporter and Notary Public, HEREBY
CERTIFY that the foregoing transcript of
proceedings before the Oil Conservation Division
was reported by me; that I caused my notes to be
transcribed under my personal supervision; 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 November 14,
1991.


CARLA DIANE RODRIGUEZ, RPR
CSR No. 91