

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. 10683

APPLICATION OF MERIDIAN OIL INC.

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

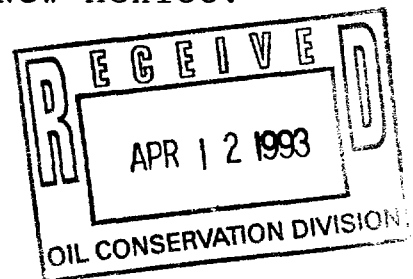
BEFORE: Michael E. Stogner, Hearing Examiner

March 18, 1993

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on March 18, 1993, at the Oil Conservation Division Conference Room, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Deborah O'Bine, RPR, Certified Court Reporter No. 63, for the State of New Mexico.

ORIGINAL



CUMBRE COURT REPORTING

P.O. BOX 9262

SANTA FE, NEW MEXICO 87504-9262

(505) 984-2244

I N D E X

March 18, 1993
 Examiner Hearing
 CASE NO. 10683

	PAGE
APPEARANCES	3

MERIDIAN'S WITNESSES:

TOM O'DONNELL

Examination by Mr. Kellahin	4
Examination by Mr. Stovall	13
Examination by Examiner Stogner	14

REPORTER'S CERTIFICATE	17
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E X H I B I T S

	ID	ADMTD
Exhibit 1	6	13
Exhibit 2	7	13
Exhibit 3	8	13
Exhibit 4	9	13
Exhibit 5	9	13
Exhibit 6	10	13
Exhibit 7	11	13
Exhibit 8	12	13

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A P P E A R A N C E S

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FOR THE APPLICANT: KELLAHIN AND KELLAHIN
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Santa Fe, New Mexico
BY: W. THOMAS KELLAHIN, ESQ.

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1 EXAMINER STOGNER: Call next case, No.
2 10683.

3 MR. STOVALL: Application of Meridian Oil
4 Inc. for a nonstandard proration and spacing unit, Lea
5 County, New Mexico.

6 EXAMINER STOGNER: Call for appearances.

7 MR. KELLAHIN: Mr. Examiner, I'm Tom
8 Kellahin of the Santa Fe Law Firm of Kellahin and
9 Kellahin, appearing today on behalf of Meridian Oil
10 Inc., and I have one witness to be sworn.

11 EXAMINER STOGNER: Are there any other
12 appearances in this matter?

13 Will the witness please stand to be sworn?
14 (Witness sworn.)

15 EXAMINER STOGNER: Mr. Kellahin?

16 MR. KELLAHIN: Yes, sir.

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

20 EXAMINATION

21 BY MR. KELLAHIN:

22 Q. Would you please state your name and
23 occupation.

24 A. Tom O'Donnell. I'm a reservoir engineer.

25 Q. Mr. O'Donnell, on prior occasions, have you

1 testified before the Division as a reservoir engineer?

2 A. Yes, I have.

3 Q. Pursuant to your employment, are you the
4 reservoir engineer that is responsible in part for
5 your company's production in what is classified as the
6 Rhodes Gas Pool in Lea County, New Mexico?

7 A. Yes, I am.

8 Q. Pursuant to that responsibility on behalf
9 of your company, have you studied the opportunity for
10 drilling additional wells in this gas pool?

11 A. Yes.

12 Q. Have you found a location for the drilling
13 of further wells and the formation of spacing units
14 for that production?

15 A. Yes.

16 Q. As a result of your efforts, do you now
17 seek before the Division Examiner the approval of a
18 nonstandard spacing and proration unit for this
19 particular well?

20 A. Yes, I do.

21 MR. KELLAHIN: We tender Mr. O'Donnell as
22 an expert reservoir engineer.

23 EXAMINER STOGNER: Mr. O'Donnell is so
24 qualified.

25 Q. (BY MR. KELLAHIN) Mr. O'Donnell, let me

1 have you direct your attention to what is marked as
2 Meridian Exhibit No. 1. Before we describe the
3 specifics of what you're trying to accomplish, give us
4 a summary of what information is shown on this
5 display.

6 A. Okay. This map here outlines the
7 boundaries of the Rhodes Gas Pool, which is the
8 Yates-Seven Rivers Pool.

9 Q. Now, this boundary is current as of what
10 particular date, Mr. O'Donnell?

11 A. As of the Byrum's October 1992.

12 Q. When we look within the interior of the
13 current boundary of the pool, identify for us the
14 significance of the areas shaded in the different
15 colors.

16 A. Okay. We have shaded in green the Meridian
17 proration unit, existing proration unit surrounding
18 the proposed nonstandard proration unit. Those are in
19 green.

20 In the orange is United Gas Search
21 proration units in Section 14.

22 And in the purple is Doyle Hartman's
23 acreage. There is a square 160, leaving us the
24 nonstandard proration unit that we are asking for.

25 Q. Is the area shaded in green composed of

1 multiple proration or spacing units for the pool?

2 A. Yes, they are, and they are described in
3 our Exhibit No. 2.

4 Q. Let's turn to Exhibit No. 2. What
5 information have you shown on that exhibit?

6 A. In Exhibit No. 2, we have described all the
7 surrounding existing proration units that Meridian
8 has.

9 Q. When you look into Section 11, the
10 northeast offset to your proposed nonstandard unit,
11 that is not shaded and is currently outside the
12 boundaries of the pool?

13 A. Yes.

14 Q. Identify for us what color codes indicate
15 acreage that's not currently committed to a spacing
16 unit?

17 A. Could you ask me that again? I'm sorry.

18 Q. Yes, sir. Right now as of today --

19 A. I'm sorry, okay.

20 Q. What acreage in what color code is not
21 currently dedicated to any pool production?

22 A. The purple, which is Doyle Hartman's
23 acreage, and the red that is Meridian's acreage are
24 currently not committed or are not existing proration
25 units.

1 Q. What would be a standard size and shape for
2 a spacing unit in this pool?

3 A. It would be a 160-acre tract essentially in
4 the shape of a square.

5 Q. Have you contacted Mr. Hartman to determine
6 whether or not you could form a spacing unit on a
7 voluntary basis with his acreage?

8 A. Yes, we have.

9 Q. And with what result?

10 A. He rejected. Meridian made a proposal to
11 Doyle Hartman's company to either participate as a
12 partner in the well or farm out his acreage to
13 Meridian, and in both cases he rejected.

14 Q. And that would have been to form a standard
15 northeast quarter spacing unit in Section 15?

16 A. Correct. That would have formed a standard
17 160-square unit.

18 Q. If that had been accomplished, what acreage
19 configuration would have still been left uncommitted
20 to a producing well in the pool?

21 A. It would have left a nonstandard 160-acre,,
22 basically an L-shaped acreage position left.

23 Q. Let's turn now, sir, to Exhibit No. 3.
24 Would you identify that for us?

25 A. Exhibit No. 3 is a list of the offset

1 operators to our proposed nonstandard unit. And that
2 consists of Doyle Hartman and United Gas Search.

3 Q. Identify for us and describe Exhibit No. 4,
4 Mr. O'Donnell.

5 A. No. 4 is, originally we had proposed a
6 120-acre nonstandard proration unit, and this is a
7 response from Doyle Hartman when we notified his
8 company as an offset operator, waiving any objection
9 to that 120-acre nonstandard proration unit.

10 Q. What then is the next correspondence in
11 sequence between you and Mr. Hartman?

12 A. Okay. Exhibit No. 5 is a copy of -- it's
13 actually two letters. It's a response from Doyle
14 Hartman to our proposal to have him participate in the
15 well and/or farm out to us. A copy of our proposal is
16 attached and his response. He basically rejects both
17 proposals in that letter.

18 Q. This was part of your effort then to form
19 on some basis an agreement as to commitment of acreage
20 or participation in a standard spacing unit?

21 A. That is correct.

22 Q. And you were unable to accomplish that?

23 A. Correct. His response was that he did not
24 want to farm out. He did not want to participate.
25 And he also mentions in that letter that he feels it

1 will be an oil well, and therefore he has a right to
2 drill it.

3 Q. Okay. Finally, turn to Exhibit No. 6 then
4 and identify and describe Exhibit 6.

5 A. Exhibit No. 6 is a response from Meridian
6 Oil to Doyle Hartman in reference to his claims of
7 that acreage being oil productive, and therefore he
8 having the right to drill an oil well.

9 Q. All right, sir. When we look at the
10 operators around your proposed nonstandard unit, the
11 only other operator is what company?

12 A. The only operators surrounding our proposed
13 nonstandard, is that what you're asking?

14 Q. Yes. Other than Meridian and Hartman,
15 who's left?

16 A. United Gas Search.

17 Q. Have you had any objection from that
18 company to the formation of your proposed nonstandard
19 unit?

20 A. No, we have not. We have notified them of
21 everything we have done and have not heard of any
22 objection.

23 Q. Are they the operator of the tract that
24 constitutes the southwest quarter of Section 11, which
25 is your northeast diagonal offset?

1 A. To our understanding, yes, they are.

2 Q. Identify and describe for us Exhibit No. 7,
3 Mr. O'Donnell.

4 A. Exhibit No. 7 is a letter to Mr. Stogner
5 from Meridian Oil in response to Doyle Hartman's
6 claims of his oil rights and proposal to drill an oil
7 well on the 160-acre tract.

8 Q. Had this particular acreage in some
9 configuration been pursued with the Oil Conservation
10 Division in Santa Fe as an administrative application
11 in an effort to form a spacing unit for this well?

12 A. Yes. We originally proposed a 120-acre
13 proration unit. Then we pursued the 160-acre
14 proration unit, which would form essentially a square
15 unit. And now we are proposing the defined, the
16 outlined unit here, which is a nonstandard proration
17 unit.

18 Any way you form the two, basically you're
19 surrounded by proration units around you, and you
20 cannot form two square legal proration units with the
21 way we're bounded.

22 Q. If the northeast quarter of 15 were formed
23 by using compulsory pooling procedures or some other
24 means into a standard unit, that still leaves you that
25 L-shaped configuration for the remaining spacing unit,

1 which would be nonstandard?

2 A. Correct.

3 Q. And by the approval of this application,
4 then, you at least leave the next nonstandard
5 proration unit in the shape of a square?

6 A. Essentially in the shape of a square,
7 correct.

8 Q. Although it will be portions of two
9 sections?

10 A. Correct.

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

13 A. Yes, they were.

14 Q. Is the correspondence that you have
15 introduced correspondence that has been either sent or
16 received by Meridian in the course of its ordinary
17 conduct of its business on this topic?

18 A. Yes.

19 MR. KELLAHIN: Mr. Examiner, Exhibit No. 8
20 is our Certificate of Mailing of notification of
21 hearing to Mr. Hartman and to the other offset
22 operator.

23 At this point we would move the
24 introduction of Meridian's Exhibits 1 through 8. And
25 that concludes my direct examination of Mr. O'Donnell.

1 EXAMINER STOGNER: Exhibits 1 through 8
2 will be admitted into evidence at this time

3 EXAMINATION

4 BY MR. STOVALL:

5 Q. Mr. O'Donnell, I've got just a couple of
6 questions. It appears to me, am I interpreting your
7 map correctly, by proceeding as you have requested
8 here, you'll form one -- two essentially nonstandard
9 proration units, one that's a square in two sections
10 and the other one is an L shape in two sections?

11 A. We're requesting one nonstandard proration
12 unit to be formed and the other one will --

13 Q. That's up to Mr. Hartman to actually make
14 that proration unit; right?

15 A. Correct. What we are attempting to do is
16 include a full 160 acres to our proration unit.

17 Q. If it is done this way, and assuming Mr.
18 Hartman does something about drilling a well on the
19 other 160 -- this is really what I was trying to get
20 to, it appears that each proration unit would be
21 wholly owned by the operator; is that correct?

22 A. Correct.

23 Q. Or wholly under the control of?

24 A. Correct. And I might add, I have the
25 waiver in here when we proposed the 120-acre proration

1 unit, Doyle Hartman waived his objection. I've talked
2 with his office this past week and talked to Sheila
3 Potts who is a representative of his office, and she
4 talked to Doyle Hartman, and he verbally told us that
5 he would have no objection to this 160.

6 Q. Are you of the opinion that if each of you
7 operates a tract which is wholly under your control,
8 it can lead to more efficient operations than if you
9 have to operate tracts which are jointly owned between
10 you?

11 A. Definitely.

12 MR. STOVALL: Okay. That's all I have.

13 EXAMINATION

14 BY MR. STOGNER:

15 Q. Thank you, Mr. Stovall. Just a matter of
16 record to, make it clear and concise, I'm referring to
17 Exhibit No. 4, in about five of six pages through,
18 there are two plats, one being an OCD Form C-102, and
19 the other one being, it looks like a scaled-down
20 version of your large Exhibit No. 1 showing the lease
21 boundary for Meridian's -- is this the Gregory?

22 A. This is the Gregory "B" 2, correct.

23 Q. The Gregory "B" 2. And it's a
24 horseshoe-type lease; is that correct?

25 A. Correct.

1 Q. And when I look at that lease boundary,
2 that's all one common ownership?

3 A. Correct.

4 Q. And at this time when I look at the western
5 side of that particular lease, there are two
6 nonstandard proration units, I believe, which was
7 mentioned in your Exhibit No. 2, being the little
8 40-acre tract in Section 10?

9 A. Correct.

10 Q. And then the other L-shaped nonstandard
11 proration unit?

12 A. Section 15, correct.

13 Q. So this one, in essence, forms a 160-acre
14 nonstandard proration unit with the remainder of your
15 lease?

16 A. Correct, and will have the same owners
17 throughout.

18 Q. Now as far as the Rhodes Yates-Seven Rivers
19 Gas Pool, is your understanding, is this a prorated or
20 nonprorated pool?

21 A. This is an unprorated pool.

22 Q. Are there any special pool rules that apply
23 to this pool?

24 A. I believe they are just -- the Rhodes Gas
25 Pool is under the common standard rules for the State

1 of New Mexico. I'm trying to think. I'm not aware of
2 any special rules that I can think of.

3 Q. And it being unprorated, is it your
4 understanding that that falls under the OCD policies
5 and guidelines laid out by a couple of memoranda, and
6 I can't remember the date of those, allowing only one
7 well per proration unit?

8 A. Correct.

9 Q. Unless extenuating circumstances and after
10 notice and hearing which would allow for another well
11 to be infill drilled?

12 A. Correct.

13 EXAMINER STOGNER: Anything else, Mr.
14 Stovall?

15 MR. STOVALL: Not from me.

16 EXAMINER STOGNER: Mr. Kellahin, do you
17 have anything further?

18 MR. KELLAHIN: No, sir.

19 EXAMINER STOGNER: Does anybody else have
20 any other questions of this witness?

21 Mr. O'Donnell you may be excused.

22 Anything further in case 10683? If not,
23 this case will be taken under advisement.

24 I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 10683.
25 heard by me on 18 May 1993.

1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)

4) ss.

5 COUNTY OF SANTA FE)

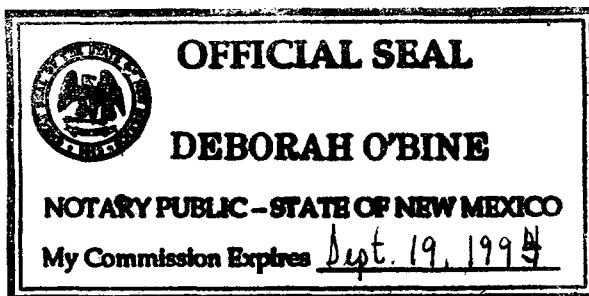
6 I, Deborah O'Bine, Certified Shorthand
7 Reporter and Notary Public, HEREBY CERTIFY that I
8 caused my notes to be transcribed under my personal
9 supervision, and that the foregoing transcript is a
10 true and accurate record of the proceedings of said
11 hearing.

12 I FURTHER CERTIFY that I am not a relative
13 or employee of any of the parties or attorneys
14 involved in this matter and that I have no personal
15 interest in the final disposition of this matter.

16 WITNESS MY HAND AND SEAL, March 30, 1993.

17 *Deborah O'Bine*
18 _____

19 DEBORAH O'BINE
20 CCR No. 63



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