

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. 10740

APPLICATION OF ENRON OIL AND GAS COMPANY

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: David R. Catanach, Hearing Examiner

June 17, 1993

Santa Fe, New Mexico

This matter came on for hearing before the
Oil Conservation Division on June 17, 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.

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I N D E X

June 17, 1993
Examiner Hearing
CASE NO. 10740

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A P P E A R A N C E S

FOR THE DIVISION: ROBERT G. STOVALL, ESQ.
General Counsel
Oil Conservation Commission
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Santa Fe, New Mexico 87501

FOR THE APPLICANT: CAMPBELL, CARR, BERGE &
SHERIDAN, P.A.
P.O. Box 2208
Santa Fe, New Mexico 87504
BY: WILLIAM F. CARR, ESQ.

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1 EXAMINER CATANACH: At this time we'll call
2 Case 10740.

3 MR. STOVALL: This is the application of
4 Enron Oil and Gas Company for compulsory pooling, Lea
5 County, New Mexico.

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

8 MR. CARR: May it please the Examiner, my
9 name is William F. Carr with the Santa Fe law firm of
10 Campbell, Carr, Berge & Sheridan. I represent Enron
11 Oil and Gas Company, and I have two witnesses.

12 EXAMINER CATANACH: Any other appearances?
13 Will the witnesses please stand to be sworn
14 in?

15 (Witnesses sworn.)

16 PATRICK J. TOWER,
17 the witness herein, after having been first duly sworn
18 upon his oath, was examined and testified as follows:

19 EXAMINATION

20 BY MR. CARR:

21 Q. Will you state your full name and place of
22 residence?

23 A. My name is Patrick J. Tower. I reside in
24 Midland, Texas.

25 Q. By whom are you employed?

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1 A. Enron Oil and Gas Company.

2 Q. And in what capacity?

3 A. As a project landman.

4 Q. Mr. Tower, have you previously testified
5 before this Division and had your credentials as a
6 landman accepted and made a matter of record?

7 A. Yes.

8 Q. Are you familiar with the application filed
9 in this case?

10 A. Yes, I am.

11 Q. Are you familiar with the status of the
12 lands in the subject area?

13 A. Yes, I am.

14 MR. CARR: Are the witness's qualifications
15 acceptable?

16 EXAMINER CATANACH: They are.

17 Q. (BY MR. CARR) Would you briefly state what
18 Enron seeks in this case?

19 A. Enron seeks an order pooling all mineral
20 interests from the surface to the base of the Delaware
21 formation underlying the southwest quarter of the
22 southwest quarter of Section 31, Township 22 South,
23 Range 32 East, in Lea County, New Mexico.

24 Q. Have you prepared certain exhibits for
25 presentation in this case?

1 A. Yes, I have.

2 Q. Let's go to what has been marked as Enron
3 Exhibit No. 1, and I'd ask you first to identify this
4 for the Examiner and then review it.

5 A. Exhibit No. 1 is a land map identifying the
6 spacing unit involved, the proposed location, and, in
7 yellow, the acreage to be force pooled.

8 Q. Does this exhibit also show the ownership
9 of the offsetting acreage?

10 A. Yes, it does.

11 Q. What is the primary objective in the
12 proposed well?

13 A. Delaware.

14 Q. Let's go to Exhibit No. 2. Could you
15 identify that, please.

16 A. Exhibit No. 2 is an ownership breakdown of
17 the spacing unit involved, in essence, identifying
18 Enron Oil and Gas Company controlling 50 percent
19 primarily through a joint venture agreement with Santa
20 Fe Energy Company, Santa Fe Operating Partners, L.P.,
21 with Mitchell Energy Corporation owning the remaining
22 50 percent.

23 Q. And what is the letter attached to this
24 exhibit?

25 A. The letter attached, currently record title

1 remains in Santa Fe Energy Operating Partners, L.P.
2 The letter attached is from Santa Fe Energy Operating
3 Partners, L.P., designating Enron as the operator and
4 confirming the contract involved concerning this
5 forced pooling.

6 Q. The Enron Santa Fe Energy 50 percent
7 working interest has been voluntarily committed to the
8 well; is that correct?

9 A. Yes, it has.

10 Q. And the Mitchell Energy Corporation
11 interest has not been?

12 A. That's correct.

13 MR. STOVALL: Mr. Carr, prior to the
14 hearing we had some discussion regarding this case,
15 and it was indicated by Mr. Bruce on behalf of
16 Mitchell that disputes had been resolved and this was
17 uncontested.

18 MR. CARR: That's right.

19 MR. STOVALL: Is this correct now, that
20 they've just simply said they're not going to oppose
21 the forced pooling but they have not joined the well?

22 MR. CARR: That is correct.

23 MR. STOVALL: Do you know if Mr. Bruce had
24 planned on entering an appearance in this case?

25 MR. CARR: I was advised yesterday

1 afternoon that Mr. Bruce would not enter an appearance
2 in the case because of an agreement that was reached
3 early this week between Enron and Mitchell Energy.

4 THE WITNESS: Not an agreement for
5 voluntary joinder in the well, however, an agreement
6 not to oppose the hearing.

7 MR. STOVALL: A consent to be force
8 pooled?

9 THE WITNESS: In essence, yes.

10 MR. STOVALL: I guess based on that would
11 make the testimony regarding discussions much
12 simpler. I don't think it probably requires as much
13 of a record on that.

14 MR. CARR: We hope that's right based on
15 what we've prepared.

16 Q. Mr. Tower, in that regard, would you
17 summarize the efforts made to obtain the voluntary
18 joinder of the Mitchell interest in this proposed
19 well?

20 A. Yes. And I attached as one of the exhibits
21 --

22 Q. It's Exhibit No. 3.

23 A. Exhibit No. 3 is a breakdown of the various
24 conversations between myself and representatives with
25 Mitchell Energy Corporation. To save time, without

1 going through them, it summarizes our negotiations up
2 through June 15. There were various arrangements we
3 tried to work out as far as voluntary joinder,
4 farmouts, other arrangements, and those were not
5 obtained.

6 Q. Now, has Enron drilled other Delaware wells
7 in the area?

8 A. Yes, we have.

9 Q. Could you identify what has been marked as
10 Exhibit No. 4?

11 A. Exhibit No. 4 represents the original
12 proposal letter to drill this well from Enron to
13 Mitchell Energy dated April 28, 1993, a copy of the
14 certified return receipt accompanying said letter, and
15 Mitchell Energy's response letter dated June 11, 1993,
16 to the well proposal.

17 Q. Is an AFE also attached?

18 A. An AFE is attached.

19 Q. Could you review the totals on this AFE for
20 the examiner?

21 A. This is a total depth well of 8450 feet.
22 The dry hole cost, total dry hole cost is estimated to
23 be \$266,300. The completed well cost is estimated to
24 be \$528,000.

25 Q. Are these costs in line with what's being

1 charged for other Delaware wells in the area?

2 A. Yes, they are.

3 Q. Would you identify what has been marked as
4 Enron Exhibit No. 5?

5 A. Enron Exhibit No. 5 represents the notices
6 provided Mitchell at two of the various office
7 locations of the notice of forced pooling with the
8 attached return receipts.

9 Q. Do these letters also provide the date of
10 today's hearing?

11 A. Yes, they do.

12 Q. And is an affidavit from Campbell, Carr,
13 Berge & Sheridan attached confirming that these
14 notices were mailed in compliance with OCD rules?

15 A. This is correct.

16 Q. Have you made an estimate of the overhead
17 and administrative costs to be charged while drilling
18 and also if the well is successful while producing
19 this well?

20 A. Yes, I have.

21 Q. What are those?

22 A. A drilling well rate of \$4,700 with a
23 producing well rate of \$500.

24 Q. Are these costs in line with what's being
25 charged by other operators in the area?

1 A. Yes, they are.

2 Q. And Mitchell is aware of these overhead and
3 administrative charges?

4 A. Yes, they are.

5 Q. Do you recommend that these figures be
6 incorporated into any order which results from today's
7 hearing?

8 A. Yes, we do recommend they be incorporated
9 into this order.

10 Q. Does Enron seek to be designated operator
11 of the proposed well?

12 A. Yes.

13 Q. In your opinion, will approval of this
14 application and the drilling of this well be in the
15 best interest of conservation, the prevention of
16 waste, and the protection of correlative rights?

17 A. Yes.

18 Q. Were Exhibits 1 through 5 either prepared
19 by you or compiled under your direction and
20 supervision?

21 A. Yes, they were.

22 MR. CARR: At this time, Mr. Catanach, I
23 move the admission of Enron Exhibits 1 through 5.

24 EXAMINER CATANACH: Exhibits 1 through 5
25 will be admitted as evidence.

1 MR. CARR: And that concludes my
2 examination of Mr. Tower.

3 EXAMINATION

4 BY EXAMINER CATANACH:

5 Q. Mr. Tower, the Enron-Santa Fe interest,
6 that's totally consolidated? That's not subject to
7 any pooling, the Santa Fe interest?

8 A. No, it's not.

9 Q. So we're just talking about Mitchell?

10 A. Yes, sir.

11 Q. Has Enron drilled Delaware wells lately in
12 this area?

13 A. Yes, we have, I would say probably eight to
14 ten Delaware wells. Most of these have been in the
15 township to the southwest. We have various wells
16 we're operating at Poker Lake Field that we have
17 drilled within the last year. We also have several,
18 we've just finished one about six miles to the west in
19 the James Ranch Unit, among some others. So we have
20 drilled several.

21 Q. So you should have a good handle on the
22 well costs?

23 A. Yes, sir.

24 Q. Have you staked the location yet?

25 A. Yes.

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1 Q. Do you know what that is?

2 A. Oh, I'm sorry. Its legal location, 660
3 feet from the south and from the west line, Section
4 31.

5 Q. Has that location been approved by -- is
6 that the federal acreage?

7 A. Federal. Not at this point. The APD has
8 been filed, and due to their current backlog, we are
9 awaiting the permit. We anticipate no problems. It
10 has been cleared surfacewise as far as surface
11 inspection.

12 Q. Mr. Tower, do you know how your proposed
13 overhead rates compare to those published in Ernst &
14 Young?

15 A. In essence they came from Ernst & Young
16 with a slight escalation. Mitchell's rates run
17 slightly higher, and we had discussions concerning
18 this. Also in checking our various rights, we are
19 involved in the Devon development just to the
20 southwest, own wells with them. Also with Pogo and
21 our own wells, and also Santa Fe Energy, involved with
22 their Delaware wells, and have compared those. These
23 run actually lower than what we are being charged on
24 most of these other properties over here under OJOA's.

25 Q. Are they substantially greater than those

1 published?

2 A. Some of those, they were drilled under old
3 deep wells, and they've been escalated from the early
4 '80's; so it's not a fair comparison, I don't
5 believe. However, I know on some wells it's as high
6 as \$700 versus our \$500 producing well rate.

7 Q. Relative to the published figures, are they
8 substantially higher?

9 A. No, no. These are right in line, just
10 slightly escalated, very minimally.

11 EXAMINER CATANACH: I have nothing
12 further. The witness may be excused.

13 MR. CARR: At this time we call Bruce
14 Insalaco.

15 BRUCE INSALACO,
16 the witness herein, after having been first duly sworn
17 upon his oath, was examined and testified as follows:

18 EXAMINATION

19 BY MR. CARR:

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

22 A. It's Bruce Insalaco.

23 Q. Where do you reside?

24 A. Midland, Texas.

25 Q. By whom are you employed?

1 A. Enron Oil and Gas.

2 Q. And in what capacity?

3 A. As a project geologist.

4 Q. Have you previously testified before the
5 Division?

6 A. Yes, I have.

7 Q. At the time of that testimony, were your
8 credentials as a petroleum geologist accepted and made
9 a matter of record?

10 A. Yes, they were.

11 Q. Are you familiar with the portion of the
12 Delaware formation that is the subject of this
13 hearing?

14 A. Yes, I am.

15 Q. And have you made a geological study of the
16 area which is involved in this case?

17 A. Yes, I have.

18 MR. CARR: Are the witness's qualifications
19 acceptable?

20 EXAMINER CATANACH: They are.

21 Q. (BY MR. CARR) Have you prepared certain
22 exhibits for presentation today?

23 A. Yes, I have.

24 Q. Would you refer to what has been marked as
25 Enron Exhibit No. 6, identify this and review it for

1 Mr. Catanach?

2 A. Yes. Exhibit No. 6 is a production map of
3 the area. You can see on the map the proposed
4 location that's been identified in the 40-acre
5 proration unit around that proposed location.

6 The three colors represent the different
7 producing horizons as coded down in the legend. The
8 Delaware is an orange, Bone Spring production is a
9 green, and red is the Morrow production. And, again,
10 our test is 8450-foot Delaware test.

11 And starting up in the upper left hand
12 portion of the plat, you can get a feeling for the
13 type of production from the Delaware established in
14 the Livingston Ridge field. The northwest northwest
15 of Section 26, the No. 4 well came on in December
16 '91. It's produced 15,000 barrels, down to 28
17 barrels a day and 122 barrels of water. The No. 6
18 well, the south offset to that, came on in April of
19 '92. It's made 10,000 barrels. It's down to 22
20 barrels of oil a day.

21 And as you move across towards the east,
22 you get a feel for the production out there. The No.
23 7 well has made 11,000 barrels. The No. 2 well has
24 made 18,000 barrels. Then moving over into Section
25 25, the southwest of the northwest quarter, the No. 2

1 well there came on in January '92 and has made 14,000
2 barrels, making 56 barrels a day. The No. 1 in the
3 northeast of the northwest has made 19,000 barrels,
4 down to 23 barrels of oil a day.

5 And then as you move closer to the proposed
6 location, we have a test in Section 35. It's a Yates
7 Petroleum well that potentialled Delaware in April of
8 '91 and did not even cum 1,000 barrels of oil before
9 they plugged and abandoned the Delaware.

10 Then the well in 36, there is no Delaware
11 production there. Moving over towards the east in
12 Section 32, in Township 22 South, 32 East, Yates has
13 recently drilled a well there, the No. 2. It's
14 potentialled in October for 38 barrels a day and 178
15 barrels of water.

16 And finally the Delaware test down in
17 Section 18 of 23 South, 32 East, is a recently
18 recompleted well that Texaco operated in November of
19 '92. It IP'd at 70 barrels a day and 70 barrels of
20 water.

21 Q. Mr. Insalaco, let's move now to Exhibit No.
22 7, your cross-section. I'd ask you to review that for
23 the Examiner.

24 A. The cross-section is identified on the
25 production map. It runs northwest to southeast

1 through the area of interest.

2 EXAMINER CATANACH: Hang on a second, would
3 you?

4 THE WITNESS: Yes. It's a big
5 cross-section.

6 EXAMINER CATANACH: Yes.

7 THE WITNESS: I included the entire
8 Delaware section on it. There's approximately 4,000
9 feet of Delaware, and divided the Delaware into the
10 three familiar formations: Bell Canyon, Cherry Canyon
11 and Brushy Canyon. And this is a stratigraphic
12 cross-section hung on top of the Delaware as the
13 datum.

14 And then starting on the left-hand side
15 with the Pogo Producing Federal 26 No. 4, which is up
16 in the Livingston Ridge Field, you can see that the
17 perforated interval is down in the lower Brushy
18 Canyon, and that well came on for 157 barrels a day.

19 Moving across to the next well is another
20 Pogo producing well. And this well has the zone up at
21 6500 foot in the Cherry Canyon that is open, and
22 that's the producing interval. And then moving across
23 to the Yates Ross AIT Federal No. 1, that well again
24 was perforated down in the lower Brushy Canyon, and
25 the well produced less than two months before it was

1 plugged and abandoned.

2 And then moving over to the Union of
3 California well in Section 36, this is a Bone Spring
4 well. It tested a little bit in the Morrow. They had
5 come up and perforated the lower Brushy Canyon. And
6 as I've annotated at the bottom of the cross-section,
7 they swabbed a barrel of oil and 14 barrels of water
8 in one hour. They swabbed dry and then squeezed those
9 perfs.

10 Then moving over to the JFG Enterprises,
11 formerly Santa Fe Energy Platinum 6 Federal No. 1,
12 south about a mile offset to the proposed location,
13 they have the same lower Brushy Canyon sands developed
14 but they have never been tested.

15 And then the last well on the cross-section
16 at the right is a Texaco. Recently they reentered
17 that well and again recompleted it in November for 70
18 barrels a day in the lower Brushy Canyon.

19 And the purpose of this cross-section again
20 was, where we're focusing is at the lower Brushy
21 Canyon interval, but there are some wells in the
22 Livingston Ridge Field that are also producing out of
23 the Cherry Canyon as the second well on the
24 cross-section indicates.

25 Q. (BY MR. CARR) Mr. Insalaco, let's now go

1 to Exhibit No. 8, your structure map, and if you could
2 now review this for Mr. Catanach.

3 A. This is a structure map on top of the lower
4 Brushy Canyon marker, approximately 260 feet above the
5 top of the Bone Spring. The wells highlighted with
6 the orange color are wells producing out of the lower
7 Brushy Canyon. The other wells, again, that are
8 highlighted with just open circles are Delaware
9 producers, but they are not lower Brushy Canyon-
10 Delaware producers. They're Cherry Canyon intervals.

11 What you see is the structure map contoured
12 on 2,500-foot interval, that our proposed location is
13 approximately 100, 150 foot downdip to the Livingston
14 Ridge development. We are approximately 70, 60 feet
15 downdip from the Yates well in Section 35 where they
16 plugged it after less than two months of production.
17 And we're structurally in a similar position to the
18 recently recompleted Texaco well down to the south.

19 Q. Let's go to Exhibit No. 9. Would you
20 identify that and review it?

21 A. Exhibit No. 9, again, because we're
22 focusing in on the lower Brushy, this is a net
23 porosity isopach of the lower Brushy Canyon. The two
24 values next to the wells are, first of all, porosity
25 -- excuse me -- porosity that is greater than or

1 equal to 12 percent in the lower Brushy interval, and
2 that's what the map is isopached upon. And then the
3 other value below the slash is the gross lower Brushy
4 interval from the lower Brushy marker to the top of
5 the Bone Spring.

6 And what you can see here is, again, I've
7 highlighted the lower Brushy Canyon producers. If you
8 look up to the north in the Livingston Ridge, you're
9 looking at approximately 79, 136, 126 feet of net sand
10 or net porosity development in the sands. As you move
11 down to the well in Section 35, that Yates tested had
12 52 net feet.

13 The Unocal well where they perforated and
14 abandoned the zone in Section 36 has 64 feet. The
15 Texaco well down to the south is 51 feet, and the
16 recent Yates completion over in Section 32 is 62 feet,
17 and we're estimating that we should have approximately
18 60 to 70 feet of net porosity development.

19 Q. Mr. Insalaco, would you now refer to Enron
20 Exhibit No. 10, and using this exhibit, summarize the
21 conclusions that you have reached concerning the risks
22 associated with the proposed well?

23 A. Just going down that AFE, dry hole cost of
24 \$266,000 as Pat has recently stated, complete well
25 cost of \$528,000. We think that there is quite a bit

1 of risk in the prospect. The nearest commercial
2 Delaware production is approximately two miles to the
3 northwest in the Livingston Ridge field.

4 We have noncommercial Delaware production
5 in Section 35 from the Yates completion. We have
6 another well in Section 36 which is a little bit
7 closer than that that they perforated and abandoned
8 the horizon. We feel that in drilling Delaware wells
9 that we'll have to set pipe and fracture stimulate the
10 formation to get an effective test on what the
11 Delaware can do. And as you can see from the
12 production plat, there are a number of Delaware
13 producers out here that we judge to be noncommercial.

14 Q. Are you prepared to make a recommendation
15 to the examiner as to the risk penalty that should be
16 assessed against Mitchell as a nonconsenting interest
17 owner in the well?

18 A. Yes. And I would recommend the maximum
19 risk penalty of 200 percent.

20 Q. Were Exhibits 6 through 10 prepared by you,
21 or have you reviewed them and can you testify as to
22 their accuracy?

23 A. Yes, they have been prepared by me.

24 MR. CARR: At this time, Mr. Catanach, we
25 would move the admission of Enron Exhibits 6 through

1 10.

2 EXAMINER CATANACH: Exhibits 6 through 10
3 will be admitted as evidence.

4 MR. CARR: That concludes my direct
5 examination of Mr. Insalaco.

6 EXAMINER CATANACH: I have no questions of
7 the witness. He may be excused.

8 MR. CARR: We have nothing further in this
9 case.

10 EXAMINER CATANACH: There being nothing
11 further, Case 10740 will be taken under advisement.

12 THE WITNESS: Thank you.
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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)

) ss.

COUNTY OF SANTA FE)

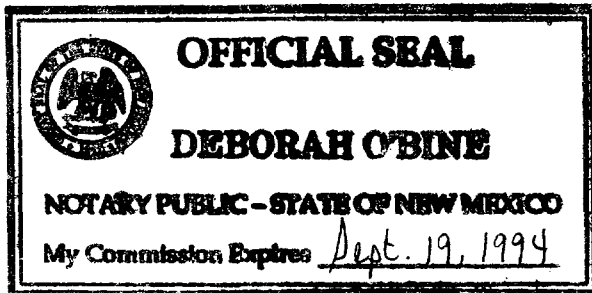
I, Deborah O'Bine, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that I caused my notes to be transcribed under my personal supervision, and that the foregoing transcript is a true and accurate record of the proceedings of said hearing.

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, June 29, 1993.

Deborah O'Bine

DEBORAH O'BINE
CCR No. 63



I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 10740, heard by me on June 17, 1993.

David M. [Signature], Examiner
Oil Conservation Division

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