

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. 10827

APPLICATION OF ENRON OIL & GAS COMPANY

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: Michael E. Stogner, Hearing Examiner

September 27, 1993

Santa Fe, New Mexico

This matter came on for hearing before the
Oil Conservation Division on September 27, 1993, at
Morgan Hall, 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

15 1993

OIL CONSERVATION DIVISION

CUMBRE COURT REPORTING

P.O. BOX 9262

SANTA FE, NEW MEXICO 87504-9262

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 Examiner Hearing
 CASE NO. 10827

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A P P E A R A N C E S

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20 BY: W. THOMAS KELLAHIN, ESQ.
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BY: ERNEST L. CARROLL, ESQ.

1 EXAMINER STOGNER: This hearing will come
2 to order for continuation of Docket No. 28-93. Let's
3 mark today's date, Monday, September 27, 1993.

4 At this time I'll call Case No. 10827.

5 MR. STOVALL: It's the application of Enron
6 Oil & Gas Company for compulsory pooling and an
7 unorthodox gas well location, Eddy County, New Mexico.

8 EXAMINER STOGNER: Call for appearances.

9 MR. PADILLA: Mr. Examiner, Ernest L.
10 Padilla for the applicant, Enron Oil & Gas Company. I
11 have three witnesses to be sworn.

12 EXAMINER STOGNER: Other appearances?

13 MR. KELLAHIN: Mr. Examiner, I'm Tom
14 Kellahin of the Santa Fe law firm of Kellahin and
15 Kellahin appearing on behalf of Meridian Oil Inc. in
16 support of the applicant.

17 MR. CARROLL: Mr. Examiner, I'm Ernest
18 Carroll of the Artesia law firm of Losee, Carson, Haas
19 & Carroll, and I am appearing today on behalf of Arco
20 who originally filed a notice that they would be
21 opposing the application. I have no witnesses, but I
22 would like to inform the examiner that Mr. Padilla and
23 I will have a stipulation to enter of record with
24 respect to this case.

25 MR. STOVALL: I knew there was a reason to

1 continue this case.

2 EXAMINER STOGNER: Thank you, Mr. Carroll.

3 With that, Mr. Padilla, you may continue.

4 Oh, I'm sorry. Will the witnesses please stand to be
5 sworn?

6 (Witnesses sworn.)

7 MR. PADILLA: Mr. Examiner, I'll call
8 Patrick Tower at this time.

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

12 EXAMINATION

13 BY MR. PADILLA:

14 Q. Mr. Tower, would you please state your
15 name.

16 A. My name is Patrick J. Tower.

17 Q. Mr. Tower, have you previously testified
18 before the Oil Conservation Division as a petroleum
19 landman and had your credentials accepted as a matter
20 of record?

21 A. Yes, I have.

22 Q. Mr. Tower, are you familiar with the land
23 matters involved in this case for the compulsory
24 pooling portion of this case, as well as for the
25 unorthodox location?

1 MR. PADILLA: Mr. Padilla, bigger room,
2 please speak up.

3 MR. PADILLA: Okay.

4 THE WITNESS: Yes, I am.

5 MR. PADILLA: We tender Mr. Tower as an
6 expert petroleum landman.

7 EXAMINER STOGNER: Any objections? Mr.
8 Tower is so qualified.

9 Q. (BY MR. PADILLA) Mr. Tower, let's turn to
10 Exhibit No. 1 and have you identify that, please.

11 A. Exhibit No. 1 is a land plat depicting,
12 first of all, the location involved in the southeast
13 quarter of Section 35, Township 17 South, Range 30
14 East. It also depicts, in yellow, Enron's acreage
15 position within the area. Also the outline of the
16 proration unit to be assigned to this test, which is
17 the south half of Section 35 with the actual footage
18 location of this well, which is entitled the Cedar
19 Lake "35" Fed Com #2, being 990 feet from the south
20 line and 990 feet from the east line of said Section
21 35.

22 Q. Mr. Tower, let's start with the compulsory
23 pooling portion of this case, and, first of all,
24 before you do that, I'd like for you to briefly tell
25 the examiner about the compulsory pooling portion of

1 the application and the unorthodox location portion.
2 I realize that we're going to go into these more
3 extensively, but just simply briefly identify the
4 issues with respect to each of those two aspects of
5 the application.

6 A. Okay. If you will notice, and we will have
7 some further exhibits, however, in the south half of
8 Section 35, Enron and its partner represent 75 percent
9 of the involved proration unit and have voluntarily
10 agreed to this location and joinder in the well.

11 The remaining 80 acres, being the south
12 half of the southeast quarter, are owned by several
13 other parties who are subject to the -- being the
14 parties being force-pooled, and we'll itemize those in
15 a minute.

16 Q. Go ahead.

17 A. Insofar as the other issue, the unorthodox
18 location, these same parties are in agreement to this
19 location, as well as several of the offset owners,
20 with the exception that Arco Oil & Gas Company, being
21 an east offset owner, owning the tract, being the
22 north half of the southwest quarter of Section 36,
23 have protested this location. However, a stipulation
24 will indicate there has been some settlement.

25 Also, one other party to the southeast,

1 being Read & Stevens, in Section 1 have filed some
2 objections to this. However, they've also advised
3 they did not plan to show up to actually protest.

4 We have, again, individual exhibits where
5 we will get into both issues.

6 Q. Okay. Let's go on to have you identify
7 Exhibit 2, Exhibit 3, and Exhibit 3A.

8 A. Okay. Exhibit 2 is an itemization of
9 various correspondence between the parties being
10 force-pooled.

11 Exhibit 3 is a breakdown of the actual
12 ownership involved in the proration unit and the
13 parties being force-pooled.

14 Exhibit 3A is an AFE or cost estimate for
15 the estimated cost of drilling this proposed test.

16 Referring to Exhibit 2, and I believe these
17 are in chronological date order from the back, or,
18 excuse me, from the front, being the earliest date in
19 1991 to the last exhibit of August 6, 1993.

20 If I may, skip over to Exhibit 3. This
21 will identify the parties who we're naming to the --
22 or requesting the Commission to force pool. El Paso
23 Production Company owns 23.375 percent of the involved
24 spacing unit. They are operating under the name
25 Meridian Oil Inc.

1 The remaining 1.625 percent is owned by
2 Anadarko Production Company and/or Charles and Anne
3 Mitchell Keenan and Lee Roy Brigham and Doris Ann
4 Brigham, individually and as trustees under a
5 Declaration of Trust dated February 24, 1984, with
6 Keenans owning 1.25 percent and the Brighams owning
7 .375 percent of the 1.625 percent collective
8 interest.

9 Q. Mr. Tower, would you go into, explain to
10 the examiner why you have shown on Exhibit 3 both the
11 Brighams and the Keenans, and Anadarko Production
12 Company. In other words, go into a little bit about
13 the title problem.

14 A. Yes. Both parties -- Anadarko is the
15 record titleholder; however, this is a federal renewal
16 lease. And in 1991, Anadarko was in an attempt to
17 consolidate all the record title signatures to
18 facilitate the renewal process, which has taken some
19 time, acquired a record title assignment from the
20 Keenans and Brighams, who also owned operating rights.

21 In effect, it transferred the operating
22 rights with the record title back to Anadarko.
23 However, we have learned in discussion with both
24 Keenans, Brighams, and Anadarko, the intent was not to
25 transfer the operating rights back to Anadarko, and

1 thus the working interest percentage should remain
2 with these parties. However, the paperwork and the
3 title cloud remains.

4 A title opinion is being rendered now to
5 verify all of this. All three parties -- all four
6 parties, I will state are aware of this, have agreed
7 that they have no problem with being force-pooled.
8 They have indicated that they will likely join in this
9 well. However, there is no Joint Operating Agreement
10 in place, and they have agreed at such time as we can
11 reach that voluntary agreement, Enron in effect we
12 receive this force pooling order will dismiss it once
13 that is in place. However, at this point we do not
14 have such agreements.

15 Q. You have no such agreements for what
16 parties?

17 A. These are for El Paso Production Company,
18 Anadarko Production Company, Charles and Ann Mitchell
19 Keenan, and the Lee Roy Brigham and Doris Ann Brigham
20 as trustees for the particular trust.

21 Q. Is it my understanding from your testimony
22 that whoever obtains title ultimately is going to be
23 force-pooled or will sign the Joint Operating
24 Agreement with respect to the 1.625 percent interest?

25 A. This is correct.

1 Q. How about the El Paso Production Company
2 interest, though, where are you with respect to
3 obtaining a final voluntary joinder with them?

4 A. We, in essence, are in the same position.
5 They have advised that their inclination is to join
6 the well. However, they have agreed that the
7 voluntary Joint Operating Agreement and the AFE have
8 not been executed. They have recommended
9 participation, and they have agreed that they would
10 either go under the forced-pooling order or we will
11 enter into this voluntary agreement. And that
12 agreement is in process now.

13 Q. Go back to Exhibit 2, and go through it
14 essentially highlighting Exhibit No. 2 for the
15 examiner and identifying that correspondence as to
16 which verifies what you've just testified to.

17 A. Okay. To start with, the initial
18 correspondence took place in 1991. At that particular
19 time, there was a clear title into the Keenans and
20 Brighams and not Anadarko. We were dealing with them,
21 putting this prospect together in conjunction with
22 another well next door, told them we would like to
23 negotiate on this acreage. And the initial contact
24 letter and offer was in March of '91 to Keenans.

25 Also, as you can see down, there's several

1 notes of conversations with Keenans, Brighams,
2 additional letters in 1991 to the Brigham family on
3 the same terms, also to Meridian Oil, and various
4 correspondence in response to that.

5 Also there were numerous conversations in
6 addition to this correspondence with the Brighams and
7 Keenans where they indicated at such time as you are
8 ready to drill a well involving this tract, they will
9 likely join and come back and discuss this with us at
10 that time.

11 Q. Are you agreeable to that?

12 A. Yes.

13 Q. Considering the fact if that should occur,
14 you're going to be working in a Joint Operating
15 Agreement?

16 A. That is correct. We have sent them a well
17 proposal and AFE, and in fact of this group, the
18 Brighams have just faxed back a signed copy of the AFE
19 Friday. The others, I believe Keenans have been out
20 of town. They have indicated a willingness to join
21 in, go under the forced-pooling order or under the
22 Joint Operating Agreement once it can be executed.

23 EXAMINER STOGNER: I'm sorry, what?

24 THE WITNESS: The Keenans have agreed to
25 either go under the forced-pooling order or under a

1 voluntary joint operating agreement if we can arrive
2 at it, in which case the pooling would be dismissed,
3 as mentioned.

4 Continuing, Meridian, the additional
5 correspondence, shows in '91 our negotiations with
6 Meridian. Additional conversations are noted on the
7 various letters. In effect, the same as the Keenans,
8 Brighams, Meridian indicated at such time as you drill
9 a well --

10 MR. PADILLA: Mr. Tower, I'm going to have
11 to ask you to slow down and be a little more clear.
12 I'm having a little trouble, and I bet the court
13 reporter is having a challenge with it. Thanks.

14 THE WITNESS: Okay. Discussing Meridian's
15 forced-pooling interest, in Exhibit 2, there is a
16 letter dated March 29, 1991, wherein Enron approached
17 Meridian concerning this forced-pool tract.

18 An additional response from Meridian, April
19 22, 1991, and subsequent notes concerning a
20 conversation on that letter dated April 24, and
21 actually it's indicated '93. That is '91. That is
22 not '93 on the letter on notes of my conversation.

23 Meridian indicated that at such time as we
24 drill the wells, they indicated they would negotiate
25 something probably towards a joinder.

1 Continuing down in the correspondence,
2 there were several discussions with Meridian verbally
3 concerning a possible joint drilling of a well in this
4 area. Following that, there is correspondence in
5 Exhibit 2 where on August 6, 1993, Meridian Oil
6 proposed a well to Enron at a different location than
7 Enron's requested location pursuant to a meeting with
8 Meridian.

9 Q. Did you have a dispute of sorts with
10 Meridian concerning the location of the well and the
11 drilling of the well?

12 A. Yes, we did. They proposed a different
13 location within this same proration unit. We
14 subsequently discussed and met with them, and the next
15 piece of correspondence, which is dated September 10,
16 1993, from Meridian, they in fact dismissed their
17 arguments at their location in support of supporting
18 Enron at the current location we're applying for.

19 They have verbally advised again in
20 discussions subsequent to that, they are in support of
21 what we are doing, and their election will likely be a
22 joinder. However, they had no problem being
23 force-pooled until a voluntary agreement can be in
24 place, if we can arrive at that. At such time we will
25 dismiss the order.

1 Q. Do you have anything else concerning
2 Exhibit 2? Is that essentially the status of the
3 negotiations with respect to drilling this well?

4 A. With the exception of Anadarko, this same
5 proposal was sent to Anadarko Production Company, and
6 we have had numerous discussions with them. They
7 have, in essence, advised us that under the same
8 conditions as Meridian, they will likely join the well
9 if in fact they own an interest, of which there is
10 considerable doubt, and we'll attempt to enter into a
11 voluntary Joint Operating Agreement.

12 Q. Anything further on Exhibit 2?

13 A. No.

14 Q. Mr. Tower, let's move on to Exhibit 3A and
15 have you identify that. Well, you've already
16 identified that; correct?

17 A. Yes. The cost estimate AFE, and, in
18 essence, the major item I would like to point out,
19 there are two items, are the total drilling and
20 completion cost of this well. The drilling cost is
21 estimated to be \$586,300, with the total completed
22 well cost to be \$924,400, and this is to drill a
23 complete a 11,600 foot Morrow gas well.

24 Q. Mr. Tower, do you know whether this AFE is
25 based on estimates for drilling wells in that same

1 area that Enron has experienced in the past?

2 A. Yes, they are. In fact, Enron drilled a
3 Morrow well, actually a Devonian well in the Morrow in
4 the north half of this section and have participated
5 in several more wells in this township.

6 Q. Mr. Tower, do you have an engineer with you
7 that can speak to the various costs included in this
8 AFE should that be necessary?

9 A. Yes.

10 Q. Anything further on Exhibit -- well, let me
11 ask you this. Have any of the parties that you were
12 dealing with signed this AFE?

13 A. At this point, only one, being the
14 Brighams.

15 Q. Anything further on Exhibit 3A?

16 A. No.

17 MR. PADILLA: Mr. Examiner, the reason I
18 labeled this Exhibit 3A is because I just left it out,
19 and I had to plug it in somewhere. It's not
20 necessarily connected with Exhibit 3.

21 Let's go on to Exhibit 4 and have you
22 identify that, Mr. Tower.

23 A. Exhibit 4 represents various correspondence
24 among the -- primarily, the offset owners and partners
25 to this location concerning the unorthodox location.

1 If I might take just a second, going back to Exhibit
2 1, the land plat, I will identify the ownership
3 offsetting it in order that this correspondence will
4 make some sense.

5 In the west half of Section 36 to the east
6 of our location, of which the actual lay-down
7 proration unit we applied for, we are encroaching or
8 moving to the east off a standard legal location which
9 is 1,980. Therefore the actual movement off a legal
10 location is to the east.

11 In Section 36, the west half, 75 percent of
12 the ownership is owned by Enron Oil & Gas Company, El
13 Paso Production Company, a/k/a Meridian, and Camterra
14 Resources. All parties are in agreement to this
15 location with no penalty.

16 The remaining tract, being the identified
17 Arco tract enumerated earlier, Arco being that north
18 half of the southwest quarter, and we'll address that
19 as to their objections in the agreement.

20 Q. Starting at the top of Exhibit No. 4, would
21 you go through the correspondence that's included in
22 this exhibit and work yourself down page by page?
23 Now, before I go into that, you are the primary person
24 who has negotiated waivers or tried to work out
25 something in terms of penalties?

1 A. Yes, I am.

2 Q. And trying to obtain some kind of agreement
3 among the parties; is that correct?

4 A. Yes, I am.

5 Q. Go ahead and start from the top and work
6 yourself down.

7 A. Starting with the top is a letter drafted
8 by Padilla & Snyder on behalf of Enron Oil & Gas
9 Company. It's addressed to Arco Oil & Gas Company as
10 an offset owner, El Paso Production Company, and
11 Camterra Resources both as offset owners and
12 participants to the particular well.

13 In essence, this letter agrees among the
14 parties that Enron, if the OCD approves the current
15 applied-for location, will accept a production
16 limitation factor of 70 percent or, in essence, a 30
17 percent penalty factor on the Cedar Lake "35" Federal
18 Com No. 2 well, with such penalty to be applied
19 against the well's ability to produce as delivered by
20 deliverability tests conducted on the well on a
21 biannual basis.

22 There on page 2 of the letter, Arco has
23 made some changes and initialed them, just defining
24 certain well information that will be exchanged, and
25 Enron is in agreement to these changes.

1 This letter has been executed by Mr.
2 Padilla on behalf of Enron Oil & Gas Company and also
3 by Arco Oil & Gas.

4 The second copy of this letter shows an
5 execution by Camterra Resources. Meridian Oil has
6 verbally agreed to this; however, we are waiting for
7 their faxed execution of this. However, they have
8 advised that they have no problems with this
9 settlement.

10 The next piece of correspondence dated
11 September 22, 1993, is a letter from Camterra
12 Resources in support of Enron's application.

13 The next item of correspondence dated
14 September 21, 1993, is a letter from Meridian Oil in
15 support of Enron's application.

16 Q. Now, this was before you reached the
17 settlement?

18 A. This is before we reached the settlement.

19 Q. Okay.

20 A. If you want to go through these -- it may
21 not be necessary.

22 Q. Well, do you have some waiver letters in
23 here?

24 A. Yes. The next item is a letter from
25 Mewbourne Oil Company dated December 23, 1992, an

1 agreement between Mewbourne as operator of the offset
2 directly south of Enron. Mewbourne drilled an
3 unorthodox location as a stand-up proration unit in
4 the east half of Section 2. Enron agreed to allow for
5 that location with no penalty in exchange for a like
6 waiver, which is being honored in support of Enron's
7 location via this letter.

8 Additionally, there is a letter behind that
9 additional letter dated August 31, 1990, wherein
10 Mewbourne drilled an unorthodox location Morrow well
11 in the west half of Section 2, directly south of
12 Enron's application. And, again, Enron supported them
13 with no penalty.

14 The remaining correspondence is from Read &
15 Stevens, Inc., who lie to the southeast in Section 1.
16 It's a letter dated September 7, 1993, wherein Read &
17 Stevens applied for an unorthodox location in the
18 north half of Section 1 -- or, excuse me, yeah, they
19 applied for that, and Enron, the additional
20 correspondence, which I'll get to in a minute, was an
21 effort by Enron to exchange waivers in support of
22 their location.

23 Enron did not ultimately protest their
24 location or seek a penalty. However, in response to
25 the various negotiation, this letter dated September

1 7, 1993, Read & Stevens responded that they did not
2 see a need for Enron's acceptance of theirs; however,
3 planned to protest Enron's location.

4 Q. Did you have any verbal communications with
5 regard to the force of objections they were going to
6 make?

7 A. Yes. Subsequent to this letter, there were
8 discussions with Read & Stevens, and it was pointed
9 out that, in essence, Enron's location was a movement
10 towards the east and not to the south, which it would
11 be more towards their acreage. They admitted in
12 writing, their initial protest letter, that they had
13 thought that we were unorthodox off the southern
14 boundary and had made a mistake. And subsequent to
15 that conversation, as I indicated, they initially were
16 planning on showing up, presenting a case.

17 Subsequent to those conversations I had and
18 learning of their mistake, they indicated they did not
19 plan to show up and present a case. However, in
20 support of Arco, who we believe they received a recent
21 farmout in the area, they planned to file a letter
22 supporting them, however indicating in effect it was
23 not a protest because they did not plan to show up and
24 really contest it.

25 They have filed, going on down, the very

1 last letter in this exhibit dated July -- or excuse me
2 -- I do not believe the letter is in this exhibit.
3 However, we did receive a copy of a letter that Read &
4 Stevens apparently have sent to the Commission that
5 should be in your files where they have voiced a
6 concern and protest. However, they have indicated
7 they also did not plan to show up and contest it.

8 We believe the settlement will address
9 their concerns, although we have not discussed it with
10 them.

11 Q. Mr. Tower, going back to the compulsory
12 pooling portion of the case, would you tell the
13 examiner what producing well rates you recommend for
14 drilling a producing well?

15 A. We would recommend a drilling well rate of
16 \$5300, and a producing well rate of \$531. There is --
17 you will note also correspondence in the Meridian
18 response letters or their proposal indicating these
19 rates are in line with what they would propose and
20 also with industry standards, we believe.

21 Q. Are you using these same rates in the well
22 you have in the area or the wells you have in the
23 area?

24 A. Yes, we are. The rates in effect in the
25 north half of Section 35 are comparable and actually a

1 little bit higher. We have reduced these due to a
2 COPAS adjustment, actually moved downward slightly.

3 Q. In your Joint Operating Agreement, what
4 type of penalty do you propose to insert in that
5 agreement?

6 A. 300 percent, which is equivalent to what
7 the Commission -- what I would entitle actual plus a
8 200 percent penalty.

9 Q. Mr. Tower, Enron, I assume, wants to be the
10 operator of this well?

11 A. Yes, we do.

12 Q. Mr. Tower, do you have anything further to
13 add to your testimony?

14 A. No, I don't.

15 MR. PADILLA: Mr. Examiner, we offer
16 Exhibits 1, 2, 3, 3A, and 4.

17 EXAMINER STOGNER: Exhibits 1, 2, 3, 3A,
18 and 4, if there are no objections?

19 MR. CARROLL: Mr. Examiner, Ernest Carroll
20 for Arco Oil & Gas. I would like the record to
21 reflect that the top copy of Exhibit No. 4, which is
22 the letter dated September 24, 1993, and agreed to and
23 accepted by a landman of Arco, John Lodge, is in fact
24 the stipulation that I referred to earlier when I made
25 my initial appearance and would like the record to

1 reflect that this is the agreement, and this is what
2 Arco has agreed to, and we would have no objection to
3 this exhibit then being considered for that purpose.

4 EXAMINER STOGNER: The document that you're
5 referring to, September 24th, with the amendments on
6 page 2?

7 MR. CARROLL: With the amendments on page
8 2, yes, sir.

9 EXAMINER STOGNER: And you have reviewed
10 those and are in concurrence with them?

11 MR. CARROLL: I have reviewed those, and
12 this is the agreement that Arco has indicated to me
13 that they have made with Enron Oil & Gas.

14 EXAMINER STOGNER: Are there any objections
15 to admitting these exhibits into evidence? There
16 being none, these exhibits will be admitted into
17 evidence at this time.

18 MR. PADILLA: We tender Mr. Tower for
19 cross-examination.

20 EXAMINER STOGNER: Thank you, Mr. Padilla.
21 Mr. Carroll, your witness.

22 MR. CARROLL: Mr. Examiner, I'd have no
23 questions of Mr. Tower.

24 EXAMINER STOGNER: Thank you, sir.

25 EXAMINER STOGNER: Mr. Kellahin?

1 MR. KELLAHIN: No questions, Mr. Examiner.

2 MR. STOVALL: I've got a question, and it
3 may be as much for -- in fact, I'm going to ask Mr.
4 Kellahin. Just to get it on the record, I think we
5 all know there is a relationship between El Paso
6 Production and Meridian. You are here representing
7 Meridian. Is it your understanding that this is still
8 entitled in El Paso Production Company, or does it
9 matter?

10 MR. KELLAHIN: As a practical question, it
11 doesn't matter, Mr. Stovall. Meridian is the operator
12 of the property and would operate the interest for the
13 El Paso Production entity.

14 MR. STOVALL: So you are representing that
15 interest regardless of how it's titled?

16 MR. KELLAHIN: Yes, sir.

17 MR. STOVALL: That's all I wanted to clear
18 up.

19 EXAMINATION

20 BY EXAMINER STOGNER:

21 Q. Mr. Tower, so I'm clear on the record here,
22 what is being force-pooled?

23 A. Referring to Exhibit No. 3, El Paso -- the
24 tract or the interest?

25 Q. The tract.

1 A. The tract involved, in essence, is the --
2 all interests that are not committed to the south half
3 of Section 35. However, the physical tract involved
4 is actually the south half, southeast quarter of
5 Section 35.

6 Q. And what formations are being force-pooled
7 today?

8 A. Any and all formations that can be
9 developed on a 320-acre basis and/or -- yes, I believe
10 that's correct.

11 MR. STOVALL: From the surface to the base
12 of the formation?

13 THE WITNESS: From the surface to the base
14 of the Morrow formation.

15 Q. (BY EXAMINER STOGNER) Is it your proposal,
16 or is it Enron's proposal that the production
17 limitation factor or the penalty factor described in
18 Exhibit No. 4 also be applied to those formations that
19 are being force-pooled or just to the Morrow
20 formation?

21 A. Just to the Morrow formation.

22 EXAMINER STOGNER: Anybody else have any
23 questions of Mr. Tower? If not, he may be excused.

24 Mr. Padilla?

25 MR. PADILLA: We'll call Barry Zinz at this

1 time.

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

5 EXAMINATION

6 BY MR. PADILLA:

7 Q. Mr. Zinz, please state your full name.

8 A. Barry Lynn Zinz.

9 Q. Do you work for Enron Oil & Gas Company?

10 A. Yes, sir, as a geologist.

11 Q. And you've testified before the New Mexico
12 Oil Conservation Division and had your credentials
13 accepted as a matter of record?

14 A. Yes, sir, that's correct.

15 Q. What was the most recent time that you
16 testified in this capacity for Enron before the Oil
17 Conservation Division?

18 A. I believe the last hearing was June 17th of
19 this year.

20 Q. Was that in the area of this application?

21 A. That's correct.

22 Q. And did you have occasion to speak to the
23 formations that we're talking about today here?

24 A. Yes, sir.

25 Q. Did you prepare exhibits for introduction

1 at that hearing as well as for introduction at today's
2 hearing?

3 A. Yes, sir.

4 MR. PADILLA: Mr. Examiner, we tender Mr.
5 Zinz as an expert petroleum geologist.

6 EXAMINER STOGNER: If there are no
7 objections, Mr. Zinz is so qualified.

8 Q. (BY MR. PADILLA) Mr. Zinz, let's look at
9 Exhibit No. 5 and have you identify that.

10 A. Exhibit No. 5 is one of the exhibits that
11 was also entered in the Anadarko case on June 17th.
12 That is structure map of the prospective area, the
13 area of interest that we're here today for. Its
14 contour interval is 100 feet, and it is contoured on
15 the lower Morrow shale marker, and you see the faults
16 on the map. These faults are designated by well
17 control as well as seismic for the prospect area.

18 Q. Mr. Zinz, how many exhibits that you have
19 with you today were used at the August 17th or --

20 A. June 17th.

21 Q. June 17th hearing?

22 A. Let's see. There were four.

23 Q. Would you tell the examiner what those
24 exhibits are.

25 A. The additional exhibits used for that

1 hearing was a net sand isopach map of the Arnold Sand,
2 which is the sand that produces in the Cedar Lake Fed
3 Com #1 in the north half of Section 35. Also, we
4 submitted a cross-section, which is the line of
5 cross-section is on the maps A-A'.

6 It takes in the two wells that are
7 productive in the Arnold Sand and the one well that is
8 productive in the, what we call the Cedar Lake Sand.
9 And that well productive in the Cedar Lake Sand is in
10 the northeast corner of Section 2, and it is the well
11 that Enron is offsetting with its unorthodox location
12 in the southeast quarter of Section 35.

13 Also submitted in that hearing is a cum
14 production map which illustrates the producing
15 horizons and their cum production to day.

16 All of the maps submitted today have the
17 color coding to the productive formations.

18 Q. Mr. Zinz, for clarification, would you tell
19 the examiner the exhibit numbers of the exhibits that
20 you introduced at the June 17th hearing?

21 A. Exhibit 5 is the structure map. Exhibit 6
22 is the isopach map of the Arnold Sand. Exhibit 8 is
23 the cum production map. Exhibit 9 is the
24 cross-section incorporating three wells that I so
25 designated.

1 Q. Mr. Zinz, why did you feel it was necessary
2 to use the exhibits from the prior hearing in this
3 hearing as well?

4 A. The prospective area, the way Enron views
5 it, the Lower Morrow is the main objective. The
6 Middle Morrow production does occur, but in this
7 immediate area, it has been rather insignificant.
8 Before Mewbourne drilled their well, the Arnold Sand
9 productive in the Anadarko, No. 1 Arnold in the east
10 half of Section 34, and the Enron Cedar Lake Fed Com
11 #2 in the north half of Section 35 were the only wells
12 productive in this prolific Lower Morrow Arnold Sand.

13 After Mewbourne drilled their well, they
14 were fortunate enough to get into the Cedar Lake
15 reservoir. And we feel like that it is these Lower
16 Morrow Sands that are the main contention in the
17 prospect area.

18 Q. Did you and the technical personnel of
19 Anadarko agree as to the location of the Arnold Sand
20 as depicted in the isopach?

21 A. That's correct. In that hearing on June
22 17th, our exhibits, the isopach maps of that
23 particular Arnold Sand were basically the same.

24 Q. In terms of the unorthodox application here
25 today, is the Arnold Sand significant at all, in your

1 opinion?

2 A. No, the Arnold Sand is not significant as
3 far as our unorthodox location.

4 Q. And does your cross-section bear that out?

5 A. Yes, sir.

6 Q. Would you explain to the examiner how that
7 cross-section or what the cross-section shows in terms
8 of the Arnold Sand?

9 A. The cross-section, like I said earlier, is
10 from A-A'. The Anadarko well, as you look at the
11 cross-section, is on the far left-hand side. The
12 Enron well is the center of the three wells. And the
13 Mewbourne well is on the right-hand side of the
14 cross-section.

15 As you can see, we do not believe the
16 Arnold Sand is present in the Mewbourne well, and this
17 is by correlation. If you were to project our
18 intended Cedar Lake No. 2 location on the
19 cross-section, it would be in near proximity to the
20 Mewbourne well, which would encounter only the Cedar
21 Lake Sand and not the Arnold Sand.

22 Q. Mr. Zinz, in terms of assessing geologic
23 risk in drilling this well, does that have any bearing
24 in the opinions you may have with regard to risk?

25 A. I'd like to state that in the immediate

1 prospective area, there are several areas that did
2 penetrate the Cedar Lake Sand.

3 If you look at the isopach map, Exhibit No.
4 7, this is a porosity isopach map, five-foot contour
5 intervals of the Cedar Lake Sand. I'd interpret this
6 to be a braided stream type of deposition. There are
7 several of these channels, streams running through the
8 prospective area.

9 If you would direct your attention to the
10 well in the north half of Section 3 in the lower part
11 of the map, that well penetrated a fairly thick
12 section of the Cedar Lake Sand, had 16 feet of
13 porosity equal to the 6 percent, had 18 feet of net
14 sand. That well, even though it penetrated a rather
15 thick section, it would appear to be a limited
16 reservoir.

17 That well produced only 89 million cubic
18 feet, which is verified on the cum production map, and
19 then it was plugged back to a shallower zone.

20 If you look up in the northeast quarter of
21 Section 36, that's an old El Paso well -- excuse me --
22 old Odessa Production Company well. As indicated by
23 the legend symbols and colors, that well was
24 productive from both the Middle Morrow as well as the
25 Lower Morrow Cedar Lake Sand. Again, your cum map

1 will show that that well produced a total of 104
2 million cubic feet before it was plugged and
3 abandoned.

4 We have the Cedar Lake Sand present and
5 behind pipe in the Enron well in the north half of 35,
6 which has not been perforated. Also, the Anadarko
7 well in Section 34 had three feet of net sand, two
8 feet of porous 6 percent sand. That well has that
9 zone still behind pipe, and it has never been
10 perforated.

11 What I'm trying to point out here is that
12 even though you do penetrate a fairly thick section of
13 the Cedar Lake Sand, you can still get a poor well.
14 We believe the risk is still there based on the well
15 in Section 3 and the well in Section 36. And we feel
16 like that we want to make sure we get right in the
17 very center of that channel, which would be our 990
18 location north of the Mewbourne well.

19 Q. And that would minimize risk to Enron in
20 drilling the well?

21 A. To Enron and its partners, yes, sir.

22 Q. I started out by asking you whether your
23 depiction on the isopach of the Arnold Sand, that
24 doesn't extend down to your proposed location either,
25 does it?

1 A. No, that's correct, and that was supported
2 after Mewbourne drilled their well.

3 Q. And that adds to the risk of drilling the
4 well?

5 A. Yes, sir.

6 Q. In other words, you don't have the Cedar
7 Lake and the Arnold Sand present at your proposed
8 location?

9 A. That's correct. Mewbourne has got a very
10 nice well. They're producing it at a real high rate.
11 We feel like we're being drained. And we just want to
12 get a well drilled.

13 Q. In terms of the geologic risk, do you have
14 a recommendation to the examiner for compulsory
15 pooling purposes as to what the risk ought to be?

16 A. I concur with Mr. Tower's testimony of the
17 300 percent.

18 Q. Looking at your isopach for the Cedar Lake
19 Sand, how does the unorthodox location, in your
20 opinion, affect the adjoining acreage to the east?

21 A. The adjoining acreage to the east has
22 little of the reservoir on that particular acreage,
23 and I believe the volumetrics, which will come later,
24 will show that.

25 Q. Mr. Zinz, do you have an opinion as to

1 whether the stipulation that you have entered into
2 with Arco takes into account any encroachment that you
3 may have with regard to the east line of your
4 proration unit?

5 A. Technically speaking, I think it more than
6 does.

7 Q. Mr. Zinz, do you have anything further to
8 add to your testimony?

9 A. No, sir, not at the present.

10 MR. PADILLA: Mr. Examiner, we tender
11 Exhibits 5 through 9 at this time and pass the witness
12 for cross-examination.

13 EXAMINER STOGNER: Exhibits 5 through 9, if
14 there are no objections, will be admitted into
15 evidence. Thank you, Mr. Padilla.

16 Mr. Carroll, your witness?

17 MR. CARROLL: No questions.

18 EXAMINER STOGNER: Mr. Kellahin?

19 MR. KELLAHIN: A couple questions, Mr.
20 Examiner.

21 EXAMINATION

22 BY MR. KELLAHIN:.

23 Q. Mr. Zinz, let me ask you to look at your
24 cross-section before you.

25 A. Yes, sir.

1 Q. As you have now mapped the Cedar Lake Sand,
2 which is the productive portion of the Lower Morrow
3 that's in the Mewbourne well to the south?

4 A. Yes, sir.

5 Q. As you have mapped that sand and
6 interpreted that reservoir, only the Mewbourne well
7 currently produces from that sand member?

8 A. That's correct.

9 Q. Show us on the cross-section how that has
10 happened when you compare the Mewbourne productive
11 interval in that Cedar Lake Sand and what happens as
12 you move northward into this transition and pick up
13 what you've characterized to be the Arnold Sand?

14 A. The Arnold Sand I have interpreted as a
15 distributary fill channel, which is trending from the
16 northwest to the southeast through the prospective
17 area, and it is not found to the south in the
18 Mewbourne well.

19 Q. Look at the Cedar Lake Sand as you map it
20 on the cross-section. That's the productive interval
21 involved in the Mewbourne well?

22 A. That's correct.

23 Q. And as you move to your well in the center
24 of the cross-section, you have identified the point on
25 the log where the Cedar Lake Sand would appear?

1 A. Yes, sir.

2 Q. Does that appear to be productive of gas in
3 that interval on that log?

4 A. I think it is productive. We had a show
5 whenever that particular interval was drilled.

6 Q. And then as you move over to the Anadarko
7 well, the Cedar Lake Sand in that well is not within
8 its current perforated interval. You've identified it
9 on the log. Does that appear to have the opportunity
10 to produce gas out of the Cedar Lake Sand?

11 A. It would appear to have the opportunity,
12 but, there again, if you look at the well on the map
13 to the south there in Section 3, that well encountered
14 a 16-foot thick porosity zone and only produced an
15 insignificant amount. So, there again, it's risky.

16 Q. As you have mapped the size and the shape
17 and the orientation of the Cedar Lake Sand member that
18 Mewbourne produces from, that is the only well
19 producing from that sand member?

20 A. That's correct.

21 Q. Where is Enron and the owners in the south
22 half of Section 35, where is their best opportunity to
23 place a well to recover their share of the gas in that
24 sand member that underlies their tract?

25 A. To ensure that we do that, we feel like the

1 990 off the south and east is the best location. I'll
2 refer back to what I've said earlier. We want to be
3 in the very center of the channel. It is risky as
4 evidenced by the wells in the area. That is the best
5 location as we see it.

6 Q. The Mewbourne spacing unit is in east half
7 of Section 2?

8 A. It's a stand-up, yes, sir.

9 Q. So they're encroaching on your southern
10 boundary?

11 A. Yes, sir. We gave them a waiver to drill
12 that well.

13 Q. So they would be 990 from that common line,
14 and your well would be 990 as well?

15 A. Yes, sir.

16 Q. Based upon your interpretation, it should
17 be comparable in thickness to the Mewbourne well?

18 A. As I've interpreted, yes, sir.

19 Q. If you move to the closest standard
20 location in the south half of Section 35, then you
21 give up reservoir thickness?

22 A. That's correct. And, there again, you're
23 reaching that risky aspect of it.

24 Q. So the proposed nonstandard location is to
25 give you a comparable position in the reservoir as

1 Mewbourne now enjoys?

2 A. That's correct, to be able to compete.

3 Q. And, geologically, would that be a fair
4 position to put your well in order to equitably
5 compete with a Mewbourne well?

6 A. Yes, sir.

7 Q. The sand map across the isopach map,
8 Exhibit No. 7, was that utilized by your engineer,
9 Randy Cate, to do the volumetrics?

10 A. Correct.

11 Q. To the best of your knowledge, information,
12 and belief, that map is accurate to the best that you
13 can depict it?

14 A. Yes, sir.

15 MR. KELLAHIN: No further questions.

16 EXAMINER STOGNER: Thank you, Mr.

17 Kellahin.

18 Any further redirect?

19 MR. PADILLA: No further redirect.

20 EXAMINER STOGNER: I have no questions of
21 Mr. Zinz. He may be excused.

22 MR. PADILLA: We'll call Randy Cate, at
23 this time, Mr. Examiner.

24 RANDALL CATE,
25 the witness herein, after having been first duly sworn

1 upon his oath, was examined and testified as follows:

2 EXAMINATION

3 BY MR. PADILLA:

4 Q. Mr. Cate, please state your full name.

5 A. My name is Randall Stewart Cate.

6 Q. Mr. Cate, do you work for Enron Oil & Gas
7 Company?

8 A. Yes, I do, in Midland, Texas.

9 Q. Have you testified before the Oil
10 Conservation Division in the past?

11 A. Yes, I have.

12 Q. In what capacity?

13 A. As a petroleum engineer.

14 Q. And are you testifying today as a petroleum
15 engineer?

16 A. Yes, I am.

17 Q. Have you also testified before the Oil
18 Conservation Division at the June 17th hearing that
19 Mr. Zinz testified about?

20 A. That's correct.

21 Q. And you're familiar with the productive
22 characteristics of the reservoir in question?

23 A. Yes, sir.

24 MR. PADILLA: Mr. Examiner, we tender Mr.
25 Cate as an expert petroleum engineer.

1 EXAMINER STOGNER: If there are no
2 objections, Mr. Cate is so qualified.

3 Q. (BY MR. PADILLA) Mr. Cate, let me refer to
4 what we have marked Exhibit No. 10 and have you go
5 through that briefly and tell us what it contains.

6 A. Okay. There are several pages that
7 comprise Exhibit 10. The first page refers to the
8 reservoir description of the Arnold Sand. This was
9 basically the same testimony presented in the Anadarko
10 hearing on June 17th. And, Mr. Examiner, we give this
11 to you -- Mr. Catanach was the examiner at that time,
12 but this would be for information -- again, these have
13 already been public and presented before, but it shows
14 that the process that we --

15 Q. Before you go into that, what's the second
16 page?

17 A. Okay. The second page will be the well
18 data and production volumes on the Mewbourne Cedar
19 Breaks "2" State No. 2 well, which is the well
20 approximately 1,980 feet south of our proposed
21 location that produces in what we call the Cedar Lake
22 Sand. And also the volumetric calculations and
23 planimeter results for the reservoir size of the Cedar
24 Lake Sand.

25 The third page is conclusions that Enron

1 had reached based on its geology and engineering
2 data.

3 And the fourth and fifth pages are pages
4 taken from the Cedar Breaks "2" No. 2 drilling report
5 that shows completion interval and flow pressures and
6 test rates, even a test or an actual flow rate as late
7 as the 16th of September.

8 Q. Okay. Now you can start on the first page
9 and explain how you used that on the June 17th
10 hearing. And my understanding is, you're presenting
11 this by way of background; is that right?

12 A. That's right. This would be for background
13 to support that the Arnold Sand is not the issue here
14 and that the primary sand of issue is what we call the
15 Cedar Lake Sand.

16 Q. And you're using the first page of that
17 exhibit in conjunction with the isopach for the Arnold
18 Sand?

19 A. That's correct. This first page would be
20 in conjunction with Enron Exhibit No. 6. And this
21 just shows the procedure and the method that we went
22 through under the Arnold Sand planimeter results. We
23 showed that the reservoir acres size to be 533 acres,
24 approximately. That is the volume of sand between the
25 two faults. There's an east-bounding fault on the

1 sand and a west-bounding fault that is supported by
2 pressure data.

3 For instance, the Anadarko Arnold well that
4 is in Section 34 produced from the same Arnold Sand
5 and is in a depleted state at the time that the Enron
6 Cedar Lakes "35" Fed Com #1 was drilled, and it
7 encountered original pressures, about 5,100 pounds.
8 So that does support the faults that Barry is
9 interpreting geologically.

10 So with those faults bounding, we
11 planimetered the reservoir volume. Then we went to
12 volumetric calculations, using porosities and water
13 saturations off log calculations.

14 We went to original gas in place in the
15 planimetered volume, and it showed approximately
16 16-1/2, 16.5 Bcf or 16,458 million cubic feet of gas
17 in the reservoir as mapped.

18 Then we had a P/Z versus production plot
19 due to the production and pressure characteristics of
20 the Cedar Lake "35" #1 well. And it showed that it
21 would encounter a reservoir of 16,700 million cubic
22 feet. So it showed very close agreement on the
23 reservoir size and tended to support the size that
24 Barry had mapped and the extent.

25 So I would make out on this -- I'd like to

1 make a correction here on the heading for this. It
2 does say -- well, no, that's right. It's really not
3 specifying the well in this title, but this data comes
4 from the Cedar Lake 35 No. 1, okay, which is in the
5 north half of Section 35.

6 If you would go to page 2, we'll get to the
7 sand that Enron believes is the issue that is the
8 reason that we have proposed a well, an unorthodox
9 well. Again to speak of the risk involved for the
10 forced-pooling part of it, I concur with Mr. Zinz'
11 testimony that we have seen evidence of wells that
12 have apparent good sand qualities and should be able
13 to produce, yet their cumulative production is not
14 commercial. It's very poor.

15 We have seen wells that, again, should be
16 capable of producing, which tells you that possibly
17 reservoir size or reservoir quality is a risk for
18 this, what we've deemed the Cedar Lake Sand. And that
19 because of that, we did ask for an unorthodox
20 location, 990 from the south and east corner of
21 Section 35 in order to have the best opportunity to
22 lower those risks. Because we have moved it, there
23 still is no guarantee of the results until we do
24 drill.

25 Then, if you go to this second page, I have

1 got the Mewbourne Cedar Breaks "2" State #2 production
2 volumes. I list the source. Mewbourne was keeping
3 this well tight, and we went to the C-112's, and the
4 C-115's that are filed by transporters and the
5 operators. The production volumes come from there.
6 Plus we had traded or agreed to trade for information
7 when we granted Mewbourne a waiver to drill their
8 unorthodox location. And some of the data comes from
9 the last two pages here, which are their drilling
10 report.

11 I have estimated production through
12 September '93 to be right at 800 million gas and
13 almost 26,000 barrels of condensate.

14 If you go to the last two pages, I wanted
15 to make a point. If you look at their flowing
16 pressures, for instance, on 4-28-93, a test, you will
17 see that they were testing the well for 3,415 Mcf at
18 3,560 pounds flowing tubing pressure. If you turn the
19 page, as of, say, 5-31-93, they were producing 4,471
20 Mcf at 2,625 pounds on almost the same choke.

21 In one month, basically the flowing tubing
22 pressure has dropped over or approximately 1,000
23 pounds. And it is showing that the reservoir is being
24 drawn down, and depletion is occurring.

25 The last entry we have was from a field

1 check, and I believe that upon receiving notice that
2 we were going to drill a well, they have opened it up,
3 and they're flowing it down to the line pressure at
4 780 pounds and have gauged rates of approximately
5 9,000 Mcf a day.

6 Q. Mr. Cate, does this have any indication to
7 Enron that it should get on with drilling its well as
8 expeditiously as possible?

9 A. Yes. We believe that the reservoir is
10 being drained and that possibly this information can
11 show that it is not a large reservoir and that timing
12 is very important. And that is the primary reason
13 that we negotiated a settlement.

14 At this point I would say that we
15 appreciate the Commission's not postponing this
16 hearing, that keeping it in a timely fashion did aid
17 in a settlement being reached.

18 Q. What else do you want to tell the examiner
19 concerning the second page of Exhibit 10?

20 A. Okay. As on the Arnold Sand, we went
21 through a volumetric calculation using porosity and
22 saltwater saturations from log analyses, calculated an
23 original gas in place of 1,218 Mcf per acre-foot.

24 Then we had on Enron Exhibit No. 7, we had
25 planimetered the reservoir size as Barry Zinz had

1 mapped it. The cutoff was a fault. We stayed
2 northeast in the pay in Section 2 northeast of the
3 fault. So we cut it there. And we also bounded it
4 along the north line where the sand crosses the north
5 line of Section 35.

6 The results of that planimeter show that
7 Section 2, in which the Mewbourne well is producing,
8 and Section 35, which is owned by Enron, et al.,
9 parties as described, almost equivalent acres,
10 approximately 270 acres each, Section 1 and Section 36
11 have minor amounts of sand as mapped, for a total
12 reservoir of right at 625 acres.

13 The acre-feet shows Sections 2 and 35 to be
14 almost equivalent, and 2,674 acre-feet for Section 2,
15 and Section 35 having 2,490. Again, Section 1 and 36,
16 very minor amounts of acre-feet of sand.

17 Using the 1,218 Mcf per acre-foot, you can
18 calculate original gas in place at just over 3.2 Bcf
19 in Section 2, just over 3 Bcf in Section 35, and then
20 approximately .2 of a Bcf for each of Section 1 and
21 36, for a total reservoir size of 6,716 MMcf.

22 Then the final column over there is the
23 recoverable gas in place based on a 700-pound
24 abandonment pressure, showing that Section 2 would
25 have recoverable reserves of 2,737 million cubic

1 feet. Section 35 would have 2,549 million cubic
2 feet. Again, Section 1 and 36 have negligible
3 reserves.

4 If you look back halfway up the page, the
5 estimated EUR of the Mewbourne well based on a 70
6 percent decline rate, which I have extrapolated from
7 the following flowing pressures, would show it to be
8 capable now of 3,300 MMcf, approximately, which is
9 more than what their acre-feet in Section 2 would
10 provide, again lending credence to that we would hope
11 to receive an order as quickly as we can to get on
12 with drilling the well and protecting Enron, et al.'s,
13 interest in the Section 35 there.

14 Q. What's the third page of Exhibit 10?

15 A. The third page is written conclusions. And
16 I would just read these now. These are our Enron
17 findings.

18 The proposed location most likely will not
19 encounter the Arnold Morrow Sand that produces in the
20 Enron Cedar Lake "35" Fed Com #1 in the north half of
21 Section 35. The Cedar Lake Sand Enron believes is the
22 sand at issue here, and it has produced 802 million
23 cubic feet and 26,000 barrels in the Mewbourne Cedar
24 Breaks "2" State No. 2.

25 The reservoir contains approximately 5,643

1 million cubic feet of recoverable gas from 5,512
2 acre-feet. And that we have pretty good well control
3 and well data from the Mewbourne well to support the
4 reservoir size and trend.

5 The Cedar Lake Morrow Sand's productive
6 acres and acre-feet are split almost equally between
7 Sections 35 and 2. And Sections 1 and 36 have minor
8 amounts of sand.

9 Q. Mr. Cate, the bottom portion of that
10 exhibit is moot at this point essentially; is that
11 right?

12 A. It is moot. This was our case prior to the
13 settlement with Arco, and it still, we believe,
14 supports that we were going to ask for a zero penalty
15 in order to protect our correlative rights, but that
16 is correct, we have now settled that issue.

17 Q. Mr. Cate, do you have anything further to
18 add to your testimony or to Exhibit 10?

19 A. No, I don't.

20 Q. Mr. Cate, would approval of this
21 application in your opinion be in the best interests
22 of conservation of oil and gas, protection of
23 correlative rights?

24 A. Yes, it would.

25 MR. PADILLA: Mr. Examiner, we tender

1 Exhibit 10 and pass the witness for
2 cross-examination.

3 EXAMINER STOGNER: If there are no
4 objections, Exhibit No. 10 will be admitted into
5 evidence.

6 Mr. Carroll, your witness.

7 MR. CARROLL: No questions, Mr. Examiner.

8 EXAMINER STOGNER: Mr. Kellahin?

9 EXAMINATION

10 BY MR. KELLAHIN:

11 Q. Couple of points of clarification. Mr.
12 Cate, what exhibit am I looking at when I look at your
13 EUR for the Mewbourne well and then your allocation of
14 reservoir share to the sections?

15 A. This whole stack here is part of Exhibit
16 10, and it would have been page 2 of Exhibit 10.

17 Q. Would you look at that page with me?

18 A. Okay, I've got it.

19 Q. For the Mewbourne well that is just to the
20 south of your line, you get 3.3 Bcf of gas for the EUR
21 on that well?

22 A. That's right, at current projections.

23 Q. Without another well to compete with the
24 Mewbourne well, how long will it take the Mewbourne
25 well to recover this volume of gas?

1 A. That volume of gas without another well
2 could be made in two years or less, but without
3 another well its reserves could be substantially
4 higher. It could basically recover the whole amount
5 of gas that I show, 5.6 Bcf.

6 Q. That was going to be my question. Based
7 upon your engineering analysis of the reservoir, that
8 single well can take all the gas in the reservoir?

9 A. Yes, it could. We've seen that in our well
10 to the north also.

11 Q. The EUR on the Mewbourne well, the 3.3 Bcf,
12 does that assume some abandonment pressure?

13 A. That was done off a 70 percent annual
14 decline rate which I've approximated due to the
15 falling pressures that we had seen in the drilling
16 reports.

17 Q. Do you take that 70 percent decline all the
18 way down to zero?

19 A. It goes down to an economic limit of
20 approximately 1,000 Mcf a month.

21 Q. The last part of that display sheet shows
22 the reservoir share in terms of sections?

23 A. Yes.

24 Q. Is this for the whole Section 2 versus the
25 whole Section 35?

1 A. Yes, it is.

2 Q. When you make the comparison to the
3 specific spacing units, how does the south half of 35
4 compare to the east half of 2?

5 A. I've got that data. The reason that I'm
6 comparing Section 35 to Section 2 is that the
7 Mewbourne well is producing right now, even though it
8 is a west half stand-up, it will mostly or most likely
9 drain the reserves over on the east half. And even
10 though we would have a south half location, it would
11 most likely drain the reserves in the north half of
12 35.

13 I would anticipate the reservoir size is
14 only going to be large enough for two wells. I would
15 doubt that Mewbourne would respond with another west
16 half of Section 2 well. And we will not respond with
17 a north half of Section 35 well. So that's why I'm
18 comparing section to section and not proration units.

19 But I have got the planimeter results for
20 -- the south half of Section 35 would be 151 acres,
21 and acre-feet is 1,731.

22 And then the east half of Section 2 would
23 be 228 acres with 2,480 acre-feet.

24 Q. The Mewbourne well is currently producing,
25 what, 8-1/2 million a day?

1 A. Currently, from our field check and from
2 their drilling report, they had opened it up, wide
3 open choke, to 8-1/2 to 9 million a day, unpenalized.

4 Q. From your information, that appears to be
5 the capacity of that well to produce? That's on a
6 fully open choke?

7 A. Yes, at line pressure.

8 Q. At this point they've already recovered a
9 little over a Bcf?

10 A. That's correct -- well, I would show
11 through September they would have produced 802
12 million. By the time we could get a well into that
13 reservoir and make a completion, I estimate it to be
14 -- the quickest would be January 1st of '94. The
15 well would have cumulative production of 1.4 Bcf at
16 that point in time.

17 Q. What happens to you if you're required to
18 put this well at the closest standard location in
19 terms of your ability to compete for the remaining gas
20 reserves with the Mewbourne well?

21 A. It would put Enron at substantial risk of a
22 thin sand, possibly poor-quality sand, and would
23 definitely hamper our opportunities to get a
24 comparable well. Again, Mewbourne -- the Mewbourne
25 well did gain advantage in sand thickness -- if they

1 had to have been drilled a standard location of 1,980,
2 it would probably put them down as mapped in a 5 to 10
3 foot of pay also.

4 So they had gained substantially, and we
5 would need to have this location in order to have a
6 comparable opportunity.

7 Q. The parties in this case have stipulated to
8 a 30 percent penalty on the Enron-operated well in the
9 south half of 2?

10 A. That's correct.

11 Q. With the imposition of that type of
12 penalty, will the Mewbourne well still enjoy a
13 competitive advantage in the reservoir?

14 A. Yes, it will.

15 MR. KELLAHIN: No further questions.

16 EXAMINER STOGNER: Thank you, Mr.

17 Kellahin. Any redirect?

18 MR. PADILLA: No redirect.

19 EXAMINER STOGNER: I have no questions of
20 this witness. He may be excused.

21 MR. PADILLA: Mr. Examiner, I have one
22 other thing. I've marked as Exhibit 11 and 11A, Mr.
23 Carr's Affidavit of Mailing and the correspondence
24 that he has sent out regarding the application.

25 EXAMINER STOGNER: Do you have anything

1 else, Mr. Padilla, at this time?

2 MR. PADILLA: Nothing further except that
3 again we ask that the Division grant an expeditious
4 order in this case.

5 EXAMINER STOGNER: Also I'll admit Exhibits
6 No. 11 and 11A as evidence at this time.

7 Thank you, Mr. Padilla.

8 Mr. Carroll, do you have anything to add?

9 MR. CARROLL: I have nothing to add.

10 EXAMINER STOGNER: Mr. Kellahin?

11 MR. KELLAHIN: Mr. Examiner, I've just
12 received Meridian's signature on the stipulated copy.
13 If I may make copies, we will introduce Meridian's
14 signature to that agreement.

15 EXAMINER STOGNER: Is that a copy or a
16 signed letter that was given as an exhibit today by
17 Enron?

18 MR. KELLAHIN: Yes, sir. It's a copy of
19 the same letter. This facsimile shows that Meridian
20 has approved the stipulation.

21 EXAMINER STOGNER: This would be that same
22 letter as Exhibit No. 4; however, in looking at the
23 copy that Mr. Kellahin just gave me, I don't see the
24 changes that were added by Arco, but all the other
25 wording is the same as Exhibit No. 4.

1 MR. PADILLA: With regard to that, Mr.
2 Examiner, we have no objection to Meridian obtaining
3 that same information that Arco requested.

4 EXAMINER STOGNER: Thank you, sir. If
5 you'll supply subsequent to the hearing additional
6 copies of that, that would be appreciated.

7 Anything else further at this time?

8 MR. PADILLA: Nothing further, Mr.
9 Examiner.

10 EXAMINER STOGNER: Since there's nothing
11 further in this case, Case No. 10827 will be taken
12 under advisement.

13 With that, the hearing is adjourned.
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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)

) ss.

COUNTY OF SANTA FE)

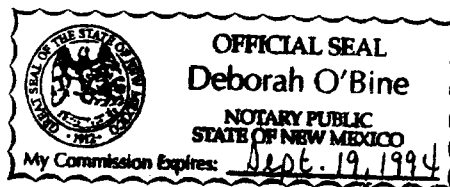
I, Deborah O'Bine, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that I caused my notes to be transcribed under my personal supervision, and that the foregoing transcript is a true and accurate record of the proceedings of said hearing.

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, October 4, 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. 10827 heard by me on 10/23/93 1993.
[Signature]
Examiner
Oil Conservation Division