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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. 10,982  
 )  
APPLICATION OF ANSON GAS )  
CORPORATION )  
 )

MAY 28 1994

**ORIGINAL**

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

May 26, 1994

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Thursday, May 26, 1994, at Morgan Hall, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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**ORIGINAL**

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I N D E X

May 26, 1994  
Examiner Hearing  
CASE NO. 10,982

PAGE

APPEARANCES

3

APPLICANT'S WITNESSES:

CHARLES E. LUNDEEN

Direct Examination by Mr. Carr

4

Examination by Examiner Catanach

12

HAL E. HAWTHORNE

Direct Examination by Mr. Carr

14

REPORTER'S CERTIFICATE

22

\* \* \*

E X H I B I T S

Identified

Admitted

Exhibit 1

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Exhibit 2

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Exhibit 3

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Exhibit 4

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Exhibit 5

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Exhibit 6

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A P P E A R A N C E S

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FOR THE DIVISION:

RAND L. CARROLL  
Attorney at Law  
Legal Counsel to the Division  
State Land Office Building  
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE & SHERIDAN, P.A.  
Suite 1 - 110 N. Guadalupe  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: WILLIAM F. CARR

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 11:28 a.m.:

3           EXAMINER CATANACH: At this time we'll call the  
4 next case, 10,982.

5           MR. CARROLL: Application of AnSon Gas  
6 Corporation for compulsory pooling, Lea County, New Mexico.

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

9           MR. CARR: May it please the Examiner, my name is  
10 William F. Carr with the Santa Fe law firm Campbell, Carr,  
11 Berge and Sheridan.

12           I represent AnSon Gas Company, and I have two  
13 witnesses.

14           EXAMINER CATANACH: Any additional appearances?  
15 Will the witnesses please stand to be sworn in.  
16 (Thereupon, the witnesses were sworn.)

17           MR. CARR: At this time we call Mr. Lundeen.

18                       CHARLES E. LUNDEEN,  
19 the witness herein, after having been first duly sworn upon  
20 his oath, was examined and testified as follows:

21                               DIRECT EXAMINATION

22 BY MR. CARR:

23           Q. Will you state your name for the record, please?

24           A. Charles E. Lundeen.

25           Q. And where do you reside?

1 A. In Oklahoma City.

2 Q. By whom are you employed and in what capacity?

3 A. I'm employed by AnSon Gas Corporation, and I'm  
4 the land manager and division attorney.

5 Q. Have you previously testified before this  
6 Division?

7 A. It's been over ten years ago.

8 Q. Why don't you briefly summarize for the Examiner  
9 your educational background and then review your work  
10 experience?

11 A. I got a BBA in petroleum land management from the  
12 University of Oklahoma in 1979, a juris doctor from  
13 Oklahoma City University in 1989, and I've been a landman  
14 for 12 1/2 years and the last two and a half years title  
15 attorney and practicing before the Oklahoma Corporation  
16 Commission.

17 Q. Mr. Lundeen, are you familiar with the  
18 Application filed in this case on behalf of AnSon Gas  
19 Company?

20 A. Yes.

21 Q. Are you familiar with the subject area and the  
22 proposed well?

23 A. Yes, sir.

24 MR. CARR: Are the witness's qualifications  
25 acceptable?

1 EXAMINER CATANACH: They are.

2 Q. (By Mr. Carr) Mr. Lundeen, would you briefly  
3 state what AnSon seeks with this Application?

4 A. Anson seeks an order pooling all interests from  
5 the surface to the base of the Strawn formation in the  
6 northeast of the northwest quarter of Section 8, 17 South,  
7 38 East, Lea County, New Mexico. The well name is the  
8 Gipson, G-i-p-s-o-n, 8-1 well.

9 Q. And what is the proposed location for that well?

10 A. It is 660 feet from the north line and 1650 feet  
11 from the west line.

12 Q. So we have a standard oil spacing unit in the  
13 Strawn?

14 A. Yes, sir.

15 Q. And we have a well that you're proposing to drill  
16 at the standard oil well location on that tract?

17 A. Yes, sir.

18 Q. Have you prepared certain exhibits for  
19 presentation here today?

20 A. Yes, I have.

21 Q. Could you refer to what has been marked for  
22 identification as AnSon Exhibit Number 1 and review that  
23 for Mr. Catanach?

24 A. Which one is that? I --

25 Q. That is the land map.

1           A.    Okay, it's a four-section plat showing our Gipson  
2 well and also with an outline of the 40-acre unit in the  
3 northeast of the northwest quarter of Section 8.

4           Q.    What is the status of the ownership in the  
5 northwest quarter of Section 8?

6           A.    The northwest quarter is an undivided ownership.  
7 We are pooling parties in our 40-acre unit only. We  
8 currently own through leasehold approximately 94.17 percent  
9 or 37.67 acres.

10                    The remaining parties that are being pooled  
11 comprise a total of -- Well, the remainder. I haven't  
12 added it up, it's just the remainder.

13           Q.    Okay. Three to four percent, something in that  
14 range?

15           A.    That's correct.

16           Q.    Let's go to Exhibit Number 2. That is the  
17 ownership breakdown. Would you identify that for the  
18 Examiner and review it, please?

19           A.    These are the parties that own an interest in an  
20 undivided 240-acre tract. To get to the ownership that  
21 they would own in our 40-acre unit, you just divide that  
22 number by 6. But this is their ownership in the entire 240  
23 acres.

24           Q.    And so the percentages that are set out opposite  
25 each of these names are in fact correct for the 40-acre

1 tract involved in this pooling hearing?

2 A. Yes, sir.

3 Q. Mr. Lundeen, there are a number of people whose  
4 whereabouts is not indicated on this exhibit. Could you  
5 review for Mr. Catanach generally the efforts that AnSon  
6 has made to locate the individuals who own interest in this  
7 tract?

8 A. We have checked all probate records, tax records,  
9 phone books, contacted friends and relatives, checked the  
10 judgment liens and records.

11 We found that most of the parties -- The parties  
12 that are listed with address unknown are for curative  
13 purposes, and we feel that we have all the heirs of these  
14 areas leased but we're naming them simply for curative  
15 purposes, as are most of the -- Most of the parties that we  
16 have listed are for curative purposes.

17 Q. You've also included in the exhibit package an  
18 AFE, Exhibit Number 3.

19 A. Yes, sir.

20 Q. Has that AFE been provided to those individuals  
21 whose whereabouts you've been able to ascertain?

22 A. Yes, sir.

23 Q. And could you briefly summarize for Mr. Catanach  
24 the efforts that you have made to obtain the voluntary  
25 participation of all those interest owners who you've been

1 able to identify?

2 A. Yes, we began with phone calls through our  
3 broker, contacted the parties on several occasions. We've  
4 also written them and made offers through our brokers.

5 And then as a last effort, I sent certified  
6 letters to all parties proposing the well with a copy of  
7 the AFE and asking that they participate, lease their  
8 interest for some cash and a 3/16 royalty or no money and a  
9 quarter royalty. And that was the last effort we made.

10 Q. Now, what has been marked your Exhibit Number 4,  
11 are those copies of the letters that you have sent to those  
12 individuals you've been able to identify, proposing these  
13 various offers to them?

14 A. This was our last offer made, certified, yes,  
15 sir.

16 Q. When did you actually begin your effort to obtain  
17 the voluntary joinder of the interest owners in this tract?

18 A. In January and February of this year.

19 Q. Now, if we go to the AFE, could you just review  
20 the total set out on this AFE for the Examiner?

21 A. Yes, the dryhole costs are set at \$436,900.  
22 Additional completed well costs are \$314,700, for a total  
23 well cost of \$751,600.

24 Q. Are these costs in line with what has actually  
25 been charged other operators in the area for similar wells?

1           A.    I've been advised by my engineer and geologist  
2   that they are in line with what has been charged in this  
3   area.

4           Q.    How many people are we talking about who you've  
5   been able to identify who in fact have interests that may  
6   be subject to this pooling Application?

7           A.    We've leased over 30 people within this 40-acre  
8   tract.

9           Q.    And how many are outstanding?

10          A.    There's approximately -- Less than ten.  I'm not  
11   sure exactly, less than ten that we haven't made -- Since  
12   we filed this pooling we've received several leases in, so  
13   some of these parties have been leased since we filed our  
14   pooling.

15          Q.    And if this Application is granted, you would  
16   still be willing to accept or go forward with the proposals  
17   that you have made to these individuals for the leasing of  
18   their interests?

19          A.    Yes, sir.

20          Q.    In your opinion, have you made a good-faith  
21   effort to locate all interest owners in this tract?

22          A.    Yes, sir, we have.

23          Q.    And have you made an effort to obtain the  
24   voluntary participation of each of these owners in the  
25   proposed well?

1           A.    Yes, sir.

2           Q.    Is Exhibit Number 5 an affidavit confirming that  
3 notice has been provided of this hearing to those interest  
4 owners who are subject to pooling?

5           A.    Yes, sir.

6           Q.    Have you made an estimate of the overhead  
7 administrative costs to be assessed while drilling the well  
8 and also while producing it if, in fact, it is a commercial  
9 success?

10          A.    Yes, sir.  It is \$6054 per month for a drilling  
11 well and \$605 a month for a producing well.

12          Q.    And how were these numbers derived?

13          A.    We used a -- I can't recall the survey, but --

14          Q.    Were they based on the *Ernst and Young* survey?

15          A.    Yes, yes, a 1990 survey, and have been escalated  
16 in accordance with their standards.

17          Q.    Do you recommend that these figures be  
18 incorporated into any order which results from this  
19 hearing?

20          A.    Yes, sir.

21          Q.    And is AnSon Gas Corporation seeking to be  
22 designated operator of the proposed well?

23          A.    Yes, sir, we are.

24          Q.    Were Exhibits 1 through 5 prepared by you or  
25 compiled under your direction?



1 leases in since the date we filed the pooling Application,  
2 and there's a few that own tiny interests, amounting to  
3 about five acres -- or, excuse me, about two -- less than  
4 two and a half acres is all we don't have covered. We've  
5 got the entire unit except less than two and a half acres.

6 Q. Now, did you say there were some parties that you  
7 could not locate?

8 A. There were some parties that had address unknown  
9 that we listed. These were simply the last party of  
10 record, and we have since found their heirs or -- well,  
11 their heirs. And these people are either not alive or do  
12 not own the interest any longer, according to the heirs,  
13 and deeds have not been filed of record. We don't know how  
14 to locate them, or they're dead.

15 And we feel that everybody that we've listed as  
16 an address unknown has been leased through subsequent  
17 parties that own their interest.

18 This is -- We listed them for curative purposes  
19 only. We don't feel like any of them have outstanding  
20 interest.

21 EXAMINER CATANACH: Okay. I don't have anything  
22 further.

23 The witness may be excused.

24 MR. CARR: At this time we call Mr. Hal  
25 Hawthorne.

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HAL E. HAWTHORNE,

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Will you state your name for the record, please?

A. My name is Hal Hawthorne.

Q. And where do you reside?

A. Edmond, Oklahoma.

Q. By whom are you employed and in what capacity?

A. I'm a petroleum geologist with the AnSon Gas Corporation in Oklahoma City.

Q. Have you previously testified before this Division?

A. No, sir, I haven't.

Q. Could you briefly summarize your educational background and review your work experience?

A. Okay, I have a bachelor of science degree in geology from Baylor University. I also have a master's degree in geology from Baylor University which I got in 1984.

I've spent the last ten years, predominantly, with a major oil company working Oklahoma, the Permian Basin and Canada, and I've recently joined AnSon to get them into a New Mexico drilling program.

1 Q. Are you familiar with the Application filed in  
2 this case?

3 A. Yes, sir, I am.

4 Q. And have you made a geologic study of the area  
5 which is involved in it?

6 A. Yes, sir, I have.

7 MR. CARR: We tender Mr. Hawthorne as an expert  
8 witness in petroleum geology.

9 EXAMINER CATANACH: He is so qualified.

10 Q. (By Mr. Carr) Have you prepared an exhibit for  
11 presentation here today?

12 A. Yes, sir, I have.

13 Q. And that's what has been marked as Exhibit Number  
14 6?

15 A. Yes, sir.

16 Q. Would you go to that exhibit, the isopach map,  
17 and review this for Mr. Catanach?

18 A. Okay, this is a geological map constructed on the  
19 porosity found within the lower Strawn limestone. That's  
20 the objective of our test.

21 This map shows both the well control and the  
22 seismic data used to produce this prospect.

23 It also displays a fault on the west side of the  
24 map. The Strawn has not proved to be productive to the  
25 east side of this fault in this play.

1           We're attempting to test a feature which was  
2 tested with the Sohio Hood well there in the northwest of  
3 the northeast quarter. That well penetrated an algal mound  
4 facies that consisted of 52 feet of porosity which showed  
5 oil and gas in uneconomic quantities.

6           Therefore deeming this feature to be rock quality  
7 of such that would not make a commercial oil well, it is  
8 our premise with our seismic here that we have a larger  
9 feature.

10           We feel like the risk associated with this  
11 venture supports a second test of this feature, hoping that  
12 we can encounter better quality rock.

13           Q.   Basically, what you've got here is a second test  
14 on a feature that -- first go-around was noncommercial?

15           A.   Yes, sir.

16           Q.   Seismic lines are shown on this exhibit. The  
17 shaded portion of those seismic lines show what? Where you  
18 have encountered a porosity anomaly?

19           A.   Yes, sir.

20           Q.   Based on this information, do you have an opinion  
21 on whether or not you could drill a well that would be a  
22 commercial failure at this location?

23           A.   Yes, sir, I think with both where this sits and  
24 the fact that a well has already been in it, we have a high  
25 risk that we will encounter tight, impermeable Strawn

1 porosity as well.

2 Q. Are you recommended to make a recommendation to  
3 the Examiner as to the risk penalty that should be assessed  
4 against those interests not voluntarily committed to the  
5 well?

6 A. Yes, sir. We feel with the direction that we're  
7 moving in respect to the play of the lower Strawn, as well  
8 as this feature showing that the rock quality is not such  
9 that -- We're willing to take on the risk, but we're asking  
10 that the maximum allowable penalty be applied to this  
11 venture, being the 200-percent penalty.

12 Q. In your opinion, will the granting of this  
13 Application and the drilling of the proposed well be in the  
14 best interest of conservation, the prevention of waste and  
15 the protection of correlative rights?

16 A. Yes, sir.

17 Q. How soon would you like to commence the drilling  
18 of this well?

19 A. We're prepared to go forward as soon as possible  
20 on this prospect.

21 MR. CARR: Mr. Catanach, we'd request that the  
22 Order in this matter be expedited, therefore, to the extent  
23 possible.

24 Q. (By Mr. Carr) Mr. Hawthorne, was Exhibit 6  
25 prepared by you?

1           A.    Yes, sir.

2           MR. CARR:  Mr. Catanach, at this time we move the  
3 admission of AnSon Exhibit 6.

4           EXAMINER CATANACH:  Exhibit 6 will be admitted as  
5 evidence.

6           MR. CARR:  And that concludes my examination of  
7 this witness.

8           EXAMINER CATANACH:  I have no questions.  The  
9 witness may be excused.

10           Anything further?

11           MR. CARR:  Nothing further in this case.

12           EXAMINER CATANACH:  Nothing further in this case.  
13 Case 10,982 will be taken under advisement.

14           JOHN DOOR:  May I ask a question?

15           EXAMINER CATANACH:  Oh, I'm sorry.  Yes, sir.

16           MR. DOOR:  We have an interest in the minerals  
17 this particular tract, and if they were to go nonconsent,  
18 do they just go nonconsent on 40 acres, or do they go  
19 nonconsent on the whole 220?

20           EXAMINER CATANACH:  This Application is just  
21 limited to the 40 acres in question.

22           MR. DOOR:  So if they made a trade here, they're  
23 just putting in 40 acres in the 40-acre unit?

24           EXAMINER CATANACH:  Mr. Carr, would you like  
25 to --

1 MR. CARR: Under the terms of this proposal, the  
2 only thing that would be pooled would be the interest in  
3 that 40-acre tract.

4 MR. DOOR: Forty-acres. So you wouldn't be --  
5 the remaining 220?

6 MR. CARR: Would not be force-pooling the --

7 MR. DOOR: Okay. You're just force-pooling the  
8 40 acres?

9 MR. CARR: Yes.

10 MR. DOOR: Okay. If this party were to go  
11 nonconsent, would they have drilling and production reports  
12 and monthly reports on nonconsent to be recovered?

13 EXAMINER CATANACH: Mr. Carr, do you want to get  
14 your landman back on the stand --

15 MR. CARR: Yes.

16 EXAMINER CATANACH: -- to answer this question?

17 MR. CARR: And could you identify yourself?

18 MR. DOOR: I'm sorry. My name is John Door; I'm  
19 from Pecos, Texas, and I represent Glenna Miller.

20 MR. CARR: We have no objection to Mr. Door  
21 directing these questions to Mr. Lundeen or to me.

22 EXAMINER CATANACH: Okay.

23 MR. DOOR: Basically that was my question, is,  
24 you're going to just pool 40 acres here?

25 MR. LUNDEEN: Yes, sir.

1 MR. DOOR: Number two, would you be providing the  
2 nonconsenting parties with drilling and production reports  
3 and monthly accounting to pay out?

4 MR. LUNDEEN: I know that we would account for  
5 the percentage of payout whenever it occurred.

6 As far as daily drilling reports on nonconsent  
7 acreage, I wouldn't -- I expect that we would furnish that  
8 to a party who is not paying their share of well costs.

9 MR. DOOR: Okay.

10 MR. LUNDEEN: But we would let you know on a  
11 monthly basis where we are as far as payout.

12 MR. DOOR: Okay, and what the production rates  
13 are and things like that, because you'd know that through  
14 the accounting, wouldn't you?

15 MR. LUNDEEN: Yes, yes. We would let you know  
16 how far along we were and when payout occurred.

17 MR. DOOR: Okay. Then if you decided to drill an  
18 offset, we'd have an opportunity to trade again?

19 MR. LUNDEEN: Yes, sir.

20 MR. DOOR: And I asked you a few other questions  
21 a while ago, and I thought the AFE containing the \$30,000  
22 opportunity to do any work was a little high; it ought to  
23 be a more around, you know, \$15,000 -- obtain an AFE.

24 MR. LUNDEEN: Yeah. I could have my geologist  
25 comment on that. I --

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MR. DOOR: That's just a lot of money to spend --

MR. LUNDEEN: Yeah, I'd --

MR. DOOR: -- participating parties knowing what you're spending for.

MR. LUNDEEN: I'd have to have my geologist comment on the AFE.

MR. DOOR: Okay, and I appreciate the information, and thank you, gentlemen.

EXAMINER CATANACH: Thank you. Anything else?

MR. CARR: Nothing further, Mr. Catanach.

EXAMINER CATANACH: There being nothing further, Case 10,982 will be taken under advisement.

(Thereupon, these proceedings were concluded at 11:47 a.m.)

\* \* \*

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 10982, heard by me on May 26 1991.

David R. Catanach, Examiner  
Oil Conservation Division

