

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 9901

EXAMINER HEARING

IN THE MATTER OF:

Application of Pacific Enterprises Oil Company  
(USA) for compulsory pooling, Eddy County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

April 4, 1990

**ORIGINAL**

A P P E A R A N C E S

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\* \* \*

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1           WHEREUPON, the following proceedings were had  
2           at 10:20 a.m.:

3           EXAMINER CATANACH: At this time we'll call  
4           Case 9901.

5           MR. STOVALL: Application of Pacific  
6           Enterprises Oil Company (USA) for compulsory pooling,  
7           Eddy County, New Mexico.

8           EXAMINER CATANACH: Appearances in this case?

9           MS. AUBREY: Karen Aubrey with the Santa Fe  
10          firm of Kellahin, Kellahin and Aubrey, appearing for  
11          the Applicant.

12          I have one additional witness to be sworn and  
13          one witness to testify for the previous case.

14          EXAMINER CATANACH: Okay. Other appearances?

15          MR. CARR: May it please the Examiner, my  
16          name is William F. Carr, with the law firm Campbell and  
17          Black, P.A. I represent Enron Oil and Gas company in  
18          this case. I do not intend to call a witness.

19          EXAMINER CATANACH: Any other appearances?

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

23                       EXAMINATION

24          BY MS. AUBREY:

25                  Q.    Would you state your name for the record,

1 please?

2 A. Terry Gant.

3 Q. Where are employed, Mr. Gant?

4 A. Pacific Enterprises?

5 Q. What do you do for Pacific Enterprises?

6 A. I'm a landman.

7 Q. How long have you been with Pacific  
8 Enterprises?

9 A. I've worked for Pacific for -- about the last  
10 few years.

11 Q. Have you testified previously before the New  
12 Mexico Oil Conservation Division?

13 A. No, I have not.

14 Q. Would you review your educational background  
15 and your work history for the Examiner?

16 A. I graduated from TCU in December of 1980.  
17 I've been involved in the petroleum land business ever  
18 since then. I worked for Texaco for five years, and  
19 basically then I've been an independent since then.

20 Q. Do you have any particular area that you're  
21 assigned to with Pacific Enterprises in reference to  
22 land matters?

23 A. No, basically the division office handles all  
24 Permian Basin.

25 Q. Are you familiar with Pacific Enterprises'

1 Application that's being heard today?

2 A. Yes, I am.

3 MS. AUBREY: Mr. Examiner, I tender Mr. Gant  
4 as an expert in petroleum land titles.

5 EXAMINER CATANACH: He is so qualified.

6 Q. (By Ms. Aubrey) Mr. Gant, would you briefly  
7 review Exhibit Number 1 with the Examiner? Why don't  
8 you start with the land data map to locate the proposed  
9 well and the proposed unit for the Examiner?

10 A. Okay. Basically if you'll, I guess, turn to  
11 the last page, you'll notice that we're -- need to --  
12 we're asking to pool the mineral interest as to the  
13 west half of Section 21, from the top of the Wolf Camp  
14 down to the base of the Morrow formation.

15 You also notice that I've basically tried to  
16 track out, or have tracked out ownership on the land  
17 plat that then is more particularly identified on the  
18 first page of the exhibit.

19 Q. Is your proposed well location a standard  
20 location in the Morrow?

21 A. Yes, it is.

22 Q. Let me have you now review the land ownership  
23 for the Examiner, and you might take them in order as  
24 they're shown on page 1 of your Exhibit 1.

25 A. Okay. Basically J.M. Huber, I have a letter

1 from them that they have elected to farm- -- or I  
2 should say, have tried to reach a voluntary agreement  
3 with this through a farmout. I do not have a formally  
4 executed agreement with them as of date.

5 The next grouping is American National  
6 Petroleum Company, et al. Those people, all the --  
7 most of the -- Excuse me. The people listed underneath  
8 that basically were under a limited partnership which  
9 has dissolved.

10 American National Petroleum Company basically  
11 is a spokesperson for that group.

12 Q. And what is the total interest that's  
13 represented by the American National Petroleum Company  
14 group?

15 A. It would be twenty-five percent in the unit,  
16 which would be shown on page 4 or page 5 -- Excuse me,  
17 page 4.

18 Q. And then on page 5 we have the additional  
19 interests?

20 A. Then on page 5, basically show Enron, who has  
21 not made an election; Santa Fe Energy Operating  
22 Partners, L.P., they have elected to participate again.  
23 I do not have a signed JOA from them. And then Exxon  
24 Corporation, who has not made an election.

25 Q. Have you received any correspondence from

1 either Exxon or Enron with regard to their intention to  
2 participate in this unit?

3 A. Enron, I have not received any  
4 correspondence. My understanding is their management  
5 is reviewing and has not made a decision as of date.

6 Exxon corporation, I received a letter from  
7 them that basically stated that they would not  
8 participate and would not farm out.

9 Q. With regard to Enron, when was the last time  
10 you spoke with the people at Enron about participating  
11 in this unit?

12 A. Spoke with them yesterday.

13 Q. Now, let me take you back to the American  
14 National Petroleum Company interests. That was  
15 formerly Coquina; is that correct?

16 A. All those parties were formerly part of  
17 Coquina 74A, Limited, which was a limited partnership.  
18 And that has dissolved, and now the interest has gone  
19 to all the parties.

20 Q. Have you notified each of the parties listed  
21 on your Exhibit 1 in an attempt to reach a voluntary  
22 agreement, and have you notified them of this hearing  
23 today?

24 A. Yes, I have.

25 Q. Do you have any written communication from



1 American National signed by these parties which  
2 indicates that in fact American National Petroleum  
3 Corporation has authority to negotiate or bind the  
4 working-interest owners to an agreement?

5 A. Basically, if you'll note, that's on the  
6 first page. Basically, there will be asterisks against  
7 or next to each of the names. That denotes that the  
8 party is subject to a November joint operating  
9 agreement with the American National Petroleum Company  
10 as operator, giving American National -- Or I should  
11 say American National has acted as their agent.

12 There are four parties -- Well, excuse me.  
13 You'll notice that Coquina Oil Corporation is not  
14 subject to that, as also Jack C. Hale, Edward C.  
15 Hallock, Charles Cline Moore and Vernon Munroe.

16 Q. Let me have you clarify the status of that  
17 joint operating agreement. That's a November 15th,  
18 1985, agreement; is that correct?

19 A. That is correct.

20 Q. And is Pacific Enterprises a party to that  
21 agreement?

22 A. No, we are not.

23 Q. Do you know who the parties are?

24 A. All the people that I've noted with the  
25 asterisk and American National Petroleum Company -- or,

1       excuse me, American National Petroleum Company.

2           Q.    Do you know what are that 1985 joint  
3       operating agreement covers?

4           A.    It covers the northwest quarter and the east  
5       half of this section.

6           Q.    Let me have you look at the Authority for  
7       Expenditure, which is included in your Exhibit 1.

8                   Have you reviewed that?

9           A.    Yes, I have.

10          Q.    What is the total cost of drilling and  
11       completing the proposed well?

12          A.    \$752,000.

13          Q.    And at what depth?

14          A.    It will be 12,000 feet.

15          Q.    In your opinion, is that AFE fair and  
16       reasonable for a well of this depth?

17          A.    Yes, it is.

18          Q.    Have you received signed copies of this AFE  
19       from any of the working-interest owners in the proposed  
20       unit?

21          A.    Yes, the people that are noted on the page --  
22       I said the first set on the exhibit -- the people that  
23       have elected to participate have signed AFE's.

24          Q.    Have they signed this AFE?

25          A.    Yes, and it's in the next exhibits.

1           The only -- I do want to clarify one point.  
2       With the American National Petroleum Company group, you  
3       will note that on the page it will state that it -- I'm  
4       showing that the participate by American National that  
5       is so shown, basically American National has elected to  
6       participate for that party, made that election.

7           I do not have a signed AFE from those  
8       parties.

9           Q.    So other than the November, 1985, joint  
10      operating agreement to which American National was a  
11      party, do you have any documents which show that  
12      American National has the authority to negotiate or  
13      enter into an agreement for the people listed on your  
14      Exhibit 1?

15      A.    No.

16      Q.    In your Exhibit 1, you have a two-page  
17      exhibit which is right before the land map. Can you  
18      tell the Examiner what that is?

19      A.    On the AFE?

20      Q.    Yes.

21      A.    Basically, that is just detailed for the  
22      drilling and completion costs of this well.

23      Q.    And was that sent to all the working-interest  
24      owners in the proposed unit?

25      A.    Yes, it was.

1 Q. Let me refer you now to your Exhibits 2  
2 through 6. Would you explain to the Examiner what  
3 those show?

4 A. Basically, each grouping deals with the  
5 correspondence that was sent to each of the parties  
6 shown, correspondence received from those parties, and  
7 their elections if they have so done.

8 Q. And these exhibits reflect your efforts to  
9 form a voluntary unity with the working-interest  
10 owners; is that correct?

11 A. Yes, that's correct.

12 Q. Does Pacific Enterprises seek to be  
13 designated as operator of this unit?

14 A. Yes, we do.

15 Q. What amount of overhead while drilling and  
16 producing is Pacific Enterprises seeking?

17 A. Producing administrative overhead rates,  
18 we're asking for \$5500 and -- Excuse me, that would be  
19 drilling. Producing would be \$550.

20 Q. And on what do you base those numbers?

21 A. Basically that is within the range of the  
22 Ernst and Young 1989 administrative overhead rates.

23 Q. Mr. Gant, did you prepare or review Exhibits  
24 1 through 4?

25 A. Yes.

1 Q. I'm sorry, Exhibits 1 through 6?

2 A. Yes.

3 MS. AUBREY: Mr. Examiner, I tender Exhibits  
4 1 through 6, and I pass the witness.

5 EXAMINER CATANACH: Exhibits 1 through 6 will  
6 be admitted as evidence.

7 EXAMINATION

8 BY EXAMINER CATANACH:

9 Q. Mr. Gant, when did you initially contact  
10 these parties?

11 A. It would have been January 26th.

12 Q. Were you in fact able to locate all these  
13 parties?

14 A. Yes, sir.

15 Q. Have you attempted to reach a clarification  
16 on whether American National Petroleum can act as agent  
17 for those other parties?

18 A. Yes, I have. Basically what we've discussed  
19 is, they have handled -- I don't know if they've  
20 actually gone through forced poolings recently, but in  
21 situations where this has arisen they take care of all  
22 these people.

23 In other words, they act as their agent,  
24 basically revenues are paid to them, and they bill  
25 these people.

1           And like I say, they have notified them, I  
2       have notified them. So far no party has really  
3       commented to me that there's a problem there.

4           Q.    That interest represents a 50-percent  
5       interest in the northwest quarter?

6           A.    Yes, sir.

7           Q.    That would be a 25-percent interest in the  
8       unit?

9           A.    Yes, sir.

10           EXAMINER CATANACH: I have no further  
11       questions. The witness may be excused.

12                   (Off the record)

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

16                           EXAMINATION

17       BY MS. AUBREY:

18           Q.    Would you state your name, please?

19           A.    My name is Rick Ricketts.

20           Q.    Mr. Ricketts, you've testified in the case  
21       which was just heard; is that correct?

22           A.    That's correct.

23           Q.    And your qualifications as an expert in  
24       petroleum geology were accepted; is that correct?

25           A.    Yes, that's correct?

1 MS. AUBREY: May we proceed, Mr. Examiner?

2 EXAMINER CATANACH: Yes.

3 Q. (By Ms. Aubrey) Mr. Ricketts, let me have  
4 you refer to your exhibits, Exhibit Number 7 in this  
5 case, which is a structure map.

6 A. Exhibit 7 is a structure map on the base of  
7 the lower Morrow shale, 50-foot contour interval. It  
8 also shows the producing Morrow wells in the area,  
9 colored in red. It also indicates the cumulative  
10 production on the Morrow wells surrounding our proposed  
11 location and in addition shows a cross-section line,  
12 which is in Exhibit Number 8.

13 Basically, I just want to point out the type  
14 of wells we've got around us.

15 In Section 21, the Coquina Philly well is a  
16 2.9 BCF Morrow well.

17 Section 16, the Coquina 16 Number 1 in the  
18 southeast corner of Section 16 only produced 342  
19 million cubic feet of gas.

20 The Gulf GN State Number 1 in the south -- or  
21 northeast corner of Section 28 only produced 41 million  
22 cubic feet of gas.

23 The only other producing Morrow well within a  
24 one-mile radius of the proposed location is the Bettis  
25 Boyle and Stovall Exxon 17 Number 1, located in the

1 southeast quarter of Section 17. This is a brand-new  
2 well. It had a CAOF of 36.5 million cubic feet of gas  
3 per day.

4 Q. What is the objective formation in the  
5 proposed well?

6 A. The objective formation is Morrow sands. We  
7 are primarily looking for what we -- is called the B  
8 sand.

9 Q. On your Exhibit 7, are the wells which are  
10 colored in red producing from the B sand?

11 A. They are producing -- They are all Morrow  
12 wells. Some are from the B and some are from other  
13 zones.

14 Q. Let me refer you now to your Exhibit Number 8  
15 and have you review that for the Examiner.

16 A. Yes, Exhibit Number 8 is a cross-section,  
17 stratigraphic cross-section on the top of the Morrow  
18 clastics going from the Bettis Boyle and Stovall well  
19 in Section 17, over to the Coquina Philly well in  
20 Section 21.

21 And you can see from the cross-section, the  
22 Bettis Boyle and Stovall well is producing from the B  
23 sand. This zone was present but thin and tight in the  
24 Coquina Philly well. A drill-stem test of that  
25 interval flowed gas but had very low flow pressures.



1 The flow pressures on it were 450 p.s.i. And it is not  
2 productive in the B sand.

3 The Coquina Philly well is productive from a  
4 sand just below the base of the lower Morrow shale.  
5 This same zone, at least the stratigraphic equivalent  
6 to that, is present in the Bettis Boyle and Stovall  
7 well in Section 17, but it is wet.

8 I also might point out it is about 200 foot  
9 updip, but it is wet. So obviously those two sands are  
10 not connected. They're stratigraphically equivalent  
11 but not connected, and I indicated that on the cross-  
12 section.

13 Q. And the B sand is your objective in the  
14 proposal?

15 A. The B sand is the primary objective for the  
16 proposed zone. I feel there's a decent chance that the  
17 F sand either will not be present or could easily be  
18 wet as it is in the Bettis well.

19 Q. Let me refer you now to Exhibit Number 9.

20 A. Exhibit Number 9 is an isopach with the B  
21 sand, and it also shows the B sand producers.

22 You can see the Bettis Boyle and Stovall well  
23 produces from that zone, the Gulf GN State Number 1 in  
24 Section 28 also produces from that zone.

25 And I might add that zone is a -- That well

1 is a very poor producer. It's only produced 41 million  
2 cubic feet of gas.

3 Q. When was that well completed? Do you know?

4 A. In the mid-seventies, I believe.

5 Q. Mr. Ricketts, based on your review of the  
6 geology of this area, what risk penalty factor do you  
7 recommend be imposed by the Commission on  
8 nonparticipating working-interest owners?

9 A. I think they should receive the maximum  
10 penalty.

11 Q. That would be 200 percent; is that correct?

12 A. That's correct, 200 percent.

13 Q. And have you reviewed the AFE's which have  
14 been submitted to the working-interest owners in this  
15 matter?

16 A. Yes, I have.

17 Q. In your opinion, are those fair and  
18 reasonable for a well of this depth?

19 A. Yes. We -- They were based on the Bettis  
20 Boyle and Stovall well in Section 17.

21 Q. Mr. Ricketts, will granting Pacific  
22 Enterprises' Application permit conservation, protect  
23 correlative rights and prevent waste of hydrocarbons?

24 A. Yes.

25 MS. AUBREY: Mr. Examiner, I tender Exhibits

1 7, 8 and 9, and I have no more questions of this  
2 witness.

3 EXAMINER CATANACH: Exhibits 7, 8 and 9 will  
4 be admitted as evidence.

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Mr. Ricketts, has Pacific drilled a Morrow  
8 well in this area recently?

9 A. Not in this area, no.

10 Q. In southeast New Mexico?

11 A. Yes, we've drilled wells in southeast New  
12 Mexico in the Morrow formation within the last -- oh, I  
13 guess year and a half.

14 Q. Are the costs in line with what you've  
15 experienced with those -- in drilling those wells?

16 A. Yes, we had no significant problems in the  
17 Morrow tests at all.

18 Q. Again, what is your assessment of the risk  
19 involved in drilling to the B sand in this well?

20 A. I personally am fairly confident about it.  
21 However, you do need to point out that, you know, you  
22 have 28 feet of that productive, porous B sand in the  
23 Bettis Boyle and Stovall well in Section 17.

24 As you go to the southeast, you will note in  
25 Section 20 and 21, that zone is very thin and very

1 tight.

2 In Section 28, it is productive out of there,  
3 but that is a very mediocre well. So I think there is  
4 a certain amount of risk there on how good -- how thick  
5 and how good a sand we will encounter there.

6 Q. That's basically the only objective in this  
7 well?

8 A. There are a number of other Morrow sands  
9 through there, as you can see on the cross-section.  
10 But that is a primary objective, yes.

11 The only two, you know, good Morrow wells in  
12 the close vicinity are the one in -- The Bettis Boyle  
13 well in Section 17 and the Coquina Philly in Section  
14 21, the Bettis well producing out of the B zone, the  
15 Coquina out of the F.

16 EXAMINER CATANACH: I have no further  
17 questions. The witness may be excused.

18 MS. AUBREY: Mr. Examiner, I tender Exhibit  
19 Number 10, which is the certificate of mailing in this  
20 case.

21 EXAMINER CATANACH: Exhibit Number 10 will be  
22 admitted as evidence in this case.

23 MS. AUBREY: And I have nothing further.

24 EXAMINER CATANACH: There being nothing  
25 further in this case, case 9901 will be taken under

1       advisement.

2                       (THEREUPON, these proceedings were concluded  
3       at 10:45 a.m.)

15                       I do hereby certify that the foregoing is  
16                       a complete record of the proceedings in  
17                       the Examiner hearing of Case No. 9901.  
18                       heard by me on April 4 19 90.

19                       David R. Catant, Examiner  
20                       Oil Conservation Division

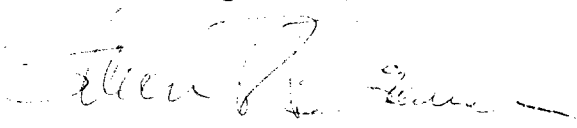
## 1 CERTIFICATE OF REPORTER

2  
3 STATE OF NEW MEXICO )  
4 COUNTY OF SANTA FE ) ss.

5  
6 I, Steven T. Brenner, Certified Shorthand  
7 Reporter and Notary Public, HEREBY CERTIFY that the  
8 foregoing transcript of proceedings before the Oil  
9 Conservation Division was reported by me; that I  
10 transcribed my notes; and that the foregoing is a true  
11 and accurate record of the proceedings.

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

16 WITNESS MY HAND AND SEAL April 9, 1990.

17   
18 \_\_\_\_\_  
19 STEVEN T. BRENNER  
20 CSR No. 106

21 My commission expires: October 14, 1990  
22  
23  
24  
25