

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4
5

6 EXAMINER HEARING
7

8 IN THE MATTER OF:
9

10 Application of Enron Oil and
11 Gas Company for compulsory pooling, Case 10035
12 Eddy County, New Mexico
13
14

15 TRANSCRIPT OF PROCEEDINGS
16

17 BEFORE: MICHAEL E. STOGNER, EXAMINER
18
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20 STATE LAND OFFICE BUILDING

21 SANTA FE, NEW MEXICO

22 August 8, 1990
23

24 **ORIGINAL**
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A P P E A R A N C E S

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1 P R O C E E D I N G S

2 HEARING EXAMINER: At this time I'll call the next
3 case, No. 10035, which is the application of Enron Oil and Gas
4 Company for compulsory pooling, Eddy County, New Mexico. Call
5 for appearances.

6 MR. CARR: May it please the Examiner, my name is
7 William F. Carr with the law firm of Campbell & Black, P.A. of
8 Santa Fe. We represent Enron Oil and Gas Company and I have
9 two witnesses.

10 HEARING EXAMINER: Are there any other appearances?
11 Will the witnesses please stand to be sworn.

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

15 HEARING EXAMINER: You may be seated. Mr. Carr.

16 MR. CARR: At this time we call Mr. Tower.

17 EXAMINATION

18 BY MR. CARR:

19 Q. Will you state your full name and place of
20 residence.

21 A. Patrick Tower, and I reside in Midland, Texas.

22 Q. Mr. Tower, by whom are you employed and in what
23 capacity?

24 A. Enron Oil and Gas Company as a landman.

25 Q. Have you previously testified before the Oil

1 Conservation Division and had your credentials as a landman
2 accepted and made a matter of record?

3 A. Yes, I have.

4 Q. Are you familiar with the application filed in this
5 case on behalf of Enron Oil and Gas Company?

6 A. Yes, sir, I am.

7 Q. Are you familiar with the subject area?

8 A. Yes.

9 MR. CARR: Are the witness's qualifications
10 acceptable?

11 HEARING EXAMINER: Mr. Tower is so qualified.

12 Q. (BY MR. CARR) Mr. Tower, would you briefly state
13 what Enron seeks with this application.

14 A. Enron hereby makes application for an order pooling
15 all the mineral interests from 5,000 feet to the base of the
16 Bone Spring formation, for all formations developed on 40-acre
17 spacing in the Northeast Quarter of the Northwest Quarter of
18 Section 18, Township 18 South, Range 31 East, in Eddy County,
19 New Mexico.

20 Q. Have you prepared certain exhibits for presentation
21 in this case?

22 A. Yes, I have.

23 Q. Would you refer to what has been marked for
24 identification as Enron Exhibit No. 1. Identify this and then
25 review it for Mr. Stogner.

1 A. Yes. Exhibit No. 1 is a land plat depicting in
2 yellow the spacing unit for the proposed well. And also the
3 well location for the well which is to be called the Canadian
4 Kenwood Federal No. 2 well.

5 Q. Is this well proposed at a standard location?

6 A. Yes, it is.

7 Q. Does this plat also show the offsetting ownership?

8 A. Yes, it does.

9 Q. And the primary objective in the well was the Bone
10 Springs?

11 A. Yes.

12 Q. Could we go now to what has been marked as Exhibit
13 No. 2 and would you identify and review that.

14 A. Exhibit No. 2 is an Exhibit A to an operating
15 agreement which sets forth the parties that have jointly agreed
16 to develop this particular area. There is two different
17 categories. The first category is the before payout interest
18 of the initial well. And the initial well being the Canadian
19 Kenwood Federal Com No. 1, which is in a before payout status
20 currently south of the proposed location. And identifies the
21 parties with ownership being Enron Oil and Gas Company with 50
22 percent, Hondo Drilling Company with 25 percent, and Lawbar
23 Petroleum, Incorporated with 25 percent.

24 Q. Mr. Tower, has Hondo Drilling Company executed an
25 operating agreement with Enron?

1 A. Yes, they have.

2 Q. And at this time is it appropriate to dismiss Hondo
3 Drilling Company from the pooling application?

4 A. Yes.

5 Q. What is the status of Lawbar Petroleum, Inc.?

6 A. Lawbar Petroleum, Inc. currently is in Chapter 11
7 bankruptcy. And there is some question as to whether they can
8 commit their interest under the operating agreement at this
9 time. Therefore in continuing to drill the well Enron seeks to
10 force pool Lawbar as a protection matter. If Lawbar is capable
11 of executing the operating agreement they naturally the pooling
12 order will have no effect on them.

13 Q. But again they have been unable to advise whether or
14 not they can execute the operating agreement.

15 A. That is correct.

16 Q. Now, let's go to the after payout status on this
17 well. Could you explain to the Examiner what the ownership
18 would be at that point in time.

19 A. Yes. In the after payout category you have Enron
20 Oil and Gas Company with 25 percent work interest, Hondo
21 Drilling Company with 12 and a half percent working interest,
22 Lawbar Petroleum Incorporated with 12 and a half percent
23 interest, Canadian Kenwood Company with 40.378349 percent work
24 interest, southland Royalty Company with 6.698821 percent
25 working interest, and the T. R. Parker Estate with 2.92283

1 percent working interest.

2 Q. You've already reviewed the status of the
3 relationship with Hondo and Lawbar. Could you review for
4 Mr. Stogner where your negotiations stand with Canadian
5 Kenwood, Southland, and T. R. Parker Estate once you get to an
6 after payout status.

7 A. At this point we've had numerous negotiations.
8 However we have not come to any written agreement as to
9 handling of that interest.

10 Q. And in an after payout status Enron needs to have
11 the protection of a pooling order to assure that all of these
12 interests are in fact committed to --

13 A. That is correct.

14 Q. Could you identify what has been marked as Exhibit
15 No. 3.

16 A. Exhibit No. 3 is the AFE that has been proposed for
17 the drilling of this well. It identifies on the back the total
18 drilling well costs, estimated drilling cost being \$270,300,
19 and the total completed well cost of \$511,400.

20 Q. Are these costs in line with what's being charged by
21 other operators for similar wells in the area?

22 A. Yes, they are.

23 Q. Mr. Tower, before we go to Exhibit No. 4, Exhibit 4
24 does contain also a copy of the AFE; is that correct?

25 A. Yes, it does.

1 Q. Could you explain to the Examiner the difference
2 between the AFE marked Exhibit 3 and the one contained in
3 Exhibit No. 4.

4 A. Yes. The one in Exhibit 4 was prepared -- there was
5 some question as to the interest under this well. Initially it
6 was set out -- the only difference is total costs are the same.
7 It was just as to Enron's working interest, particularly at the
8 top.

9 Q. Exhibit No. 3 reflects Enron's working interest at
10 50 percent. That's before payout of the first well?

11 A. That is correct.

12 Q. And the other AFE shows it at 25 percent which would
13 be a figure representing after payout?

14 A. That's correct.

15 Q. The numbers contained on the AFE are identical; is
16 that right?

17 A. That's correct.

18 Q. And the AFE with each of the figures as depicted on
19 both exhibits has previously been submitted to those owners who
20 you are seeking approval?

21 A. Yes.

22 Q. All right. Let's go now to Exhibit No. 4. And I'd
23 ask you to identify that for Mr. Stogner, and then reviewing
24 that exhibit summarize the efforts you've made to obtain
25 voluntary joinder of all owners of this tract.

1 A. Okay. Exhibit No. 4 represents two separate
2 letters. The first letter dated May 22nd, 1990, wherein Enron
3 proposed the drilling of this well with all the parties
4 involved. The second letter, additional correspondence in
5 there, with Allen & Isbell firm which represents Hondo
6 Drilling, is to identify some of the negotiations for this
7 proposed well. Also in any case Hondo, when they agreed to
8 participate in this well, and some additional correspondence
9 from Canadian Kenwood involved in negotiating in this well.
10 The final letter, July 24, 1990, is the last written effort to
11 obtain the written approval of the parties that we're seeking
12 to force pool.

13 Q. Attached to these letters are there return -- copies
14 of return receipts showing that they in fact were mailed and
15 delivered to the parties whom you are seeking to pool?

16 A. Yes.

17 Q. In addition to these written -- to these letters,
18 have you been in communication with each of the parties?

19 A. Yes. I have had numerous conversations dating back
20 to May. And I would say approximately with each separate party
21 there have been at least five to ten separate conversations,
22 verbally negotiations trying to come to volunteered agreement.

23 Q. Have you agreed to or reached any kind of an
24 agreement with Canadian Kenwood at this time?

25 A. No, we have not.

1 Q. With Southland Royalty?

2 A. No.

3 Q. And with T. R. Parker Estate?

4 A. No.

5 Q. In your opinion have you made a good faith effort to
6 locate all interest owners in this property and to obtain their
7 voluntary joinder?

8 A. Yes, we have.

9 Q. Would you identify now what has been marked as
10 Exhibit No. 5.

11 A. Exhibit No. 5 is the notice affidavit prepared by
12 William F. Carr, attorney representing Enron Oil and Gas.

13 Q. Does this affidavit confirm that notice of today's
14 hearing has been provided as required by OCD rules?

15 A. Yes, it does.

16 Q. Does Enron seek to be designated operator of the
17 proposed well?

18 A. Yes, we do.

19 Q. Mr. Tower, have you made an estimate of overhead and
20 administrative costs to be incurred while drilling this well
21 and also while producing the well if it in fact is successful?

22 A. Yes, we have. And what we have done, Enron operates
23 approximately 12 wells in this particular area. And including
24 the Canadian Kenwood No. 1. The overhead rates actually being
25 charged to the parties, which some are the same parties

1 involved here, have been escalated with the current rates being
2 billed at a drilling well rate of \$6,827 and a current
3 producing well rate of \$683.

4 Q. Are these costs contained in the operating agreement
5 between you and Hondo?

6 A. Yes.

7 Q. These are the costs which are also in effect in the
8 existing agreement for the No. 1 well with Lawbar?

9 A. That's correct.

10 Q. Are they in line with what's being charged by other
11 operators in the area?

12 A. Yes.

13 Q. Do you recommend that these costs be incorporated
14 into any order which results from today's hearing?

15 A. Yes, we do.

16 Q. Is Enron going to call a geological witness who can
17 testify to risk involved in drilling this well?

18 A. Yes, we are.

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

21 A. Yes, they were.

22 Q. So at this time the case stands seeking pooling of
23 all the interest owners in the well you identified on Exhibit
24 No. 2, both before payout and after payout, with the exception
25 of Hondo Drilling who can now be dismissed from the case?

1 A. That is correct.

2 MR. CARR: Mr. Stogner, at this time I would move
3 the admission of Enron Exhibits 1 through 5.

4 HEARING EXAMINER: Exhibits 1 through 5 will be
5 admitted into evidence at this time.

6 MR. CARR: That concludes my direct examination of
7 Mr. Tower.

8 HEARING EXAMINER: Thank you, Mr. Tower.
9 Mr. Stovall.

10 EXAMINATION

11 BY MR. STOVALL:

12 Q. Mr. Tower, I have some questions here regarding
13 specifically the application of the risk penalty. I don't
14 think for the purpose of my questions we care what the level of
15 that risk penalty is.

16 First let me ask you, am I correct in interpreting
17 that the back-in after payout working interests are derived
18 equally from the Enron, Hondo, and Lawbar initial working
19 interests?

20 A. Would you restate that.

21 Q. Yeah, let me try that. What is the leasehold
22 situation in west half of Section 18? Can you describe that
23 lease in general for me.

24 A. Yeah. Just in general there was a working interest
25 unit put in effect in covering the west half, involving all the

1 parties for the drilling of No. 1 well, drilled as a Morrow
2 well. That well has subsequently been recompleted. And in the
3 Bone Spring formation, however, the contractual agreements were
4 left in place among the parties.

5 Q. Okay. So the west half is not covered by a single
6 lease, but by different leases?

7 A. There are three separate Federal leases involved.

8 Q. And what is the relationship between the back-in
9 interest owners and the, I'll call them initial well interest
10 owners?

11 A. Okay. For the Canadian Kenwood Federal Com No. 1
12 well, the parties with the back-in interests or after payout
13 interests farmed out to the parties in the before payout
14 category for the drilling of No. 1 well. However, the No. 1
15 well has not paid out at this time. It could occur at a point
16 where it would affect the No. 2 well.

17 Q. Were the back-in interests, Canadian, Southland, and
18 Parker Estate, were they the original lessees or working
19 interest owners?

20 A. Yes, they were.

21 Q. And the Enron, Hondo, and Lawbar interests are
22 strictly by virtue of the farm-out?

23 A. Initially they were. However, with the drilling of
24 the first well assignments were made of operating rights
25 wherein the three before payout parties now own 100 percent of

1 the operating rights in the tract that we're going to drill,
2 subject to the revisionary interest.

3 Q. Now, you said there were three separate leases; is
4 that correct?

5 A. That's correct.

6 Q. Did Canadian, Southland, and Parker each own a
7 common interest in all three leases, or did they own separately
8 three leases?

9 A. Southland, they are somewhat divided. Generally in
10 the Northwest Quarter you had common ownership between T. R.
11 Parker Estate and Canadian Kenwood. In the Southwest Quarter
12 you had somewhat of a common ownership between all three.

13 Q. Now, did Enron, Hondo, and Lawbar enter into a
14 common farm-out agreement with the original working interest
15 owners or were they separate?

16 A. They were three separate farm-out agreements.

17 Q. Let me back up and ask you again. Let's just deal
18 with what's called Canadian just for illustrative purposes.

19 On a farm-out with Canadian Kenwood did Enron,
20 Hondo, and Lawbar enter into a common farm-out agreement with
21 Canadian?

22 A. That is correct.

23 Q. And then those three entities entered into another
24 common farm-out with Southland?

25 A. That is correct.

1 Q. And then likewise with Parker Estate?

2 A. Yes.

3 Q. It's not possible, if I interpret what you are
4 saying correctly, for Canadian, Southland, and Parker Estate to
5 pay their share of the costs and join in the well; is that
6 correct?

7 A. That would be -- at this point that's correct.
8 However, that is subject to change depending on the No. 1 well
9 and those agreements. Therefore Enron is seeking just to
10 protect their interests in the event that would happen.

11 Q. Okay. How would you propose that any penalty which
12 is applied to a nonconsenting working -- we're talking about
13 Lawbar at this point, I believe; is that correct?

14 A. Yes.

15 Q. How would you propose that such a penalty apply to
16 the back-in interest? How are you going to collect that?

17 A. At this point we are only proposing that it attach
18 to the before payout interest. However, if the after payout
19 interests become effective, they are going to become effective
20 before the drilling of this well. So what we are proposing is
21 to attach it at the consummation of this well.

22 Q. The well that's currently being drilled, is that the
23 one we're talking about?

24 A. Yes, the one that is proposed, right.

25 Q. Oh, the one that's proposed.

1 A. There are some contractual matters to be resolved,
2 and those determinations will be made prior to the drilling of
3 this well.

4 Q. Is it reasonably safe to say that payout of the well
5 under the farm-out agreement for the purposes of back-in is
6 going to be roughly the same amount of recovery as the 100
7 percent cost recovery upon which the penalty provision would be
8 based?

9 A. That would be correct.

10 Q. So after 100 percent of the costs have been
11 recovered Canadian, Southland, and Parker would back into the
12 well at their respective interests?

13 A. That's correct.

14 Q. And they would not then be subject to any penalty;
15 is that correct?

16 A. No.

17 Q. And then so any penalty that would be recovered from
18 Lawbar would then be recovered from their 12 and a half percent
19 as opposed to their 25 percent. Is that your intention? Is
20 that what you would propose?

21 A. If I understand that correctly, what we are
22 attempting to do is we're stating that the after payout
23 interest may become effective prior to drilling the well. In
24 the event that happens we are seeking in this case it would be
25 the 12 and a half percent, and the nine percent would attach to

1 only that 12 and a half percent of Lawbar. In the event it's
2 drilled on a before payout basis then the nine percent would
3 prescribe to the 25 percent of Lawbar, if that makes sense.

4 Q. If it's drilled on an after payout basis would
5 Canadian, Southland, or Parker be responsible for drilling
6 costs?

7 A. At that point, yes.

8 Q. So it's possible they could become working interest
9 owners before the well is drilled?

10 A. That is correct.

11 Q. But if they don't, if in fact they are in the well,
12 if you will, on an after payout -- on a before payout basis
13 until payout, and then back into the well under the provisions
14 of the farm-out, they would not be subject to any penalty
15 provisions; is that correct?

16 A. That is correct.

17 Q. And so what would happen is that Lawbar's interest,
18 assuming that they do go under the nonconsent provision of a
19 forced pooling order, they would share 25 percent of the
20 revenue stream until payout. And they would in fact not
21 receive that because that would apply to their carried
22 interest. Lawbar itself would not receive it; is that correct?

23 A. Would you restate that. I am not sure I followed
24 you.

25 Q. Okay. I am assuming Hondo and Enron are going to

1 participate in the well at this point.

2 A. (Witness nodding head.)

3 Q. I am assuming at this point that Canadian,
4 Southland, and Parker Estate will not have any working interest
5 in the well until after payout.

6 A. (Witness nodding head.) If that determination is
7 made, right. That's possible, yes.

8 Q. Then Lawbar would then presumably, because they
9 don't have the ability to consent and participate, are going to
10 be a nonconsenting --

11 A. That is correct.

12 Q. -- owner under the order. And their interest is
13 going to be subject to a penalty, whatever level the division
14 assigns?

15 A. That's correct.

16 Q. So Lawbar would receive nothing on prior to payout,
17 they would receive -- that would all go to those parties that
18 carried Lawbar's interest?

19 A. That's correct.

20 Q. Out of 25 percent. Then after payout Lawbar's
21 interest would be reduced by 50 percent.

22 A. That is correct.

23 Q. Is that correct?

24 A. That's correct.

25 Q. And they would continue to not receive money until

1 payout of the penalty; is that correct?

2 A. That's correct.

3 Q. So in other words, the payout time of the penalty,
4 if you will, would actually be twice as long because there is
5 now half as much interest paying it out. Is that how you
6 anticipate that this would happen?

7 A. You are suggesting that the penalty come out of 12
8 and a half percent and thereby extend the life of the penalty?

9 Q. Yes.

10 A. That is correct.

11 Q. The penalty is based upon the same cost, but now
12 there is a reduced revenue interest payment?

13 A. That is correct.

14 MR. STOVALL: Now, I am going to suggest,
15 Mr. Examiner, at this point that we put this one on Mr. Carr's
16 back and he's going to have to help us draft an order.

17 MR. CARR: I knew you were going to do that.

18 MR. PADILLA: Mr. Examiner I would like to enter an
19 appearance at this time for Hondo Drilling Company. I have no
20 witnesses and I have no questions.

21 MR. STOVALL: State your name for the reporter.

22 MR. PADILLA: My name is Ernest L. Padilla with the
23 law firm of Padilla & Snyder for Hondo Drilling Company.

24 HEARING EXAMINER: Mr. Padilla.

25 Thank you, Mr. Stovall. And I am going to

1 appreciate your rough draft order, Mr. Carr.

2 Is there any further questions of this witness? If
3 not he may be excused at this time.

4 Mr. Carr.

5 MR. CARR: At this time I would call Mr. Parrott.

6 MR. STOVALL: Mr. Carr, you might encourage your
7 client to get all six interests to participate.

8 MR. CARR: We've been doing everything we can. The
9 questions that you raise are the kinds of questions we've been
10 going round and round with.

11 HEARING EXAMINER: Mr. Carr, you may continue.

12 EMERY W. PARROTT,
13 the witness herein, after having been first duly sworn upon his
14 oath, was examined and testified as follows:

15 EXAMINATION

16 BY MR. CARR:

17 Q. Would you state your full name for the record,
18 please.

19 A. Emery W. Parrott.

20 Q. Would you spell your last name.

21 A. P-a-r-r-o-t-t.

22 Q. Mr. Parrott, where do you reside?

23 A. Midland, Texas.

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

25 A. At the present time I am consulting geologist.

1 Prior to January of this year I was employed by Enron -- I am
2 going to have to get some water probably -- as a senior project
3 geologist. This area in question was directly under my
4 supervision.

5 MR. CARR: Could we take just a brief recess.

6 MR. STOVALL: I'll just get him some water.

7 THE WITNESS: All right. Thank you very much. I do
8 this.

9 HEARING EXAMINER: If you need a break until then,
10 until he comes back?

11 THE WITNESS: No. I think it will come back if I
12 just talk a little bit and get a swallow.

13 HEARING EXAMINER: If you need a break just let me
14 know.

15 THE WITNESS: I'll yell.

16 Q. (BY MR. CARR) Prior to your retirement from Enron
17 you were the geologist responsible for this area?

18 A. Yes, sir, directly responsible for this area from
19 the time it started with the completion of the Roche No. 2 in
20 the Bone Springs sand.

21 Q. Have you previously testified before the Oil
22 Conservation Division?

23 A. Yes, sir.

24 Q. And at that time were your credentials as a
25 geologist accepted and made a matter of record?

1 A. Yes, sir.

2 Q. Are you familiar with the application filed for
3 Enron Oil and Gas Company in this case?

4 A. Yes, sir.

5 Q. And are you familiar with the subject area?

6 A. Yes, sir.

7 MR. CARR: Are the witness's qualifications
8 acceptable?

9 HEARING EXAMINER: They are.

10 Q. (BY MR. CARR) Mr. Parrott, are you prepared to make
11 a recommendation to the Examiner as to the risk penalty that
12 should be assessed against the nonconsenting interest owners in
13 this well?

14 A. I think, yes, sir.

15 Q. And what is that recommendation?

16 A. It would be at least 200 percent.

17 Q. And have you prepared a geological study in support
18 of that recommendation?

19 A. Yes, sir.

20 Q. Would you refer to what has been marked for
21 identification as Enron Exhibit No. 6. Identify that and
22 review it for the Examiner.

23 A. All right. That's the isopach, right?

24 Q. That is the isopach on the second Bone Spring sand.

25 A. Thank you very much. Actually I'd like for you to

1 look at the EUR map along with it which is Exhibit 7.

2 Q. Exhibit 7.

3 A. As I stated, the original completion in this portion
4 of the Bone Springs play was a recompletion of the Roche No. 1
5 located in the northwest of the southeast of Section 7. It
6 kicked off this play and it is an excellent well. As you can
7 see, the EUR's in this sand body which we call the Roche, which
8 is in the lower portion of the Bone Springs sand, second sand,
9 are rather erratic. The engineers consider that it takes from
10 38 to 40,000 barrels to pay out these wells in the sand zone.
11 And looking at the map you can see that as we go southwest
12 towards the proposed location your sand zone is thinning and
13 tightening. The two offset locations to the east, Texaco's
14 No. 1, Kincaid and Enron's No. 1 Roche have about 39 to 40
15 feet, and the Enron Canadian Kenwood is down to 15. So any
16 location going towards that you are increasing your risk for
17 the second sand.

18 Q. All right. Now let's go to Enron Exhibits 8 and 9.
19 I would ask you to identify and review those for Mr. Stogner.

20 A. They are an isopach map and an EUR map of the
21 carbonate zone in the second Bone Springs sand, which is the
22 best zone. It's an excellent zone. As you know in the whole
23 trend of the Bone Springs from Young to Tomano across to
24 Shugart. And looking at the isopach map of the neutron
25 porosity which we figure is one of the keys you have to use in

1 this carbonate zone. You can see that the -- look at the two
2 offset wells that are excellent wells, the one in the northeast
3 of the -- northwest of the northeast of 18, and the one in the
4 southeast of the -- southwest of the southeast of seven are
5 both wells that are flowing top allowable from the carbonate.
6 The well in the southeast of the southwest is presently
7 completing in the sand. It will be completed in the carbonate,
8 if the logs and so forth are telling us the truth.

9 From this map you can again see that Enron No. 1
10 Canadian Kenwood has no porosity in this zone. In fact it is a
11 limestone. And anytime you get a limestone instead of a
12 dolomite you are dead in the water. So any well going in that
13 direction has a higher risk. However, the proposed location is
14 a direct offset to two top allowable wells and needs to be
15 drilled to protect the interest in the west half of Section 18.

16 Q. Mr. Parrott, are you ready to go to your
17 cross-section of --

18 A. I would like to show you the cross-section.

19 Q. Would it be easier to put it up on the wall, do you
20 think?

21 A. Possibly, because it's such a bed sheet that you
22 might have trouble getting it on your table. And we tried to
23 get it down but we figured you had to see it so we left it that
24 size. We reduced it better than half what we felt like from
25 the character of the formation. For what we needed to show you

1 we needed these logs this size.

2 As you can see on your exhibit, this cross-section
3 runs more or less northeast-southwest. And it runs from the
4 Texaco to Kincaid well on the northeast, which is presently
5 completing. I have just talked to Texaco. They had perforated
6 the Roche zone, which is the lower zone, and it pumped,
7 swabbed, and so forth 66 barrels of oil, about 100 barrels of
8 load when they came back up to the carbonate zone. They set
9 the plug, acidized the carbonate zone with 21,000 gallons of
10 acid. And as of yesterday they had pulled the plug. Because
11 that zone, the last ten-hour gauge swabbed six barrels of oil
12 and about 12 barrels of load. So the zone is tight as it shows
13 to be. And as you can see from the cross-section it is above
14 the normal zone as developed in the two good wells. You know
15 the zone moves in this thing, but in this area the good wells
16 have all been in the basin unit of this carbonate.

17 So what we have here are two good wells, direct
18 offset, and then we go south to the Canadian Kenwood 1. In the
19 carbonate zone it's Tomstown and limestone again as I showed
20 you. But that's what I wanted to show you on the log. It's
21 just nothing is there in the carbonate. And as you go down to
22 the Roche zone it is thin and tight.

23 We do not have in my log or any samples on this
24 well. But from the log it looks to be dolomitic, a dolomitic
25 sand. So what this section and everything indicates, as we

1 move in this direction we're increasing our risk. But as I
2 said, because of offsets to those two wells I think this well
3 needs to be drilled to protect drainage and so forth.

4 HEARING EXAMINER: You are indicating a southwestern
5 direction; is that correct?

6 THE WITNESS: Yes, sir.

7 Q. (BY MR. CARR) Mr. Parrott, in your opinion could
8 Enron drill a well to a proposed location that would not be a
9 commercial success?

10 A. Yes, sir. In the Bone Springs you can drill a
11 non-commercial well almost anywhere.

12 Q. In your opinion granting this application enable
13 Enron to attempt to develop the reserves under that tract?

14 A. Yes, sir.

15 Q. Will it be -- approval of the application be in the
16 best interest of conservation and prevention of waste and
17 protection of correlative rights?

18 A. Yes, sir. Yes, sir.

19 Q. Were Exhibits 6 through 10 prepared by you, or have
20 you reviewed them and can you testify as to the reasonableness
21 of the interpretation?

22 A. They were. The original maps were prepared by me.
23 And as you can see, since January they've been updated. But I
24 have gone over that updating with the geologist who did them
25 and have been consulting for Enron, yes.

1 MR. CARR: At this time, Mr. Stogner, we would move
2 the admission of Enron Exhibits 6 through 10.

3 HEARING EXAMINER: Exhibits 6 through 10 will be
4 admitted into evidence.

5 MR. CARR: That concludes my examination of this
6 witness.

7 HEARING EXAMINER: Mr. Padilla, do you have any
8 questions?

9 MR. PADILLA: I don't have any questions,
10 Mr. Examiner.

11 EXAMINATION

12 BY THE HEARING EXAMINER:

13 Q. Mr. Parrott, I am referring to Exhibit 6 and 7. You
14 referred to a Roche well in which got this place started.
15 Which well was that again?

16 A. Roche No. 2 which is in the northwest of the
17 southeast of Section 7.

18 Q. All right. And what is the present status of that
19 well that's in the Southeast Quarter of the Southwest Quarter?
20 It has no marking on it, and you mentioned that as being
21 completed.

22 A. The Southeast Quarter?

23 Q. Of the Southwest Quarter of Section 7.

24 A. Oh.

25 Q. It has no designation.

1 A. Oh. It is the Enron No. 4 sand seven and they are
2 in the process of completing. They perforated and frac'd the
3 Roche zone and are now swabbing back that load. As soon as
4 they get the well cleaned up, they will come back to the
5 carbonate. From all geological evidence it will make a good
6 well in the carbonate. It fits the criteria we try to use down
7 there. We had a good sample show, we had good dolomite, we had
8 good separation on the latter log, and some indication of
9 porosity. And we ran a scanner, one of these scanners, and it
10 indicates we've got some fracturing and some vugs. So we think
11 we're in the ballpark with that location. It looks like it
12 should make a top allowable well in the carbonate.

13 Q. Was this well drilled prior to the Kenwood No. 1?

14 A. Which well?

15 Q. The Enron 4 sand No. 7. Is that how you --

16 A. No, that well is just finished. That's a brand new
17 well.

18 Q. So that was drilled after the No. 1 Canyon Kenwood?

19 A. Yes, sir. Now the Canadian Kenwood was drilled as a
20 Morrow well back in 1980.

21 Q. When was the Canadian Kenwood --

22 A. Recompleted in the sand?

23 Q. Yes, sir.

24 A. 1987 or early '88. I would have to go back to the
25 records to see. I've got something.

1 Q. That's close enough. That should be close enough.

2 A. All right, sir.

3 March of '88 was the first production out of sand.

4 HEARING EXAMINER: Does anybody have any further
5 questions of Mr. Parrott? If not he may be excused.

6 Mr. Carr, do you have anything further?

7 MR. CARR: Nothing further, Mr. Stogner.

8 HEARING EXAMINER: Does anybody else have anything
9 further in this case?

10 MR. STOVALL: I have nothing.

11 HEARING EXAMINER: In that case I'll take Case
12 No. 10035 under advisement and I'll be expecting a rough draft
13 order, Mr. Carr.

14 MR. CARR: Yes, sir.

15 HEARING EXAMINER: Let's take about a 15 to 20
16 minute recess at this point.

17 (Thereupon, a recess was taken.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 10035,
heard by me on 8 August 1990.

 , Examiner
Oil Conservation Division

1 CERTIFICATE OF REPORTER

2

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

5

6 I, Diane M. Winter, Certified Shorthand Reporter and
7 Notary Public, HEREBY CERTIFY that the foregoing transcript of
8 proceedings before the Oil Conservation Division was reported
9 by me; that I caused my notes to be transcribed under my
10 personal supervision; and that the foregoing is a true and
11 accurate record of the proceedings.

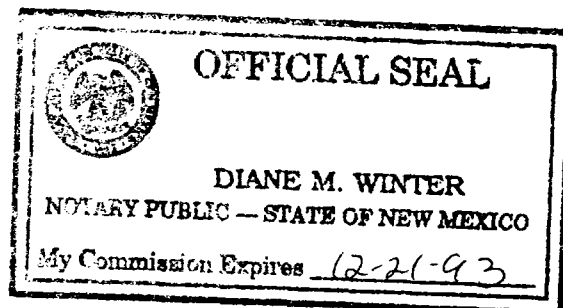
12 I FURTHER CERTIFY that I am not a relative or
13 employee of any of the parties or attorneys involved in this
14 matter and that I have no personal interest in the final
15 disposition of this matter.

16 WITNESS MY HAND AND SEAL August 20, 1990.

17 
18

19 DIANE M. WINTER
20 CSR No. 414

21 My commission expires: December 21, 1993



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