

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

28 August 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Robert E. Chandler Cor- CASE
poration for compulsory pooling, Lea 8686
County, New Mexico.

BEFORE: Michael F. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

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MR. STOGNER: Call next Case

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Number 8686.

4

MR. TAYLOR: The application of

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Robert E. Chandler Corporation for compulsory pooling, Lea

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County, New Mexico.

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MR. STOGNER: Call for

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appearances.

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MR. KELLAHIN: On behalf of Mr.

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Chandler, Mr. Examiner, we would request this case be

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continued to the hearing on the 28th of September.

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MR. STOGNER: Case Number 8686

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will be so continued to the Examiner's Hearing scheduled

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for September 28th, 1985.

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(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division (Commission) was reported by me;
that the said transcript is a full, true, and correct record
of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

Received by me on 28 August 1985.
8686
Michael E. Stogard, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

25 September 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Robert E. Chandler CASE
corporation for compulsory pooling, 8686
Lea County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: W. Thomas Kellahin
Attorney at Law
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501

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I N D E X

JOHN D. SAVAGE

Direct Examination by Mr. Kellahin 4

E X H I B I T S

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MR. STOGNER: This hearing will
come to order for Docket Number 29-85, September 25th, 1985.

I'm Michael E. Stogner, ap-
pointed Examiner for today's hearing.

We will call first Case Number
8686, which is the application of Robert E. Chandler Corpor-
ation for compulsory pooling, Lea County, New Mexico.

We will now call for appear-
ances.

MR. KELLAHIN: If the Examiner
please, I'm Tom Kellahin of Santa Fe, New Mexico, appearing
on behalf of the applicant.

I have one witness, Mr. John
Savage, who is a Registered Petroleum Engineer.

MR. STOGNER: Are there any
other appearances?

Will the witness please stand
and be affirmed?

(Witness sworn.)

MR. STOGNER: Mr. Kellahin?

MR. KELLAHIN: Thank you, Mr.
Stogner.

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JOHN D. SAVAGE,
being called as a witness and being duly sworn upon his
oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. STOGNER:

Q Mr. Savage, for the record would you
please state your name and occupation?

A My name is John D. Savage and I'm a pet-
roleum engineer.

Q Mr. Savage, have you previously testified
before the New Mexico Oil Conservation Division as a petro-
leum engineer?

A Yes, approximately a year ago.

Q And have you prepared the engineering da-
ta and testimony for presentation in today's case?

A Yes.

Q Mr. Savage, are you and Mr. Chandler the
applicant working interest owners in the 40-acre tract that
that's the subject of this application?

A Yes.

MR. KELLAHIN: We tender Mr.
Savage as an expert petroleum engineer, Mr. Stogner.

MR. STOGNER: He is so quali

1 fied.

2 Q Mr. Savage, let me direct your attention
3 first of all to Exhibit Number One, which is the plat that
4 we have submitted to the examiner, and if you'll locate for
5 us, sir, where the proposed spacing unit is for which you
6 seek the forced pooling order.

7 A The unit is the 40 acres comprising the
8 northeast quarter southeast quarter of Section 7, 22 South,
9 38 East, Lea County, New Mexico.

10 Q Within that 40-acre tract, Mr. Savage,
11 would you describe for the Examiner what the working inter-
12 est ownership is?

13 A Mr. Chandler and I have half; the remain-
14 ing half if held by Sun.

15 Q Have you and Mr. Chandler made an effort
16 to form a voluntary unit for the drilling of the subject
17 well on this tract?

18 A Yes, that was drilled -- attempted last
19 spring.

20 Q Let me direct your attention, Mr. Savage,
21 to Exhibit Number Two, which is a copy of a letter from Sun
22 to you and Mr. Chandler concerning their participation in
23 the well.

24 Would you describe generally what efforts
25 you and Mr. Savage -- you, Mr. Savage, and Mr. Chandler have

1 made to obtain voluntary joinder by Sun?

2 A Yes. On May 22nd we sent Sun's landman,
3 Mr. Tom Hobbs, a letter asking them to enter into a drilling
4 proposal with us for an 8000-foot test.

5 We sent them an AFE and awaited their de-
6 cision.

7 Q Is that letter marked as Exhibit Number
8 Three to this hearing?

9 A Yes, sir.

10 Q And attached to that letter is an AFE.
11 Is that the AFE to which you refer?

12 A Yes, that is.

13 Q Would you describe for us what formations
14 you anticipate that you will test in this well?

15 A There are, in the immediate neighborhood
16 there are five producing zones, actually termed five differ-
17 ent fields. One of those we ascribe no recovery possible
18 to, and there are four. Starting from the bottom up is the
19 Wantz Granite Wash, the overlying Drinkard, the Tubb, and
20 then the Blinebry is the upper member.

21 Q Are you seeking a compulsory pooling or-
22 der against Sun for the oil production on the 40-acre tract
23 from the surface to the base of the Granite Wash?

24 A Yes, sir.

25 Q All right, and in response to the May

1 22nd, 1985 Letter, what has Sun told you?

2 A Sun elected not to participate in the
3 proposed well.

4 MR. KELLAHIN: If the Examiner
5 please, we'd like to direct your attention to Exhibit Four
6 and Five, which are notices sent to Sun of the case today.
7 They follow the AFE.

8 Again, Sun has notified the law
9 firm that they have elected not to participate in the forced
10 pooling.

11 Q Let me direct your attention, Mr. Savage,
12 to the AFE, now.

13 Have you had an opportunity to review and
14 satisfy yourself that the itemized schedule of estimated
15 well costs is reasonably accurate?

16 A Yes.

17 Q And does it represent a reasonable and
18 fair estimate of the actual costs for drilling a well of
19 this type?

20 A We think so, yes, sir.

21 Q All right, sir. In terms of the provi-
22 sions of the forced pooling order, Mr. Savage, do you have a
23 recommendation to the Examiner for an overhead charge to be
24 included in the pooling order?

25 A Yes. We believe that \$300 a month while

1 producing, \$3000 a month while drilling, are reasonable
2 charges.

3 Q Are these overhead rates that have been
4 recommended by you to the Division here in other forced
5 pooling cases?

6 A Yes. I think those are identical to the
7 ones of about a year ago.

8 Q And that was for a well of a similar
9 type.

10 A That was for a well in the Hollis Gray-
11 burg Field in the immediate area.

12 Q I'd like to direct your attention now,
13 Mr. Savage, to the question of the risk factor to apply
14 against Sun's share of production in the well and have you
15 commence with Exhibit Number Six and describe for each of
16 the four potentially productive zones what recoverable reser-
17 ves number you have determined appropriate for each of those
18 zones and how you have made -- how you have reached that
19 opinion.

20 A Well, inasmuch as we intend to start from
21 the bottom up (not clearly understood) the first plot, Exhi-
22 bit Nine, this is the Wantz Granite Wash zone and it appears
23 to be of limited areal extent. There are two wells produc-
24 ing from it in the vicinity of our property there. There
25 should be some -- we expect some production, very possibly,

1 from the zone offsetting John Hendrix's well to the south.

2 We think that inasmuch as the well to the
3 east, the Gulf Sowders No. 2, was wet, tight, and nonproduc-
4 tive in the zone, we are ascribing possible 30,000 barrels
5 to the Wantz Granite Wash. That takes into account the ef-
6 fect of some, probably some significant drainage by Hen-
7 drix's well, which is only 330 feet from the lease line.

8 The Granite Wash is a very erratic forma-
9 tion and we're just hoping for the best.

10 Q And this is in terms of what you would
11 believe to be a reasonable recoverable reserve number for
12 that zone.

13 A Yes, that's a total reserve, 100 percent
14 reserve.

15 Q Is that the reserve in place or the re-
16 serve that you would recover?

17 A That is the recoverable.

18 Q All right. Would you turn now to Exhibit
19 Number Eight and discuss for us your opinion of the Drin-
20 kard?

21 A Well, this is -- this one is the least
22 risk, you might say, of the zones in this immediate area.

23 There are two wells that have produced
24 for some time there, the Sun Belcher 1 and the (not under-
25 stood) of Gulf, and that shows that as of May 1st Sun had

1 produced 21,000 barrels and Gulf had produced 32,000.

2 The well to the south has just been put
3 on and we have no -- no representative production figures
4 for it.

5 We think that there's probably been some
6 drainage there from the two wells on either side and the Sun
7 well is -- well, neither one was very big and the Sun well
8 is about down to about two barrels a day.

9 Here again we ascribe 30,000 barrels re-
10 coverable oil in this zone.

11 Q All right, sir, let me direct your atten-
12 tion to the next zone up the wellbore, the Tubb zone, and
13 have you give us your opinion of the recoverable reserves
14 from this well from this zone.

15 A Well, you can see here this well, and re-
16 ferring to the contours shown on Exhibit Eight, would be off
17 structure and down dip, you might say, from the surrounding
18 production, and actually no production has been obtained
19 down structure from us.

20 We think that the drainage which has been
21 going on for some time there, and the down structure posi-
22 tion mean 25,000 barrels of recoverable oil we can expect.

23 Q All right, sir, and finally, then, the
24 Blinebry zone as shown on Exhibit Number Six.

25 What is your opinion with regards to the

1 recoverable reserves of oil from that zone?

2 A Well, we're giving this one also 20,000
3 barrels. The Sun well was originally completed in the
4 Blinebry many, many years ago. It only got 11,000 barrels
5 until the time it was depleted.

6 There seems to be a deterioration running
7 east. You can see the Zachary Hinton No. 4 has been a pret-
8 ty good well and then as you go east they are decreasing.

9 So again we're down dip and we think
10 20,000 barrels would be a reasonable figure.

11 Q Having determined, Mr. Savage, that your
12 best estimate of the total oil recovered from the well is
13 approximately 105,000 barrels of oil, what then did you do
14 in assessing the risk to you and Mr. Chandler of drilling
15 this well?

16 A Well, we went through an economic analy-
17 sis of it. We projected each zone and then combined them
18 into a total projection.

19 Q All right, this projection you're looking
20 at is marked as Exhibit Number Ten, and it's labeled at the
21 top Reserves and Economics as of January 1, 1986.

22 A I might add here that to do this no one
23 zone will really stand by itself and we would anticipate
24 commingling in the hole at intervals after the first zone,
25 which is the Granite Wash, is on production.

1 Q And assessing the risk, Mr. Savage, have
2 you taken into consideration the approximate time at which
3 each of the zones will be producing over the life of the
4 well?

5 A Yes. We made a rather -- a master, we
6 might say a master compilation, bringing in the upper zones
7 as the production dropped in the well at that time, or had
8 dropped in that time.

9 Q In making your economic assessment, will
10 you describe for us the parameters used in the calculations
11 on Exhibit Number Ten?

12 A Yes, Exhibit Ten shows a gross produc-
13 tion. That is the first, second and third columns. That is
14 the total lease production and then we reduce that down to
15 the net production according to the Sun's share.

16 We used \$27.50 for oil. We made a lot of
17 these projections and we found that when we increase them or
18 decrease them we're invariably wrong, so we just left it at
19 \$27.50 throughout the life.

20 That figure we obtained from Permian who
21 is the oil buyer in the immediate area.

22 The gas figure is \$2.00 an MCF. That we
23 obtained from Warren who had to take the gas in that area.

24 Q What conclusions do you reach from making
25 your economic analysis of this well in terms of the risk in-

1 volved for you and Mr. Chandler?

2 A Well, it's certainly not going to be a
3 big profit well. We estimate a modest percent profit,
4 around 260 percent from this tabulation, and payout in about
5 41 months, as I remember. Yes, 41 month payout.

6 Those are minimum figures in the industry
7 we find at the moment. We polled a number of operators in
8 the Midland area and they stated further that to put invest-
9 ment capital in a well they want to see 40 month payout, or
10 less, and at least 200 percent profit on their investment.

11 Q All right, let's look at Exhibit Number
12 Eleven, which is the tabulation of your efforts to determine
13 what other operators are using for a maximum payout time.

14 You've indicated to us the anticipated
15 payout time for this well is about 41 months, or in excess
16 of three years.

17 A Yes, 40 months, 41 months, that's a good
18 figure.

19 Q And in terms of the minimum profit after
20 payout, the percentage of investment, which is the last col-
21 umn, what is your opinion of that percentage for this speci-
22 fic well?

23 A Well, if we don't get it, we're going to
24 -- I mean we're going to have to have assurances for our in-
25 vestors of something like 200 percent before they will in-

1 vest, and if that happens we won't -- if that doesn't happen
2 we won't get the well drilled and that oil will never be re-
3 covered.

4 Q Let me ask you, sir, to define for us
5 what you mean by this 200 percent.

6 A Well, 200 percent is the profit after all
7 costs, investment and operating costs.

8 Q In terms of a forced pooling order, Mr.
9 Savage, the Commission by statute is allowed a risk factor
10 penalty not in excess of 200 percent plus recovery of the
11 actual costs of the well for production. It's a three times
12 number.

13 A It's three times, yes.

14 Q In terms of that statutory formula, how
15 do you assess the risk for this well?

16 A Well, it, in effect, is the 200 percent
17 here plus the cost of the wells, and we think with that we
18 can probably get this well drilled, but without the 200 per-
19 cent we -- money's, frankly, money is hard to get in Midland
20 right now.

21 Q And of the other operators that you have
22 polled and tabulated on Exhibit Number Eleven, do you find
23 any of them that are willing to invest their money under an
24 economic analysis that's equal to the analysis that you've
25 made for this well?

1 A Well, these are what they tell us their
2 maximum payout and minimum profit standards are, and on that
3 basis, falling short of that they won't invest.

4 Q For you and Mr. Chandler directly, Mr.
5 Savage, are you prepared to drill this well with less than
6 the 200 percent risk factor set forth in the pooling order?

7 A I don't think we are, no.

8 Q Except for the correspondence in the ex-
9 hibits, Mr. Savage, were the exhibits prepared or compiled
10 under your supervision and direction?

11 A Yes, indeed.

12 MR. KELLAHIN: If the Examiner
13 please, we move the introduction of applicant's Exhibits One
14 through Eleven.

15 MR. STOGNER: Exhibits One
16 through Eleven will be admitted into evidence.

17 MR. KELLAHIN: That concludes
18 our examination of Mr. Savage.

19 MR. STOGNER: Are there any
20 questions of this witness?

21 I have none.

22 Mr. Savage, I apologize for my
23 affirmation and oath today, I was a little rusty.

24 Please accept my apology.

25 MR. SAVAGE: Oh, I wouldn't

1 worry about it.

2 MR. STOGNER: If there are no
3 questions of Mr. Savage, he may be -- he may step down.

4 Is there anything further in
5 Case Number 8686, Mr. Kellahin?

6 MR. KELLAHIN: No, sir.

7 MR. STOGNER: If not, this case
8 will be taken under advisement.

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10 (Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division (Commission) was reported by me;
that the said transcript is a full, true, and correct record
of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 8686,
heard by me on 25 September 19 85.

Michael E. Rogers, Examiner
Oil Conservation Division