

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

2 March 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Marshall Pipe and CASE
Supply Company for compulsory pooling, 9321
Roosevelt 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:

For the Applicant:

1
2
3 MR. STOGNER: Call next Case
4 Number 9321, which is the application of Marshall Pipe and
5 Supply Company for compulsory pooling, Roosevelt County, New
6 Mexico.

7 The applicant has also
8 requested this case be continued to the Examiner's Hearing
9 scheduled for March 16th, 1988.

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. 9321,
heard by me on 2/2/88 19 88.

Michael J. Stagner Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

16 March 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Marshall Pipe and Supply Company for an unorthodox gas well location, Roosevelt County, New Mexico. CASE 9309

Application of Marshall Pipe and Supply Company for compulsory pooling, Roosevelt County, New Mexico. CASE 9321

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: No attorney appearing.

For the Applicant: Chad Dickerson
Attorney at Law
DICKERSON, FISK & VANDIVER
Seventh and Mahone/Suite E
Artesia, New Mexico 88210

I N D E X

JAMES GRADY

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LESLIE BENTZ

Direct Examination by Mr. Dickerson 16

Cross Examination by Mr. Catanach 21

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Marshall Exhibit Seven, Affidavit of Mailing 21

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MR. CATANACH: Call next Case 9309, the application of Marshall Pipe and Supply Company for an unorthodox gas well location, Roosevelt County, New Mexico.

Are there appearances in this case?

MR. DICKERSON: Mr. Examiner, I'm Chad Dickerson of Artesia, New Mexico, on behalf of the applicant and I have two witnesses in this case, one of whom has already been sworn.

I'd also request that Case 9309 and 9321 be consolidated for the purpose of testimony inasmuch as they involve the same acreage, the same proposed same well location.

MR. CATANACH: At this time let me call Case Number 9321, which is the application of Marshall Pipe and Supply Company for compulsory pooling, Roosevelt County, New Mexico.

Are there any other appearances in either of these cases?

Will the witnesses please stand to be sworn in?

(Mr. Grady sworn; Ms. Bentz previously sworn.)

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JAMES GRADY,

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

DIRECT EXAMINATION

BY MR. DICKERSON:

Q Mr. Grady, will you state your name, your
occupation, and where you reside, please?

A My name is James Grady and I'm a petro-
leum landman. I reside in Morrison, Colorado.

Q Mr. Grady, you've not previously testi-
fied before this Division as a petroleum landman, have you?

A No, I haven't.

Q Will you briefly summarize your educa-
tional and employment history for the Examiner?

A I have a BA degree from the University of
Missouri. I've been in the oil business since 1952; 13
years of Stanoline, Amoco, and Creede Companies; 7 years
Depco Petroleum; and since then independent.

And in connection with your profession as an inde-
pendent landman, have you been employed on behalf of Mar-
shall Pipe and Supply, the applicant in these cases --

A Marshall, that's correct.

Q -- or one of its --

1 A Yes.

2 Q -- partners in this area?

3 A All the partners.

4 Q And have you performed land work and are
5 you familiar with the land situation in the area of the
6 proposed well?

7 A Yes, I am.

8 MR. DICKERSON: Tender Mr.
9 Grady as an expert petroleum landman.

10 MR. CATANACH: He is so quali-
11 fied.

12 Q Mr. Grady, will you briefly summarize the
13 purpose of Marshall Pipe and Supply in Case 9309?

14 A Here we're attempting to have an unortho-
15 dox well drilled at the location in the north half of Sec-
16 tion 34 an pool that half section and test the Canyon forma-
17 tion and Ordovician formation.

18 Q So you're seeking an unorthodox --

19 A Uh-huh.

20 Q --gas well location 330 feet from the
21 north --

22 A Right.

23 Q -- and 1980 feet from the east lines --

24 A Right.

25 Q -- of Section 34.

1 A Uh-huh.

2 Q And in Case 9321 what is requested?

3 A It's an unorthodox pooling style (sic)
4 that will pool the north half of Section 34 in a standard
5 320-acre gas spacing and proration unit; all formations and
6 pools drilled on the 320-acre spacing unit.

7 Q So you're seeking compulsory pooling of
8 parties --

9 A Right, right.

10 Q -- in that case who have --

11 A Right, uh-huh, right.

12 Q -- not agreed to participate in the well.

13 Mr. Grady, will you refer to what we have
14 submitted as the applicant's Exhibit Number One and orient
15 the Examiner with respect to the location of this proposed
16 well?

17 A The yellow acreage indicates the acreage
18 that's held by the operating group, Marshall, et al.

19 We intend to test a well in the northwest
20 of the northeast quarter of Section 34.

21 We have wells in the south half of Sec-
22 tion 27 and the north half of 27.

23 All of the acreage in there is leased to
24 the Marshall, et al, group, excepting the Texaco Spiegth in-
25 terest, which I have just received an indicated letter from

1 the Spiegths that they are sending their leases in, and we
2 --

3 Q Okay, let me --

4 A -- go ahead. We're attempting to pool
5 the Texaco, the northwest quarter of Section 34 and the
6 Spiegth interests, the northeast quarter of Section 34.

7 Q Okay. Before we leave Exhibit Number
8 One, the proposed well location indicated by the red spot in
9 the northwest quarter of the northeast quarter of Section
10 34, is 330 feet away from that north line, is it not?

11 A Yes.

12 Q So it is crowding acreage of the
13 applicant and certain other parties as far as shown by this
14 land map.

15 A Yes.

16 Q Do you know, based on your experience in
17 this area, the other parties indicated within the offsetting
18 acreage to the north, which is being crowded by this
19 proposed well? Are they participants with Marshall Pipe and
20 Supply --

21 A Yes.

22 Q -- in the well you indicated in the south
23 half --

24 A Yes.

25 Q -- of Section 27?

1 A Common ownership.

2 Q Okay. Mr. Grady, identify for us what
3 we've submitted as Exhibit Number Two and tell us what that
4 list is.

5 A Exhibit Two, the first page is a
6 breakdown of the mineral interest owners in the west half of
7 Section 34.

8 Pages 2 and 3 are an exhibit of the min-
9 eral owners in the east half of Section 34.

10 Q And is this based on your work in the --

11 A Yes, it is based on my --

12 Q -- area?

13 A -- work in the area.

14 Q And this instrument was prepared by you?

15 A Yes, uh-huh.

16 Q Okay. For the Examiner, describe for him
17 and locate for us on these ownership lists the interests of
18 the parties which are sought to be pooled by this
19 proceeding.

20 A In the Section 34 we're attempting to
21 pool Texaco in the northwest quarter and also Texaco in the
22 northeast quarter.

23 Q And Texaco's interest is uniform
24 throughout the north half, is it?

25 A Throughout the whole north half.

1 Q 15.806 --

2 A Yes.

3 Q -- net acres in each --

4 A In each --

5 Q 160?

6 A Yes.

7 Q All right.

8 A No, in each 320 there.

9 Q Well, correct, but we're only --

10 A Yeah. Okay, right, right.

11 Q -- pooling the northwest quarter --

12 A Right.

13 Q -- in the west half.

14 A Right, it would be above that. Uh-huh.

15 Q And what other interest is sought to be
16 pooled by this proceeding?

17 A Okay, the other interests we're
18 attempting to pool is the June Spiegth interest, which is
19 18.883 net acres.

20 Q And that interest that we're seeking to
21 pool is only in the northeast quarter --

22 A Only in the northeast quarter.

23 Q -- is it not? Your first page of Exhibit
24 Number Two indicates that the Spiegth interest in the
25 northwest quarter is -- or do I have it backwards? No, her

1 interest in the northwest quarter is leased, is it not?

2 A Right.

3 Q And so the June Spiegth interest in the
4 other 160 --

5 A In the northeast --

6 Q -- acres --

7 A Right, uh-huh.

8 Q -- is unleased and that's the subject of
9 --

10 A Right.

11 Q -- proceeding.

12 A Right.

13 Q With the exception of Texaco and June
14 Spiegth, are all other interest owners committed by lease or
15 other arrangement --

16 A They are all committed to lease.

17 Q -- to the proposed well?

18 A Everything has, yes.

19 Q Okay. Mr. Grady, refer to the packet we
20 have submitted as Exhibit Number Three and briefly tell us
21 what it consists of and summarize some of the contacts
22 you've had with Texaco and June Spiegth regarding the
23 drilling of this proposed well.

24 A Packet Three contains copies of my
25 correspondence to Texaco and Spiegth interests.

1 My first contact with Texaco was made De-
2 cember the 11th and then two other telephone contacts were
3 made right after the Christmas holidays.

4 The well of January 24th I contacted Lynn
5 Ryan in the Denver office and was advised that the entire
6 matter had been transferred to their -- excuse me, Lynn
7 Ryan, he's in the Denver office and it was transferred to
8 their Midland office and that they would so advise.

9 Q Mr. Grady, let me ask you, had you dealt
10 with Texaco through its Denver office in other trades in
11 this area --

12 A Yes.

13 Q -- prior to this one?

14 A We leased the acreage in 27 and surroun-
15 ding areas from Texaco.

16 Q For the same partners by whom you're em-
17 ployed now.

18 A For the same partners, the same indica-
19 tions, the same everything else, yes.

20 Q And so the offer extended to Texaco in
21 your December 11th was based on your recent experience --

22 A Based on the recent experience.

23 Q -- with Texaco.

24 A Right. Uh-huh.

25 Q Okay, what, if you know, is the -- is the

1 current status of Texaco's requested either lease of this
2 acreage or invitation to participate in the drilling of this
3 well?

4 A It is my understanding that they in a re-
5 cent conversation Texaco advised that they would not be in a
6 position to decide whether to join in and drill or to farm
7 out, or what, and they could not reach the decision as of
8 this date.

9 Q Just could not get an answer from manage-
10 ment --

11 A Just couldn't get an answer.

12 Q -- as of yet.

13 A Uh-huh.

14 Q All right, what is the current status of
15 the requested lease covering the June Spiegth interest in
16 the northeast quarter of the section?

17 A I've been advised by the secretary in the
18 Spiegth office that they were going to submit their lease
19 for payment and it should be received; as of this date it
20 has not been received by our bank.

21 We think that they're going to go ahead
22 and lease but we're not positive.

23 Q You have been informed verbally that the
24 --

25 A I have been informed by letter.

1 Q -- Spiegth interest will execute a lease.

2 A I have been informed by letter.

3 Q Okay.

4 A That I just received yesterday.

5 Q And in the event you subsequently reach
6 an agreement with Mrs. Spiegth or with Texaco, you will not-
7 ify the Division of that fact.

8 A Immediately, right. Uh-huh.

9 Q Okay. Mr. Grady, identify for us what we
10 have submitted as the applicant's Exhibit Number Four.

11 A Applicant Exhibit Four is the AFE pre-
12 pared by Marshall Pipe and Supply for the proposed drilling
13 and this based on the wells previously drilled in the area.

14 Q How many wells, if you know, has the ap-
15 plicant previously drilled in the vicinity of this proposed
16 well?

17 A I believe he's drilled three producers --
18 or shut-in gas wells and one dry hole.

19 Q Okay. And what are the anticipated dry
20 hole costs reflected by the first page of Exhibit Four?

21 A \$249,180.67 for the dry hole and comple-
22 tion costs based on the previous other wells is \$123,341.

23 And again, these are based on previous
24 wells drilled in the area.

25 Q So the separate AFE setting forth the an-

1 anticipated completion costs were actually -- costs actually
2 incurred in the previous well --

3 A Right.

4 Q -- and assumed to be similar to the wells
5 anticipated to be incurred in this well if the completion
6 program is --

7 A Yes.

8 Q -- similar.

9 A Correct, uh-huh.

10 Q And what are those anticipated completion
11 costs again?

12 A The completion costs are \$249,180
13 drilling and completing is \$123,341; approximately \$372,000
14 completed.

15 Q Okay, and the applicant, Marshall Pipe
16 and Supply, seeks the issuance of an order, among other
17 things appointing it as operator of this proposed well, does
18 it not?

19 A Correct. Correct.

20 Q Based on its experience in drilling the
21 other wells that you referred to --

22 A Uh-huh.

23 Q -- in this area, what overhead rates does
24 the applicant request be imposed by any pooling order issued
25 by this Division?

1 A We're estimating the -- we're estimating
2 them on the previously drilling wells. Overhead on the drill-
3 ling rate is \$5000 a month; \$500 a month completion well
4 operating rate.

5 The reason Marshall has not agreed to the
6 -- does not have a contract and operating agreement on this
7 yet is they have not gotten the entire thing signed by the
8 partners.

9 Q It does not yet have prepared an operat-
10 ing agreement --

11 A Right.

12 Q -- by the parties voluntarily participat-
13 ing --

14 A Right.

15 Q -- on the north half.

16 A Uh-huh.

17 Q That will be done in the normal course of
18 business --

19 A Yes.

20 Q -- and sent to these parties.

21 MR. DICKERSON: Mr. Examiner, I
22 move admission of Exhibits One through Four and I have no
23 further questions of Mr. Grady.

24 MR. CATANACH: Exhibits One
25 through Four will be admitted as evidence.

1 MR. DICKERSON: I'll call Ms.
2 Leslie Bentz at this time, if you have no questions.

3
4 CROSS EXAMINATION

5 BY MR. CATANACH:

6 Q I've just got one question.

7 Mr. Grady, what's the association of Dep-
8 co and Marshall Pipe and Supply?

9 A Depco is the operator and -- or Marshall
10 Pipe and Supply is the operator and Depco is handling the
11 leasing and acquisition for Marshall, being a little larger.

12 Q And Marshall will be the operator.

13 A They will be the operator.

14 Q Okay, that's all I have.

15

16 LESLIE BENTZ,
17 being called as a witness and having been previously sworn
18 and remaining under oath, testified as follows, to-wit:

19

20 DIRECT EXAMINATION

21 BY MR. DICKERSON:

22 Q Ms. Bentz, will you state your name, your
23 occupation, and by whom you're employed?

24 A Yes. My name is Leslie Bentz. I'm em-
25 ployed as a petroleum geologist by Yates Petroleum Corpora-

1 tion of Artesia, New Mexico.

2 MR. DICKERSON: Mr. Examiner,
3 may the record reflect that Ms. Bentz has previously been
4 sworn this morning?

5 MR. CATANACH: Let the record
6 so indicate.

7 Q Ms. Bentz, are you familiar with the --
8 or have you undertaken the study of the available geological
9 data in the area of the proposed well for the purpose of
10 forming an opinion as to a risk?

11 A Yes, I have.

12 Q Let me ask you, based on that examination
13 -- I'm getting out of order, Ms. Bentz, I apologize. Let me
14 ask you another question.

15 Will you refer to what we've submitted as
16 Exhibit Number Five and with respect to the portion of this
17 consolidated proceeding dealing with Case 9309 tell us what
18 you have shown on this map?

19 A Okay. Exhibit Five is a map depicting
20 the subsurface structure on top of the Pre-Penn unconform-
21 ity. The contour interval is 50 feet. Datum points are
22 noted by circles and the appropriate datum is listed.

23 Well spots colored in red indicated Ordo-
24 vician producers. Well spots colored in red and blue indi-
25 cate dual completions in the Ordovician and the Pennsylvan-

1 ian Canyon.

2 The dashed/dot line marks the termination
3 of the Mississippian formation.

4 The structure map shows a north/northeast
5 south/southwest trending horst block, which is fault bounded
6 to the east, west and south. Throw on the bounding faults
7 is probably around 200 feet. Closure into the west fault
8 provides the trapping mechanism.

9 Porosity and permeability are enhanced in
10 the Ordovician reservoir as erosion has completely stripped
11 away the Mississippian sediments providing an opportunity
12 for the Ordovician dolomite to be exposed subaerially and
13 develop Karst topography.

14 The overlying Pennsylvanian section pro-
15 vides the source for the hydrocarbons.

16 No gas/water contact has yet been estab-
17 lished in the Ordovician reservoir, but the Stoltenburg No.
18 1, at a datum of -2788, did not encounter any hydrocarbon
19 shows in a tested interval in the Ordovician formation.

20 The other main pay, a Pennsylvanian
21 Canyon carbonate porosity zone, tested water in the Stolten-
22 burg No. 1.

23 The Canyon is also structurally control-
24 led. The structure on the Canyon formation mirrors the Or-
25 dovician structure.

1 Q Can you summarize for us, Ms. Bentz, the
2 necessity for this requested unorthodox location?

3 A Yes. The proposed unorthodox location is
4 the best allowable location in the north half of Section 34
5 which would enable the borehole to encounter the structure
6 at its highest point possible and not cross the bounding
7 fault.

8 It is anticipated that structurally high
9 penetration of the Ordovician would enhance earlier and
10 greater recovery of gas reserves.

11 The well will be drilled through to the
12 Precambrian to ensure that the complete section is tested.

13 Q Ms. Bentz, was Exhibit Number Five pre-
14 pared by you?

15 A Yes, it was.

16 Q And in your opinion will the granting of
17 this application be in the interest of conservation, the
18 prevention of waste, and the protection of correlative
19 rights?

20 A Yes, it will.

21 Q Now with respect to the requested risk
22 penalty to be imposed in any order issued by this Division,
23 Ms. Bentz, based on your examination of this geological
24 data, have you formed an opinion as to an appropriate risk
25 penalty?

1 A Yes, I have.

2 Q And what factors do you take into consid-
3 eration for that purpose?

4 A The first factor would be that this is
5 the lowest penetration of the Ordovician to date with the
6 exception of the Stoltenburg No. 1, which was nonproductive.

7 Also, in order to penetrate the structure
8 at its highest point, we are very near a major fault to the
9 west. If we have any deviation problems we could possibly
10 cross the fault and penetrate the Ordovician on the down-
11 thrown side.

12 Long term risks could include the econo-
13 mics of the entire area. There is no production to date due
14 to the distance to a pipeline. A pipeline must be construc-
15 ted.

16 We believe that the wells will be good
17 producers from production tests, but these tests were only
18 over a short period of time. It will take over a year be-
19 fore we have an estimate on the reserves in the area and see
20 if the whole area is economic.

21 Q Based on your study of these factors,
22 have you formed an opinion as to what would be an appro-
23 priate risk penalty to be imposed?

24 A Yes, I have.

25 Q And what is that risk penalty?

1 A I recommend the maximum penalty of 200
2 percent.

3 Q Ms. Bentz, identify briefly for us what
4 we have submitted to Mr. Catanach as Exhibits Six and Seven.

5 A Exhibit Six is an affidavit of mailing in
6 the matter of the unorthodox well location.

7 Attached to it are the certified returns.

8 Q And Exhibit Number Seven?

9 A Exhibit Number Seven is an affidavit of
10 mailing for the compulsory pooling. Again, attached to it
11 are the certified returns.

12 MR. DICKERSON: Okay, Mr. Exa-
13 miner, I move admission of the applicant's Exhibits Five,
14 Six and Seven at this time.

15 MR. CATANACH: Exhibits Five,
16 Six and Seven will be admitted as evidence.

17 MR. DICKERSON: And I have no
18 further questions of this witness.

19

20 CROSS EXAMINATION

21 BY MR. CATANACH:

22 Q Ms. Bentz, tell me a little bit about the
23 producing capabilities of the Wells Nos. 22 and 27.

24 A Yes, sir. The discovery well was the
25 Wendell Best in the southeast quarter of 27, completed as an

1 Ordovician producer with flow rates over a 24-hour period of
2 2.8-million cubic feet of gas per day and 2.7 barrels fo
3 condensate per day.

4 Q The next well drilled was the Stoltzen-
5 burg, which was the dry hole, and I feel like most of that
6 is structurally related, is low.

7 The J. T. McGee was the third well drill-
8 ed and it was completed in the Ordovician for 1.3-million
9 cubic feet of gas per day plus 14.40 barrels of condensate
10 per day.

11 Then we completed in the Canyon, also,
12 for a rate of 918 MCF gas per day and 3.36 barrels of con-
13 densate per day.

14 The Spiegth No. 1, which was just recent-
15 ly completed in the past month and a half, completed in the
16 Ordovician for 587 MCF gas per day, 6 barrels of condensate,
17 and in the Canyon and a Strawn zone it was completed for
18 1719 MCF gas per day and 14.4 barrels of condensate.

19 Q Okay, are those the only producing wells
20 in the -- in the general area here?

21 A Yes it is.

22 Q You do have plans at this time to build a
23 pipeline, is that correct?

24 A Yes. We are working on the right-of-
25 ways.

1 Q So these -- these other three wells
2 haven't produced any long term --

3 A No, and due to the high production rate,
4 you don't want to spend four or five days flowing these
5 wells and wasting the gas.

6 Q Why does your proposed location have to
7 be so close to the north line?

8 A Well, I'm -- as you noticed, this is
9 going to be the lowest penetration to date. From the way
10 that the Ordovician produced in the Spiegth, we actually
11 recovered some water on the drill stem test and did not
12 think we would make a well there.

13 I'm really afraid that we're going to --
14 if we get much lower, that we might encounter a gas/water
15 contact. Also, the structure here, a lot of it is based on
16 seismic and you've got a plus or minus 50 feet in there for
17 error, and if we end up being 50 feet low -- we could be
18 quite a bit lower than the way it's mapped.

19 So we felt that this was by far the best
20 location in Section 34.

21 MR. CATANACH: That's all I
22 have of the witness at this time. She may be excused.

23 Is there anything further in
24 this case? Case 9309 and Case 9321?

25 MR. DICKERSON: Nothing

1 further, Mr. Examiner.

2 MR. CATANACH: If not, they
3 will be taken under advisement.

4

5 (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. 9309, 9321
heard by me on March 16, 1988.

David R. Cabanik, Examiner
Oil Conservation Division