

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

APPLICATION OF CHI OPERATING INC. )  
FOR COMPULSORY POOLING, ) CASE NO. 10<sup>3</sup>89  
ROOSEVELT COUNTY, NEW MEXICO. )  
----- )

REPORTER'S TRANSCRIPT OF PROCEEDINGS  
EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner  
September 19, 1991  
10:25 a.m.  
Santa Fe, New Mexico

This matter came for hearing before the Oil Conservation Division on September 19, 1991, at 10:25 a.m. at the State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Linda Bumkens, CCR, Certified Court Reporter No. 3008, in and for the County of Bernalillo, State of New Mexico.

FOR: OIL CONSERVATION  
DIVISION

BY: LINDA BUMKENS CCR  
Certified Court Reporter  
CCR NO. 3008

## I N D E X

September 19, 1991  
 Examiner Hearing  
 CASE NO. 10389

## APPEARANCES

2

## WITNESSES

BILL SELTZER

Direct Examination by Mr. Carr

3

Examination by Mr. Catanach

8

WILLIAM HERMANN

Direct Examination by Mr. Carr

9

Examination by Mr. Catanach

13

## RECESS

15

## REPORTERS CERTIFICATE

16

## E X H I B I T S

Chi Operating

Exhibits 1 through 4

8

Chi Operating

Exhibit 5

13

## A P P E A R A N C E S

FOR THE DIVISION:

ROBERT G. STOVALL, ESQ.

General counsel

Oil Conservation Commission

310 Old Santa Fe Trail

Santa Fe, New Mexico

87501

FOR CHI OPERATING  
 INC.:

CAMPBELL, CARR, BERG &amp;

SHERIDAN P.A.

BY: MR. WILLIAM F. CARR, ESQ.

110 North Guadalupe

Santa Fe, New Mexico

1 EXAMINER CATANACH: Okay. At this time we're  
2 going to skip the Amerada case and go and call Case  
3 10389.

4 MR. STOVALL: Application of Chi Operating  
5 Inc., for a compulsory pooling, Roosevelt County,  
6 New Mexico.

7 EXAMINER CATANACH: Any appearances in this  
8 case?

9 MR. CARR: If it please the Examiner, my name  
10 is William F. Carr with the law firm Campbell, Carr,  
11 Berge & Sheridan of Santa Fe. We represent Chi  
12 Operating Inc., and I have two witnesses.

13 MR. CATANACH: Any other appearances?

14 (No response).

15 Will the witnesses please stand and be  
16 sworn?

17 (At which time Mr. Bill Seltzer and William  
18 Hermann were sworn.)

19 BILL SELTZER,  
20 the Witness herein, being previously duly sworn, was  
21 examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. CARR:

24 Q. Will you state your name and place of  
25 residence?

1 A. Bill Seltzer, Midland, Texas.

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

4 A. I'm employed by Chi Operating Company as a  
5 land consultant.

6 Q. Have you previously testified before this  
7 Division and had your credentials as a land man  
8 accepted and made a matter of record?

9 A. Yes, I have.

10 Q. Are you familiar with the application filed  
11 in this case in the subject area?

12 A. Yes.

13 MR. CARR: Are the witness's qualifications  
14 acceptable?

15 EXAMINER CATANACH: Yes.

16 Q. (By Mr. Carr) Would you briefly state what  
17 Chi Operating Inc. seeks with this application?

18 A. Chi Operating Inc. seeks an order pooling  
19 all of the mineral interests in all formations in a  
20 320-acre spacing unit from the surface down to the  
21 base of the San Andres formation covering the west  
22 half of Section 5, Township 8 South, Range 37 East,  
23 Roosevelt County.

24 Q. Would you refer to what has been marked for  
25 identification as Chi Exhibit Number 1? Identify

1 this and review it for Mr. Catanach.

2 A. This is a location plat showing the west  
3 half of Section 5, Township 8 South, Range 37 East,  
4 together with -- Excuse me -- a location of the  
5 proposed well being 990 from the south and 990 from  
6 the east line of Section 5.

7 Q. What is the primary objective in the  
8 proposed well?

9 A. To test the San Andres formation.

10 Q. All right. Let's go to Chi Exhibit  
11 Number 2. I'd ask you again to identify that for  
12 the Examiner.

13 A. This is -- again, an acreage plat showing  
14 three separate tracts and the ownership of the  
15 interest that Chi has under all three tracts. If  
16 you'll notice that in tract one Chi has a full  
17 interest. Tract two they have a full interest  
18 having just acquired the interest of Answorth group  
19 in those tracts. The only interest which is not  
20 leased is under tract three, being the heirs of Mary  
21 Ann Gilder, which has a 16th interest outstanding in  
22 the east half of the southwest quarter of Section 5.

23 Q. Mr. Seltzer, what percentage of the acreage  
24 ownership has been voluntarily committed to the  
25 proposed well?

1 A. 98 percent.

2 Q. Would you identify what has been marked as  
3 Chi Exhibit Number 3?

4 A. Chi Exhibit Number 3 is an AFE showing that  
5 a dry hole would cost \$119,000, and a completed well  
6 of 224,000.

7 Q. Are these costs in line with what other  
8 operators charge for similar wells in this area?

9 A. Yes, it is.

10 Q. Could you summarize the effort you have  
11 made to locate -- I guess at this point -- just the  
12 heirs of Mary Gilder, to provide them with notice  
13 and an opportunity to participate in this effort?

14 A. Mary Ann Gilder is deceased and she is not  
15 in Roosevelt County. I found her probate in Midland  
16 County under Probate Number 2058, which she died  
17 without a will and had a next of kin as a brother,  
18 who I am unable to locate. I have written every  
19 Gilder in the State of Texas through the driver's  
20 license division to determine if there's any of  
21 these parties knows the whereabouts of any heirs of  
22 Mary Ann Gilder, and I have not received a positive  
23 answer from any of them.

24 Q. And in your opinion, have you made a good  
25 faith effort to exhaust all channels available to

1 you to locate the heirs of Miss Gilder?

2 A. Yes.

3 Q. Has Chi drilled other San Andres wells in  
4 the immediate area?

5 A. Yes.

6 Q. Is what has been marked Exhibit Number 4  
7 simply an affidavit confirming that notice was  
8 provided to the Answorth group advising them of  
9 today's hearing?

10 A. Yes.

11 Q. And as of -- in the last few days an  
12 agreement has been reached with these individuals to  
13 voluntarily participate?

14 A. Yes, it has. We secured leases from the  
15 Answorth group.

16 Q. What are the overhead and administrative  
17 costs that Chi will seek while drilling the well,  
18 and also while producing it if it is a success?

19 A. We seek a \$3200 drilling rate, and a \$320  
20 monthly administrative rate.

21 Q. Do these figures conform to the figures set  
22 forth in the Ernston Young survey for wells in this  
23 area to this depth?

24 A. Yes, they do.

25 Q. Do you recommend that these figures be

1 incorporated into the order which results from  
2 today's hearing?

3 A. Yes.

4 Q. Chi Operating seeks to be designated  
5 operator of the well?

6 A. Yes.

7 Q. Were Exhibits 1 through 4 either prepared  
8 by you or compiled under your direction?

9 A. Yes, they were.

10 MR. CARR: At this time, Mr. Catanach, we move  
11 the admission of Chi Operating Exhibits 1 through  
12 4.

13 EXAMINER CATANACH: Exhibits 1 through 4 will  
14 be admitted as evidence.

15 (Chi operating Exhibits 1 through  
16 4 were admitted in evidence.)

17 MR. CARR: That concludes my direct  
18 examination of Mr. Seltzer.

19 EXAMINATION

20 BY MR. CATANACH:

21 Q. Mr. Seltzer, you said that you have secured  
22 the interest of the Answorth interest?

23 A. Yes.

24 Q. What about the Sanders?

25 A. Yes, sir, we have those.



1 Q. Okay.

2 A. The only one outstanding is this Mary Ann  
3 Gilder.

4 Q. Okay.

5 A. Which we cannot locate.

6 MR. CATANACH: I have no further questions.  
7 The witness may be excused.

8 MR. CARR: At this time I call Mr. Bill  
9 Hermann to the stand.

10 WILLIAM HERMANN

11 the Witness herein, being previously duly sworn, was  
12 examined and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. CARR:

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

17 A. Will Hermann.

18 Q. And where do you reside?

19 A. Midland, Texas.

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

22 A. Chi Operating as a land man and geologist.

23 Q. Have you previously testified before this  
24 Division?

25 A. No, I haven't.

1 Q. Would you review for Mr. Catanach your  
2 educational background, and then summarize your work  
3 experience?

4 A. Undergrad and graduate degrees from Texas  
5 Tech University, graduating with a Master of Science  
6 in '81, and independent land man from '81 to '83 in  
7 Midland at which time David Harrison, my partner and  
8 myself, formed an operating company which we've  
9 since operated as Chi Operating Inc.

10 Q. And do you function both as Chi's land man  
11 and geologist?

12 A. Yes.

13 Q. Are you familiar with the application that  
14 was filed in this case on behalf of Chi?

15 A. Yes, I am.

16 Q. And have you made a geological study of the  
17 subject area?

18 A. Yes, I have.

19 MR. CARR: Mr. Catanach, we would tender  
20 Mr. Hermann as a practical oil man.

21 MR. CATANACH: He is so qualified.

22 Q. (By Mr. Carr) Have you prepared exhibits  
23 for presentation here today?

24 A. Yes.

25 Q. Would you identify what has been marked as

1 Chi Exhibit Number 5?

2 A. Exhibit 5 is a structure map mapped on the  
3 PI marker of the San Andres and show structure in  
4 the area of the proposed location that defines what  
5 we're trying to find there.

6 Q. And outlined in yellow is the proposed  
7 spacing unit to be dedicated to the well?

8 A. Yes, it is.

9 Q. And the location is in the southwest of the  
10 southwest of Section 5?

11 A. Yes, it is.

12 Q. Did you prepare this structure map?

13 A. Yes, I did.

14 Q. Could you go to this map, and by simply  
15 using this exhibit, explain to Mr. Catanach the risk  
16 associated with this proposed location?

17 A. Well, what you see in Section 5 and in  
18 Section 8 immediately to the south, there are three  
19 San Andres completion gas wells, two of which were  
20 very noncommercial, one of which was very commercial  
21 producing 1.8 BCF, the other producing less than 150  
22 million cubic foot of gas each.

23 Q. So what you have here is a location that is  
24 offset in this formation both to the north and the  
25 east with wells that were not successful?

1 A. Yes, it is.

2 Q. In your opinion, what does it take to make  
3 a successful well in this pool?

4 A. I believe to recoup your investment and get  
5 any kind of reasonable rate of return, about a half  
6 a BCF of gas.

7 Q. And structurally how do you need to be  
8 located?

9 A. You need to be on favorable structural  
10 position, of course, that's what cause the  
11 accumulation of hydrocarbons, but not so far  
12 northward or shelfward to cause a facies change  
13 within the San Andres dolomite.

14 Q. And how does this particular location  
15 compare to that criteria?

16 A. We feel like we have a reasonably good  
17 chance of being structurally high. But on the other  
18 hand, our risk we see is that we may cross the  
19 facies change.

20 Q. In your opinion, is it possible to drill a  
21 well at this location that would not be a commercial  
22 success?

23 A. Yes, it is.

24 Q. Are you prepared to make a recommendation  
25 as to the risk penalty that should be assessed

1 against the interest that will not be voluntarily  
2 committed to the well?

3 A. I would recommend the maximum 200 percent.

4 Q. The party who is not participating, or  
5 whereabouts are unknown, how do you propose to  
6 handle the funds that would be attributed to that  
7 interest?

8 A. An account will be set up in the county  
9 seat of Roosevelt County for her benefit.

10 Q. And you would been escrowing the funds  
11 there?

12 A. Yes.

13 Q. Was Exhibit Number 5 prepared by you?

14 A. Yes, sir, it was.

15 MR. CARR: At this time, Mr. Catanach, I would  
16 move the admission of Chi Exhibit Number 5.

17 MR. CATANACH: Exhibit Number 5 will be  
18 admitted as evidence.

19 (Chi Exhibit Number 5 was  
20 admitted in evidence.)

21 MR. CARR: I have nothing further of this  
22 witness.

23 EXAMINATION

24 BY MR. CATANACH:

25 Q. You stated there were two -- or, I'm

1 sorry -- three wells drilled in Section 5 and 8.  
2 Which two were nonprofitable? Is that your term  
3 "nonprofitable"?

4 A. Noncommercial I think. Did I say  
5 nonprofitable?

6 Q. I don't remember.

7 A. The well in the southeast of the northwest  
8 made 37 million cubic feet of gas and is now  
9 plugged. The well in the southeast of the southeast  
10 made 146 million cubic feet of gas and is now  
11 plugged.

12 Q. So the good well is in Section 8?

13 A. Yes, sir.

14 Q. The major portion of the pool is east of  
15 your proposed location?

16 A. Yes, it is.

17 Q. Okay.

18 EXAMINER CATANACH: I don't have anything  
19 further. The witness may ask excused.

20 MR. CARR: We have nothing further in this  
21 case.

22

23

24

25 EXAMINER CATANACH: There being nothing

1 further, Case 10389 will be taken under advisement.

2 (The foregoing case was concluded at the  
3 approximate hour of 10:35 a.m)

16 I do hereby certify that the foregoing is  
17 a true and correct copy of the proceedings in  
18 the last and final hearing of Case No. 10389,  
heard by me on September 19, 1991;

19 David R. Cotnam, Examiner  
Oil Conservation Division

25 STATE OF NEW MEXICO )

1 STATE OF NEW MEXICO       )  
                                  )   ss.  
2 COUNTY OF BERNALILLO    )


3                               REPORTER'S CERTIFICATE

4               BE IT KNOWN that the foregoing transcript of  
5 the proceedings were taken by me, that I was then  
6 and there a Certified Shorthand Reporter and Notary  
7 Public in and for the County of Bernalillo, State  
8 of New Mexico, and by virtue thereof, authorized to  
9 administer an oath; that the witness before  
10 testifying was duly sworn to testify to the  
11 whole truth and nothing but the truth; that the  
12 questions propounded by counsel and the answers of  
13 the witness thereto were taken down by me, and that  
14 the foregoing pages of typewritten matter contain a  
15 true and accurate transcript as requested by counsel  
16 of the proceedings and testimony had and adduced  
17 upon the taking of said deposition, all to the best  
18 of my skill and ability.

19               I FURTHER CERTIFY that I am not related to  
20 nor employed by any of the parties hereto, and have  
21 no interest in the outcome hereof.

22               DATED at Bernalillo, New Mexico, this day  
23 November 11, 1991.

24 My commission expires  
25 April 24, 1994

  
LINDA BUMKENS  
CCR No. 3008  
Notary Public