

1 STATE OF NEW MEXICO
2 ENERGY AND MINERALS DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BLDG.
5 SANTA FE, NEW MEXICO

6 3 December 1986

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Santa Fe Energy Oper- CASE
10 ating Partners, L.P., for compulsory 9044
11 pooling, Eddy County, New Mexico.

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13
14 BEFORE: Michael E. Stogner, Examiner
15

16 TRANSCRIPT OF HEARING
17

18
19 A P P E A R A N C E S
20

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

24 For the Applicant: James G. Bruce
25 Attorney at Law
HINKLE LAW FIRM
P. O. Box 2068
Santa Fe, New Mexico 87501

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I N D E X

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GARY GREEN

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Direct Examination by Mr. Bruce

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Cross Examination by Mr. Stogner

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CURTIS ANDERSON

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Direct Examination by Mr. Bruce

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Cross Examination by Mr. Stogner

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GARY GREEN RECALLED

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Redirect Examination by Mr. Bruce

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E X H I B I T S

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SFE Exhibit One, Return Receipts

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SFE Exhibit Two, Cost Estimate

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SFE Exhibit Three, Structure Map

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SFE Exhibit Four, Porosity Map

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MR. STOGNER: We'll call next
Case Number 9044.

MR. TAYLOR: Application of
Santa Fe Energy Operating Partners, L.P., for compulsory
pooling, Eddy County, New Mexico.

MR. STOGNER: Call for appear-
ances.

MR. BRUCE: Mr. Examiner, my
name is Jim Bruce from the Hinkle Law Firm, representing
Santa Fe Energy Operating Partners, and I have two witnes-
ses to be sworn.

MR. STOGNER: Are there any
other appearances in Case Numbr 9044?

Will the witnesses please stand
at this time and be sworn.

(Witnesses sworn.)

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

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DIRECT EXAMINATION

BY MR. BRUCE:

Q Mr. Green, would you please state your name and address?

A My name is Gary Green. I live at No. 4 Auburn Court, Midland, Texas.

Q And who is your employer and what is your occupation?

A I'm employed by Santa Fe Energy Company as a landman.

Q Have you previously testified before the OCD as a petroleum landman?

A Yes.

Q Are you familiar with the land matters involved in Case 9044?

A Yes.

MR. BRUCE: Mr. Examiner, is the witness considered qualified?

MR. STOGNER: Mr. Green is so qualified.

Q Mr. Green, would you please briefly state what Santa Fe seeks by its application?

A Santa Fe Energy Operating Partners, L.P., seeks an order pooling all mineral interests from the sur-

1 face to the base of the Morrow formation at an approximately
2 depth of 12,350 feet, underlying the north half of Section
3 23, Township 22 South, Range 27 East, Eddy County, New Mex-
4 ico, to be dedicated to a well at a standard location.

5 Santa Fe also requests consideration of
6 the cost of drilling and completing the well and the alloca-
7 tion of the cost thereof, as well as actual operating costs
8 and charges for supervision.

9 Santa Fe requests that it be named well
10 operator. A charge for the risk involved in the drilling of
11 the well be assessed against the nonconsenting owners.

12 Q Who are the interest owners in the pro-
13 posed unit?

14 A The interest owners are Santa Fe Energy
15 Operating Partners, L.P., CNG Producing Company, Union Oil
16 of California, BHP Petroleum, and Kriti Exploration, Inc.

17 Q Who does Santa Fe seek to force pool in
18 this hearing?

19 A Santa Fe seeks to force pool Union, Union
20 Oil Company of California. Santa Fe has letter agreements
21 with BHP, Kriti, and CNG, and does not seek to force pool
22 them.

23 Q Would you please describe your contacts
24 with Union Oil in order to get them to join in the well.?

25 A I submitted written notice on well propo-

1 sal on October 16th, 1986, proposing the well and provided
2 them with a cost estimate. I had telephone conversations on
3 November 20th with Mr. Larry Murphy, the regional landman
4 with Union of California, and on November 7th provided them
5 a letter indicating that we would force pool them.

6 Q That you would force pool them.

7 A That we would force pool them if we could
8 not get a response, an election to participate.

9 Q Was notice of this hearing sent by
10 certified mail to the -- to Union Oil?

11 A Yes, and a copy of the letter and return
12 receipt is submitted as Exhibit One.

13 Q Would you please refer to Exhibit Number
14 Two and discuss the projected well costs?

15 A Exhibit Number Two is a well cost
16 estimate dated October 16th, 1986. The estimated well costs
17 are \$852,870 for a completed well and \$524,956 for a dry
18 hole.

19 Q Are these costs in line with other well
20 costs in this area?

21 A Yes, they are.

22 Q What penalty do you recommend against
23 Union Oil if it does not join in the well?

24 A 200 percent. This figure is commonly
25 used in operating agreements in the area of New Mexico.

1 Q Were Exhibits One and Two prepared by you
2 or under your direction?

3 A Yes.

4 Q In your opinion will the granting of this
5 application be in the interest of conservation, the
6 prevention of waste, and the protection of correlative
7 rights?

8 A Yes.

9 MR. BRUCE: At this time, Mr.
10 Examiner, I move the admission of Exhibits One and Two.

11 MR. STOGNER: Exhibits One and
12 Two will be admitted into evidence.

13 MR. BRUCE: I have no further
14 questions of this witness.

15 MR. STOGNER: Mr. Bruce, what
16 are you going to qualify your next witness as?

17 MR. BRUCE: Geologist.

18 MR. STOGNER: Geologist, and he
19 will present testimony on that 200 percent --

20 MR. BRUCE: Yes, sir.

21 MR. STOGNER: -- penalty?

22 MR. BRUCE: Yes, sir.

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CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Green, on Exhibit One, was this your first correspondence with Union Oil Company of California, which is a letter dated November 7th?

A No, sir.

Q It wasn't. When was your first contact with -- oh, oh --

A It was a letter dated October 16th.

Q And that's an exhibit. Have you had any return correspondence from Union Oil?

A No, sir, I have not.

Q Was this letter of October -- have you talked to them over the phone about this October 16th --

A Yes, I have.

Q Okay, and when and what was the extent of that conversation?

A I talked to them on November 7th asking them if they had reached a decision. They said that they had not, that they had made recommendation to the management but they had not had a response from their management.

MR. STOGNER: Okay, I have no further questions of Mr. Green.

Are there any other questions

1 of this witness?

2 He may be excused.

3 Mr. Bruce?

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5 CURTIS ANDERSON,

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

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9 DIRECT EXAMINATION

10 BY MR. BRUCE:

11 Q Okay, Mr. Anderson, will you please state
12 your full name and your address?

13 A My name is Curtis Anderson. I live at
14 4621 Brookdale in Midland, Texas.

15 Q And by who are you employed and in what
16 capacity?

17 A I am a Senior Staff Geologist with Santa
18 Fe Energy Company.

19 Q And have you previously testified before
20 the OCD as an expert geologist?

21 A Yes, I have.

22 Q Are you familiar with the geology invol-
23 ved in Case 9044?

24 A Yes.

25 MR. BRUCE: Mr. Examiner, is

1 the witness considered qualified?

2 MR. STOGNER: Mr. Anderson is so
3 qualified.

4 Q Mr. Anderson, would you please refer to
5 Exhibit Number Three and describe the geology in the area of
6 interest?

7 A Okay. Exhibit Number Three is a structure
8 map. The scale is one inch equals 2000 feet. It is on the
9 top of the Lower Morrow Clastic formation, which is a cor-
10 relative marker throughout the area.

11 Indicated in the red box is the proposed
12 location referred to in this -- this hearing. The colored
13 red wells are Morrow producers that are either on production
14 or potentialized in the Morrow formation in the prospect area.

15 Essentially it shows the Morrow formation
16 to be on regional dip through the proposed location.

17 Q Would you please now refer to Exhibit
18 Number Four and describe its contents?

19 A Exhibit Number Four is on the same scale
20 as the previous exhibit. It is a net porosity map of great-
21 er than or equal to 8 percent porosity in what I have called
22 or named the Johnson Sand.

23 Now the Johnson Sand in the Morrow forma-
24 tion was named that way because it was a new sand discovered
25 in the No. 1 Johnson Well, which we drilled in the west half

1 of Section 24. Subsurface information in the area, deposi-
2 tional environmental studies indicate this sand to be depos-
3 ited by a distributary network of Morrowan time and is one
4 of a series of sands encountered in the prospect area.

5 You can see by the lenticular shape of
6 the reservoir and the relatively narrow size of the sand
7 body, the risk involved in encountering these Morrow sands.

8 Q In your opinion what is a reasonable pen-
9 alty to be assessed against the nonconsenting interest
10 owner?

11 A I think the requested 200 percent is
12 reasonable, mainly because, although this is a map on one of
13 the sands encountered in the area, the risk involved is not
14 in actually encountering the sands but encountering enough
15 porosity to make the well commercial.

16 Q Has there been any -- has Santa Fe en-
17 countered any situations in this area where the Morrow wells
18 deplete rapidly?

19 A Yes, sir, we have. The No. 1 -- Santa Fe
20 Energy No. 1 Skeen Well, located in Section 28 of this town-
21 ship and range, unfortunately is just off the edge of the
22 left portion of the map, had -- was completed in the Morrow
23 formation and had depleted within three months of that com-
24 pletion.

25 Q Were Exhibits Three and Four prepared by

1 you or under your direction?

2 A Yes, sir.

3 Q And in your opinion will the granting of
4 the application be in the interest of conservation and the
5 prevention of waste?

6 A Yes.

7 MR. BRUCE: Mr. Examiner, I
8 move the admission of Exhibits Three and Four.

9 MR. STOGNER: Exhibits Three
10 and Four will be admitted into evidence.

11 MR. BRUCE: I have no further
12 questions of the witness.

13

14 CROSS EXAMINATION

15 BY MR. STOGNER:

16 Q Mr. Anderson, are there any other produc-
17 ing horizons other than the Morrow in this area?

18 A Yes, sir. From oldest to youngest in
19 this area we have producing wells in the Strawn formation,
20 the Lower Wolfcamp formation, and a little further to the
21 north in the Delaware formation.

22 Q Mr. Anderson, has Santa Fe Energy had any
23 problems in drilling these wells out here in this area?
24 Have they encountered any -- any kind of unique problems?

25 A The only one that I can think of, other

1 than a little lost circulation up in the shallow horizons,
2 would be the pressure in the Lower Wolfcamp formation, and
3 the unique thing there is if we just run a casing program
4 such that we -- we case off the Bone Spring formation before
5 we drill the Wolfcamp, we can -- we can avert a possible
6 blow-out situation.

7 Q Do you do this or correct it by way of a
8 liner? Do you set the casing to the Bone Springs and then
9 run a liner down into the Morrow?

10 A What we normally do is we drill to the
11 top of the Wolfcamp and set generally around a 9-inch casing
12 and then hang a 5-1/2 inch liner to TD.

13 Q What is that? What is the depth that you
14 usually put that 9-inch casing down to?

15 A Approximately 9900 to 10,000 feet.

16 Q There's some risk involved in setting
17 that much 9-5/8ths inch casing, isn't there, or 8-5/8ths?

18 A Yes, it is.

19 MR. STOGNER: I have no further
20 questions of Mr. Anderson.

21 Are there any other questions
22 of this witness?

23 If not, he may be excused.

24 Mr. Bruce.

25 MR. BRUCE: Yes, sir.

1 MR. STOGNER: What were the
2 overhead charges again?

3 MR. BRUCE: Charges, I think,
4 were set out in Exhibit Number Two, page 3, shows all of the
5 well costs, estimated.

6 MR. STOGNER: I'm sorry, I
7 can't seem to locate the particular figures you wish to put
8 into the --

9 MR. BRUCE: Oh, all right.

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11 GARY GREEN,
12 being recalled as a witness and remaining under oath, testi-
13 fied as follows, to-wit:

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15 REDIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q Mr. Green in case the application is ap-
18 proved what charges do you want for drilling and supervision
19 charges before and after the well is completed?

20 A Drilling charges we would like \$4,940 a
21 month; operating overhead charges we would like \$494 after
22 the well is completed.

23 MR. STOGNER: Nice round fig-
24 ures.

25 Are these charges in line with

1 the other charges within the wells -- for the wells that
2 you've drilled in the area?

3 A Yes, sir, they are.

4 MR. STOGNER: I have no further
5 questions of Mr. Green or Mr. Anderson at this time.

6 Mr. Bruce, do you have anything
7 further?

8 MR. BRUCE: No, sir.

9 MR. STOGNER: Does anybody else
10 have anything further in Case Number 9044?

11 This case will then be taken
12 under advisement.

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14 (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 correct and true copy of the proceedings at the Examiner hearing of Transcript 9044, heard by me on 3 December 1986.

Michael E. Stagner, Examiner
Oil Conservation Division