

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

6 9 August 1989

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Beach Exploration, Inc. CASE  
10 for an unorthodox oil well location, 9723  
11 Eddy County, New Mexico.

12 BEFORE: Michael E. Stogner, Examiner

13  
14  
15 TRANSCRIPT OF HEARING

16  
17 A P P E A R A N C E S

18 For the Division: Robert G. Stovall  
19 Attorney at Law  
20 Legal Counsel to the Division  
State Land Office Building  
Santa Fe, New Mexico

21 For Beach Exploration, Inc.: James Bruce  
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## I N D E X

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1 MR. STOGNER: The hearing will  
2 come to order again.

3 Call next Case Number 9723.

4 MR. STOVALL: Application of  
5 Beach Exploration, Inc., for an unorthodox oil well loca-  
6 tion, Eddy County, New Mexico.

7 MR. STOGNER: Call for ap-  
8 pearances.

9 MR. BRUCE: Mr. Examiner, my  
10 name is Jim Bruce from the Hinkle Law Firm in Albuquerque,  
11 representing the applicant and I have two witnesses to be  
12 sworn.

13 MR. STOGNER: Are there any  
14 other appearances?

15 Will the witnesses please  
16 stand and be sworn.

17

18 (Witnesses sworn.)

19

20 MR. STOGNER: Mr. Bruce.

21

22 CARL C. BEACH,

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

25

## 1 DIRECT EXAMINATION

2 BY MR. BRUCE:

3 Q Mr. Beach, would you please state your  
4 full name and city of residence?5 A My name is Carl Craig Beach. I live in  
6 Midland, Texas.7 Q And what is your occupation and who are  
8 you employed by?9 A I am a landman employed by Beach Explor-  
10 ation.11 Q And have you previously testified before  
12 the OCD as a landman?

13 A Yes.

14 Q And are you familiar with the land mat-  
15 ters involved in this case?

16 A Yes.

17 MR. BRUCE: Mr. Examiner, are  
18 the witness' credentials acceptable?

19 MR. STOGNER: They are.

20 Q Mr. Beach, would you briefly state what  
21 Beach Exploration seeks by its application?22 A We are requesting approval for an unor-  
23 thodox well location on our Exxon Federal A-3 Well and it's  
24 located 2410 from the north and 1932 from the west line of  
25 Section 18, Township 16 South, Range 29 East, in Eddy

1 County, New Mexico.

2 Q And would you please describe the chron-  
3 olgy of your application for this well?

4 A We originally staked the well 2310 from  
5 the north and 1832 from the west line, which was a legal,  
6 orthodox location; had a surveyor go out and stake the well  
7 and then sent the archaeologist, which was Dr. Haskell,  
8 (unclear) Archaeological Service. He -- he found a site  
9 which he registered in the National Register and would not  
10 approve our legal location. Because of the size of the  
11 site, his recommendation was to move south and east 100  
12 feet, which suited us. As a result we moved south and east  
13 upon his recommendation and took both the BLM and the --  
14 and our archaeologist and our surveyor out there and found  
15 an acceptable location and permitted that location.

16 Q Okay. And is Exhibit Number One the  
17 original survey which you had done for the orthodox loca-  
18 tion?

19 A Yes.

20 Q And is Exhibit Number Two a copy of the  
21 second survey plat for the unorthodox location?

22 A Yes.

23 Q Now, you originally applied for the un-  
24 orthodox location by a letter dated April 19th, 1989, is  
25 that correct?

1           A           That's correct.

2           Q           And when was this application -- you  
3 applied administratively.

4           A           That's right. We sent a letter to the  
5 District Director of the Oil Conservation Division in  
6 Artesia on April 19th, along with a copy of the BLM appli-  
7 cation, and on July 24th we received a letter from the Oil  
8 Conservation Division denying approval.

9           Q           Okay. Now, in the meantime what was the  
10 status of your drilling of the well?

11          A           We -- our locations on this, we have --  
12 we are on a farmout agreement with Exxon Oil Company in  
13 which we had to drill a well every 120 days. Our due date  
14 was July -- was June the 10th, which we had to commit to  
15 drilling of another well, and by -- since we applied in  
16 April, the end of April, and had heard nothing by June  
17 10th, we commenced the drilling of the well and completed  
18 the well sometime thereafter.

19          Q           Is the well capable of producing oil?

20          A           Yes.

21          Q           And what formation does it produce from  
22 and at what rate?

23          A           It's in the Queen formation at approxi-  
24 mate depth of 1650 feet.

25          Q           And is it capable of producing oil at

1 any rate?

2 A It's a marginal well. It -- it makes --  
3 it will produce approximately 10 to 14 barrels of oil per  
4 day.

5 Q Referring to Exhibit Number Three, would  
6 you describe the contents of that land plat?

7 A The land -- this is a land plat, repro-  
8 duction of a land plat. It primarily shows Section 18 in  
9 which Beach Exploration owns and operates all the wells  
10 within that section and only unearned acreage is part of  
11 the Exxon farmout, which we are currently drilling under.  
12 so basically we -- we have the rights, or own the entire  
13 section.

14 Q And so you are only offsetting your own  
15 location.

16 A That's right.

17 Q And there are no other offset operators.

18 A No, we are crowding our wells only. We  
19 operate the well to the southeast and west.

20 Q And Exhibit Number Four, I believe, is a  
21 copy of your application letter to the Artesia District  
22 Office?

23 A Right.

24 Q And so they are aware of what you are  
25 proceeding with.

1           A           That's correct.

2           Q           Do you request approval of this unorthodox location effective on the date of your APD?

3  
4           A           Yes.

5           Q           In your opinion is the granting of this application in the interest of conservation, the prevention of waste, and the protection of correlative rights?

6  
7  
8           A           Yes.

9           Q           And for what reasons?

10          A           If we're denied the application we would have lost some money from drilling the well, first, and we -- we have a well capable of producing and we believe any movement north or west would -- would make the well less productive, thereby resulting in waste of reserves.

11  
12  
13  
14  
15          Q           Okay, and the next witness will discuss the geology --

16  
17          A           Yes.

18          Q           -- is that correct? And in your opinion if the unorthodox location is not approved, you would waste the reserves which this well is capable of producing?

19  
20  
21          A           That's correct.

22          Q           And what was the approximate cost of your well?

23  
24          A           A little under \$100,000.

25          Q           And for the record I believe you had

1 previously submitted a copy of the archaeologist's report  
2 to the OCD?

3 A Yes.

4 Q And were Exhibits One through Four taken  
5 from company records?

6 A Yes, they were.

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

9 MR. STOGNER: Exhibits One  
10 through Four will be admitted into evidence and I'll also  
11 take administrative notice of the original administrative  
12 application filed with the Division and make it a part of  
13 this record.

14 MR. BRUCE: I have no further  
15 questions at this time.

16

17

#### CROSS EXAMINATION

18 BY MR. STOGNER:

19 Q Let's see, Mr. Beach, I'm looking at  
20 your administrative application, which was filed with the  
21 Division earlier.

22 A Right.

23 Q And there's a report in here, Figure 2,  
24 a schematic representing -- showing the archaeological  
25 site, NMAS-5910. Is that the archaeological site you were

1 referring to earlier?

2 A Yes.

3 Q And was that prepared by your archaeol-  
4 ogist or yourself or --

5 A Archaeologist. This is part of the --  
6 Dr. Haskell's bunch prepared this. We have nothing to do  
7 with it. He prepares these and mails them to us. They're  
8 prepared off site as a consulting service to us.

9 Q Okay, and at that point I believe it was  
10 your testimony on Exhibit Number Four, by letter of April  
11 19th, that the well was decided to be moved to the south-  
12 east 100 feet.

13 A That's correct.

14 Q Okay. Were there other sites back to  
15 the north and west that could have been orthodox that were  
16 drillable?

17 A Define "drillable".

18 Q Well, I guess in this case, NMSA ob-  
19 viously, 5910, did not extend over the whole quarter  
20 quarter section, so there was evidently some pieces that  
21 could have been drilled back to the north and west, accord-  
22 ing to this.

23 A Well, he -- that's as far as we went  
24 that he started surveying. He didn't survey the entire  
25 40-acre tract. We looked in the immediate area for a legal

1 location and we did not find one. Their recommendation was  
2 the site that was the quickest way off site and stay out of  
3 their -- they're fine with southeast. If you look at the  
4 last page of his -- his recommendation is on the last page  
5 to move to the south and east.

6 That was their recommendation.

7 Q Was he made aware that to the south and  
8 east would have been unorthodox?

9 A Yes, he knew that. BLM, the BLM repre-  
10 sentative was on site; Barry Hunt was there with him along  
11 with our surveyor and our field people. Our geologist will  
12 also have some input as to why south and east was a more  
13 acceptable location. The first recommendation came from  
14 the field, from BLM and surveyor.

15 Q Why wasn't it decided to the north and  
16 west?

17 A First, we were stepping too far north.  
18 The geology came into -- into play. We don't know that we  
19 would have found an acceptable site even up there. He did  
20 not know -- you know, we would have had to survey the en-  
21 tire 40 acres. We were, timewise, we were trying to get an  
22 approved location because we were under the gun from Exxon  
23 to drill the well on 120-acre continuous development clause  
24 as mandated by farmout and we made -- if we had gone to the  
25 north and he found another site, it would have delayed us

1 another 30 days to file and delayed us -- we'd already been  
2 delayed once and we said, you know, we want the next  
3 closest acceptable site, and he recommended south and east,  
4 and that was acceptable to us, both geologically and  
5 landwise.

6 Q And when was this well spudded?

7 A June -- right in the middle of June, I  
8 think. The wells are shallow wells, only take about 3 days  
9 to drill, 4 days to drill.

10 Q Okay.

11 MR. STOGNER: I have no other  
12 questions of this witness.

13 He may be excused.

14 A Thank you.

15 MR. STOGNER: Mr. Bruce.

16 MR. BRUCE: One more witness.

17

18 CHARLES S. BEACH,  
19 being called as a witness and being duly sworn upon his  
20 oath, testified as follows, to-wit:

21

22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q Would you please state your full name,  
25 Mr. Beach?

1           A           Charles Sanford Beach, from Midland,  
2 Texas.

3           Q           And what is your occupation and who are  
4 you employed by?

5           A           I'm a geologist for Beach Exploration.

6           Q           And have you previously testified before  
7 the OCD?

8           A           No, I haven't.

9           Q           Would you please briefly state your  
10 educational and work background?

11          A           I graduated from the University of Texas  
12 in 1987 with a Bachelor of Science in geology. I've worked  
13 for Beach Exploration for two years as a geologist.

14          Q           And what are your job duties?

15          A           Prospect generation, mapping and well  
16 site work, geology.

17          Q           And are you familiar with the geological  
18 matters involved in Case 9723?

19          A           Yes, I am.

20          Q           And were you the well site geologist on  
21 Beach wells in Section 18?

22          A           Yes, I have been.

23                       MR. BRUCE:   Mr. Examiner, is  
24 the witness acceptable?

25                       MR. STOGNER;   They are.

1           Q           Mr. Beach, referring to Exhibit Number  
2 Five, would you please describe its contents for the  
3 examiner, and especially with relation to your proposed  
4 productive limit line?

5           A           This is a structure map mapped on the  
6 top of the Penrose Sand, which is a Queen sand, the pro-  
7 ducing sand in the High Lonesome Field. The probably up-  
8 dip productive limit is our estimation of where we no  
9 longer will be able to produce economic wells. It's based  
10 on dry holes that have been drilled in Section 26, which we  
11 drilled. The Supron Federal is the name of the well.

12                       Structurally, as you -- as you move to  
13 the north and to the west you get up dip and the porosity  
14 in the area becomes salt plugged.

15                       The Rosewood Federal, which is in Sec-  
16 tion 18 is another example. Rosewood Resources drilled the  
17 well. It's the furthest well to the west in that section.

18           Q           That would be in Lot 4 of Section 18?

19           A           Yes.

20           Q           Or Lot 3, excuse me, in that section.

21           A           Yes, sir, and it is -- it is basically  
22 uneconomic. It makes 13 to 15 MCF a day and we bought it  
23 from Rosewood basically for secondary purposes.

24           Q           What was the purchase price?

25           A           \$500.

1           Q           Now, Beach operates the wells in Sec-  
2 tion 18, correct?

3           A           Yes.

4           Q           And to the southwest, what has been  
5 Beach's experience in Sections 25 and 36?

6           A           All right. On Section 26 --

7           Q           25.

8           A           -- is where we drilled the dry hole, the  
9 Supron Federal, because we had gotten up dip. We tried a  
10 completion on the well and found that it was -- the poro-  
11 sity was salt plugged and it wasn't productive.

12                        Section 35 we drilled a well that is  
13 very marginal and we're not even sure at this point if it's  
14 going to be economical. That would be the New Mexico 35-1.

15           Q           Is that the one in the northeast quarter  
16 of the northeast quarter?

17           A           That is the one, yes.

18           Q           And in the Supron Well you are talking  
19 about that in the southeast quarter of the southeast quar-  
20 ter of Section 26?

21           A           Yes, it is.

22           Q           Did those wells have approximately the  
23 same porosity?

24           A           The New Mexico 35 probably had a little  
25 bit better porosity but not much. It's getting at the very

1 limits of the productive limit and the Supron, it wasn't  
2 productive.

3 Q And so the important factor in these  
4 wells is the structure, is that correct?

5 A Well it -- yes, sir, the structure, as  
6 you move up-dip it becomes salt plugged, which affects the  
7 porosity.

8 Q Now looking specifically at Section 18,  
9 what is your -- what are your comments on moving the well,  
10 or if it had to have been moved, to the north and west,  
11 what is the problem with that?

12 A Well, we didn't -- we felt like we  
13 didn't have a choice to move that direction geologically.  
14 Moving north and west would be entering a very high risk  
15 zone. We just didn't -- we didn't feel like we could drill  
16 it. It was too risky geologically and we felt like we'd  
17 get tight due to salt plugging and at the position that we  
18 did drill the well and completed, it's -- it's not a very  
19 good well, it's marginal, anyway, and any further direction  
20 north and west we felt like would be uneconomical, be  
21 risky.

22 Q In your opinion is the granting of this  
23 application in the interest of conservation, the prevention  
24 of waste, and the protection of correlative rights?

25 A Yes, it is.

1 Q And was Exhibit Five prepared by you or  
2 under your supervision?

3 A Yes, it was.

4 MR. BRUCE: Mr. Examiner, I  
5 move the admission of Exhibit Number Five.

6 MR. STOGNER: Exhibit Number  
7 Five will be admitted into evidence.

8 MR. BRUCE: I have no further  
9 questions at this time.

10

11

CROSS EXAMINATION

12 BY MR. STOGNER:

13 Q Now, Mr. Beach, I'm following -- follow-  
14 ing this red line, and as I go into Section 18 from Sec-  
15 tion 17 there is a well in the northeast quarter northeast  
16 quarter, the No. 1, that's plugged and abandoned.

17 A Northeast of the northeast, it has the  
18 NDE by it?

19 Q Right.

20 A That's -- yes, sir.

21 Q Have you got some information on that  
22 well without --

23 A Well, the TD was 755 feet. It didn't  
24 get to the Penrose formation.

25 Q Oh. Okay. So we come down and then the

1 well which you have bought for \$500 is the one in Lot Num-  
2 ber 3 along the western side of 18, is that right?

3 A Yes.

4 Q Okay, and if I keep kind of following  
5 that red line down, in Section 24 about in the middle  
6 there's a Well No. 1. Do you know -- do you have any in-  
7 formation on that particular well?

8 A Yes, I have. I've seen the log on that  
9 well. That's -- who drilled those? I believe Spectrum  
10 drilled them. It's productive but it's also getting to a  
11 point that's very marginally productive.

12 Q Oh, are you talking about the one in --  
13 right in the middle of the section?

14 Q Yeah, the one right in the middle of the  
15 section.

16 A That well was drilled -- that's an old  
17 well. They didn't run logs on it. All I -- all we can  
18 find is sample logs. They -- they apparently tested the  
19 Penrose formation and it was tight and unproductive.

20 Q Okay. But you did find some records  
21 that it's a Penrose well.

22 A Yes.

23 Q Okay. I keep following that line down  
24 to the south end of Section 24. There is another well and  
25 it looks like it's in Unit O, and it has the number 2035

1 above it.

2 A Yes.

3 Q Is that -- do you have any information  
4 on that particular well?

5 A I've seen a log on that well. That's  
6 the one I thought you were talking about. Spectrum drilled  
7 that well, I believe. It's a producing well but it's also  
8 losing porosity in that direction. From my log evaluation  
9 there is -- there is evidence that there is salt within the  
10 porosity because of the density curve on the -- on the well  
11 reads high, whereas the neutron curve reads low, which is  
12 an indication of salt plugging.

13 Q Okay. Okay, let's follow the line on  
14 down a little bit.

15 Down in Section 25 there looks like a  
16 well location indication over on the left side of 25 --

17 A Right.

18 Q -- between the two contours. What --  
19 what exactly is that?

20 A That's C & J Drilling, drilling -- is in  
21 the process of drilling that well right now. It's a cable  
22 tool hole. I've seen them drilling it. All I -- in my  
23 estimation it's not going to make a well. That's all,  
24 that's the only reason I put that's where the line goes,  
25 but I have no information based on -- on that well. It's

1 not completed yet.

2 Q Okay, and there's two wells in Section  
3 26, the well, I believe, in which you had had some infor-  
4 mation on, the Well No. 1 in Unit O. How about the one in  
5 Unit P? That shows TD, it looks like 1614?

6 A Where is it? Oh, that's -- that should  
7 be our well right there. That's -- that's the Supron  
8 Federal.

9 Q Uh-huh.

10 A And the well that's directly to the west  
11 of that well, I guess Kincaid drilled it. I haven't seen  
12 any records on that but based on our well, and we are tight  
13 at that point, we -- I would assume that as you move west  
14 it is -- it's going to be even worse.

15 Q Okay, and then down in 35, the little  
16 red line swings over and takes in the well in Unit A. How  
17 about the figures on that one?

18 A That's -- that's the Beach Exploration  
19 35-1 and it is marginally productive. It's not a very good  
20 well. Like I said, I think it makes two barrels a day.

21 Q Two barrels a day. Is that a fairly new  
22 well, recent well, or has been it been depleted?

23 MR. CARL BEACH: 79-A?

24 A 79-A, yeah.

25 MR. CARL BEACH: That's a good

1 well.

2 A It was potentialed for 5 barrels a day.

3 MR. STOGNER: One at a time,  
4 please.

5 MR. STOVALL: Mr. Bruce, if  
6 you'd instruct your witnesses that the witness who is being  
7 examined is the one to answer the question (unclear).

8 Q Okay, let's go back up here to our  
9 northern area and we heard some testimony about salt plug  
10 in the porosity. What kind of porosity difference do we  
11 see as we got back up to this line that has been drawn?

12 A What kind of porosity difference?

13 Q Yes.

14 A Well, obviously, as you move north and  
15 west, Section 8, there's a well, the McClellan TXO Federal,  
16 if you can see that well. It's in the southwest quarter.

17 Q Okay, the one marked No. 1? Okay, yeah.

18 A That well, I've seen the logs on that  
19 well. It's obviously salt plugged, totally salt plugged.  
20 That's -- that's the whole trapping mechanism for this  
21 field, is that you move up dip, is -- is salt plugging in  
22 the porosity, in the sand, and that is what is the trap-  
23 ping mechanism. That's why as you move up dip there is an  
24 up dip limit. At a certain point you reach -- the sand  
25 does not pinch out. It's still there but it becomes salt

1 plugged. The porosity becomes filled with salt, that is.

2 Q Becomes filled with salt at that time?

3 A Right, that's just due to depositional

4 processes.

5 Q What is the mechanism in the High Lone-

6 some Pool?

7 A Mechanism?

8 Q The energy, the -- the reservoir energy.

9 A It's solution gas, I believe.

10 Q Solution gas, so there's no water in-

11 volved at all?

12 A No, there's not.

13 Q Okay. Now this salt plug that you're

14 talking about, is it -- do we just see it all of a sudden

15 or is it --

16 A It's gradual.

17 Q -- gradual?

18 A It's gradual and that's why as we move

19 up dip, up dip you could get wells that are marginal and as

20 you get further up dip you get wells that are unproductive.

21 Q When do you start seeing this salt plug-

22 ging occur down to the south and east?

23 A Well, we see it in the 3-A that we

24 drilled. That's -- that's the reason why it potentialled

25 lower and it's not as good a well.

1 Q Okay, 3-A? 3-A, where is that well  
2 again?

3 A 3-A is -- is the one that we're applying  
4 the application for.

5 Q Oh, okay. Now, how about the -- some of  
6 the other wells back to the south and east in this Section  
7 18?

8 A Those wells, most of those wells, all of  
9 those wells other than the Rosewood Federal, which is the  
10 well on the west side of the -- the furthest west side of  
11 the section, are productive and are free, I would say, salt  
12 free within the porosity.

13 So I guess you could say it happens  
14 fairly rapidly.

15 Q But over -- well, there's a quarter of a  
16 mile. I assume the one you're talking about that you don't  
17 see any salt plugging is that one in Unit -- it's in the  
18 northeast of the southwest quarter? Is that the one you  
19 were referring to?

20 A The northeast of the southwest, that  
21 well, as far as I know, we haven't seen -- little or no  
22 salt. It's a decent well.

23 Q How about the one in Unit G? Is there  
24 any salt in that one, that's apparent?

25 A G, which --

1 Q That's southwest of the northeast?

2 A That well, that well is not as good as  
3 some of the wells but there may be a little bit of salt in  
4 it. It's hard to tell. See, you have to use -- I mean  
5 you can look at the logs and it can be deceiving because  
6 gas effect also plays a part in depressing the neutron  
7 curve, so you get in a situation where you have to decide.  
8 based on completion and what the potentials are, if you're  
9 in an area where permeability, and when you treat the well,  
10 whether your permeability is decreasing.

11 Q So the salt plugging -- I'm beginning to  
12 see about a quarter of a mile area in which you go totally  
13 salt plugged and then when you start seeing it, is what I'm  
14 hearing now.

15 A Right.

16 Q And I guess there's really not a per-  
17 centage that you can put on a porosity that is salt plug-  
18 ged; i.e., your well, --

19 A No.

20 Q -- you can't say, well, it's 50 percent  
21 --

22 A It's very difficult.

23 Q -- salt plugged.

24 A Yes.

25 Q You can't really say that.

1           A           Yeah. It's difficult, like I said,  
2 because of the gas effect can affect the logs and it's not  
3 something that you can see -- I mean you can see a little  
4 bit in samples, but it's -- it's really, basically, based  
5 on when you complete the well, the type of completion it  
6 takes and the permeabilities are affected by the poten-  
7 tials and it's more engineering at that point.

8           Q           What kind of initial production has  
9 this pool seen in its initial development?

10          A           Well, I'd say the potentials on indivi-  
11 dual wells have ranged anywhere from, oh --

12          Q           Let's look at the sweet area, or the  
13 good area.

14          A           Well, right. I'd say anywhere from 30  
15 to 90 barrels initial potential on the wells in the field.

16          Q           What's the best well doing now?

17          A           Oh, I think one of our better wells  
18 probably makes 35 barrels a day.

19          Q           And what did this well test at or  
20 initial --

21          A           Initial potential was 14 barrels.

22          Q           Is it still producing 14 barrels per  
23 day?

24          A           It's shut in.

25          Q           It's shut in. Shut in due to -- oh,

1 all right.

2 A You got it.

3 Q How many -- how many days did it pro-  
4 duce?

5 A We -- we tested for probably 15/20 days.

6 Q And it averaged 14.

7 A Yes, the determination was made on that.

8 Q Okay. What is an uneconomical well in  
9 this area?

10 A I'd say if you potential a well for  
11 below 10 barrels you're -- you're reaching an economic  
12 limit.

13 Q Mr. Beach, you understand today that  
14 there is no mechanism in the general rules and regs for an  
15 oil well for geological applications through administra-  
16 tively. Do you have anything to add? Would you make any  
17 recommendations to the OCD concerning this situation, like  
18 you have run into?

19 A Well, there might be, it looks like to  
20 me there's probably need for it somewhere, as far as my  
21 experience has been, because this is definitely a situation  
22 where the geology has -- has had a large influence on where  
23 we're going to spot the well here.

24 MR. STOGNER: I have no other  
25 questions of this witness.

1 Are there any other questions?

2 MR. BRUCE: Could I let Mr.  
3 Carl Beach address your last question --

4 MR. STOGNER: Sure.

5 MR. BRUCE: -- Mr. Examiner?

6 MR. CARL BEACH: Your question  
7 as to whether there may be a procedure the OCD can look at  
8 to alleviate these problems, would be well suited whereby  
9 an operator could come in and provide offset notice to any  
10 offset operator and giving 30 days notice, or whatever  
11 the OCD feels reasonable, if we got a signed affidavit or  
12 administrative relief that would allow us to drill that,  
13 then I would think the OCD would deem that as offset opera-  
14 tors feel like that we're not draining them. For example,  
15 in this case we had -- no one was being drained except  
16 ourselves and the BLM, you know, is -- is -- owns all of  
17 the surface, all of the minerals, so it had no effect on  
18 anyone else and an administrative procedure would have been  
19 nice whereby we could have, you know, any offset operator  
20 we could have put on notice and we could have provided you  
21 letters and you could have waived this administratively and  
22 prevented a hearing.

23 MR. BRUCE: If I can add one  
24 thing, I guess this --

25 MR. STOGNER: Please do.

1 MR. BRUCE: I think the OCD  
2 has had this problem before with the BLM, if I -- if I  
3 recall, but I mean the applicant was really willing to  
4 drill at an orthodox location and it was really, even  
5 though the final location was decided geologically, it was  
6 really -- the orthodox location was turned down for what  
7 might be considered topographic reasons, and so it's kind  
8 of a combination of the two, which made it a little more  
9 complicated.

10 MR. STOVALL: You understand  
11 that an orthodox location was turned down for archaeolo-  
12 gical, topographical reasons, but not all possible ortho-  
13 dox locations.

14 MR. BRUCE: Yes.

15 MR. STOVALL: Mr. Beach, do  
16 you wish to respond to that?

17 MR. CARL BEACH: Yes. Where  
18 -- where I think the problem is, and this, this relates to  
19 OCD regulations and BLM regulations, we're -- Exxon gives  
20 us a farmout and says you've got to drill in 120 days, we  
21 start -- start permitting 60 or 90 days in advance, we get  
22 turned down once, we've wasted 30 days and we have a 30 day  
23 waiting period for turn down.

24 Then we go out and restake, we  
25 find an acceptable one, or, you know, we find one -- we

1 look again, we find another one, the process could take,  
2 you know, 9 months or something, if we keep looking for  
3 orthodox locations, and I'm not sure whether we would  
4 legally be protected, you know, Exxon is sitting on our  
5 heels saying drill that or release it. In this case, you  
6 know, these wells aren't what you'd call tremendous barn-  
7 burner wells that Exxon would probably jump in and kick us  
8 out, but had we made 200 barrel a day wells, then we  
9 wouldn't have a choice, we would be forced to to drill not  
10 knowing whether we're going to get a permit or not. That's  
11 -- that's where the operator gets put in a pinch, is not --  
12 this one may be a little less because our wells are  
13 marginal on this north end anyway, but had we been making  
14 3-or-400 barrel a day wells, Exxon would be licking their  
15 chops waiting for us, you know, to expire and then pushing  
16 you to the limit to make you drill that well within a time  
17 frame or they'd say you have not performed, you're out, and  
18 we're going to drill your offset.

19 We -- you can only look for an  
20 orthodox location so many times.

21 MR. STOVALL: Mr. Beach, let  
22 me -- let me ask you in that regard, and I will ask either  
23 Mr. Beach, and you can just identify yourself for the re-  
24 cord, please.

25 MR. CARL BEACH: Okay.

1 MR. STOVALL: This Exhibit  
2 Five, I believe it is, your structure map in which you've  
3 drawn the red line and kind of delineated the limit of your  
4 potential porosity, was that done before the original loca-  
5 tion was -- was identified?

6 MR. CHARLES BEACH: No, it was  
7 drilled -- it was put on there after we had drilled the  
8 well because we obviously had more information at the time  
9 we -- after we drilled the well.

10 MR. STOVALL: Did you know at  
11 the time that you originally picked your orthodox in the  
12 corner of the legal location and then moved south and east,  
13 did you know at the time that you needed to be in the  
14 southeast portion of the proration unit?

15 MR. CHARLES BEACH: Yes, we  
16 did. We felt as if we would have moved north and west it  
17 would have been too risky. The risk would have been too  
18 high for an economical well to be drilled there.

19 MR. STOVALL: Could you not at  
20 that time have applied for a -- come to the commission with  
21 a hearing knowing that you were, in fact, moving for truly  
22 both geologic and topographical reasons, but you were  
23 moving out of the proration unit because you needed to go  
24 southeast for geological reasons, could you not have  
25 applied at that time for a hearing and had a hearing --

1 MR. CHARLES BEACH: Could you  
2 repeat that question?

3 MR. CARL BEACH: Yeah, Carl  
4 Beach, could I respond?

5 April 19th, when we filed the  
6 permit to drill we provided a copy of the permit with a  
7 letter saying we were drilling unorthodox and made appli-  
8 cation on April 19th. It was not responded to by OCD until  
9 April the 21st -- I mean July the 21st.

10 So we set 90 days with no  
11 response

12 MR. STOVALL: I understand  
13 that and then there was -- there was, you know, some con-  
14 cern on my part that we were slow in that area, but at that  
15 time you were actually applying for a -- for an unorthodox  
16 location, geological --

17 MR. CARL BEACH: Yes, both  
18 criteria, that's correct.

19 MR. STOVALL: -- as well as  
20 topographic reasons --

21 MR. CARL BEACH: Both cri-  
22 teria, that's correct.

23 MR. STOVALL: -- and you were  
24 aware of the rules that say that geological approval is  
25 not available administratively, should you not have applied

1 for a -- for a hearing at that time?

2 MR. CARL BEACH: Well, the  
3 BLM, that was at the location they recommended and they  
4 forced upon us. We -- we went for \$1000 worth of expen-  
5 ditures at a 330 location (not clearly understood) a sur-  
6 veyor, archaeologist, to go out there and get approval. We  
7 have to contract, you know, the New Mexico Archaeological  
8 Service to do all the original reports. We get denied on  
9 that one, and they come back and we take -- then we sent  
10 our field people out there with -- with the BLM and with  
11 the archaeologist, the contract guy, and we walk around and  
12 find the first acceptable location -- they went north and  
13 looked in that area, and you can see exactly 200 feet north  
14 they said to stay out of it. At that point we said we're  
15 getting out of the oil field and we said we have to stop  
16 and look at the south.

17 MR. STOVALL: And --

18 MR. CARL BEACH: We would have  
19 drilled an orthodox location had it been 50 or 100 feet  
20 north. We would have --

21 MR. STOVALL: Let me -- let me  
22 cut you off at this point. I think -- I think we don't  
23 need the rest of this on the record, but I would like to  
24 have some additional discussion with you on that.

25 MR. CARL BEACH: Okay. Good.

1 MR. STOVALL: Did you have  
2 anything further?

3 MR. STOGNER: On this parti-  
4 cular application, no, not at this time.

5 MR. STOVALL: Okay, I have  
6 nothing further.

7 MR. STOGNER: Anybody else  
8 have anything further in this?

9 MR. BRUCE: Nothing further.

10 MR. STOGNER: This case will  
11 be taken under advisement.

12

13 (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. 9723, heard by me on 9 August 1989.

Richard E. Stewart, Examiner  
Oil Conservation Division