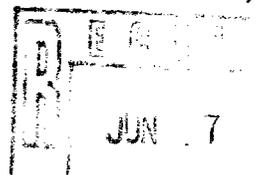


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF PENWELL ENERGY, INC.,)
FOR A UNIT AGREEMENT, EDDY COUNTY,)
NEW MEXICO)

CASE NO. 11,545



REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

June 13th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, June 13th, 1996, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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June 13th, 1996
Examiner Hearing
CASE NO. 11,545

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A P P E A R A N C E S

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FOR THE APPLICANT:

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 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:21 a.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 11,545.

5 MR. CARROLL: Application of Penwell Energy,
6 Inc., for a unit agreement, Eddy County, New Mexico.

7 EXAMINER STOGNER: Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe law firm Campbell, Carr,
10 Berge and Sheridan.

11 We have two witnesses. I'm entering my
12 appearance for Penwell.

13 EXAMINER STOGNER: Any other appearances?

14 Will the witnesses please stand to be sworn at
15 this time?

16 (Thereupon, the witnesses were sworn.)

17 EXAMINER STOGNER: Mr. Carr?

18 MR. CARR: Mr. Stogner.

19 MARK WHEELER,
20 the witness herein, after having been first duly sworn upon
21 his oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. CARR:

24 Q. Would you state your name for the record, please?

25 A. Mark Wheeler.

1 Q. And where do you reside?

2 A. Midland, Texas.

3 Q. By whom are you employed?

4 A. Penwell Energy, Inc.

5 Q. What is your current position with Penwell?

6 A. Land manager.

7 Q. Mr. Wheeler, have you previously testified before
8 this Division?

9 A. Yes, I have.

10 Q. At the time of that testimony, were your
11 credentials as a petroleum landman accepted and made a
12 matter of record?

13 A. Yes, they were.

14 Q. Are you familiar with the Application filed in
15 this case?

16 A. Yes.

17 Q. And are you familiar with the Penwell-proposed
18 Wagon Wheel Exploratory Unit?

19 A. Yes, I am.

20 MR. CARR: Mr. Stogner, are the witness's
21 qualifications acceptable?

22 EXAMINER STOGNER: They are.

23 Q. (By Mr. Carr) Could you briefly summarize what
24 Penwell seeks with this Application?

25 A. We seek approval of the Wagon Wheel Exploratory

1 Unit, a voluntary exploratory unit containing approximately
2 4800 acres of federal and fee lands in Eddy County, New
3 Mexico.

4 Q. There are no state lands within the proposed unit
5 area?

6 A. No, sir, there are not.

7 Q. Have you prepared exhibits for presentation here
8 today?

9 A. Yes, I have.

10 Q. Could you refer to what has been marked for
11 identification as Penwell Energy, Inc., Exhibit Number 1,
12 identify this and review it for the Examiner?

13 A. This is the form, Federal/Fee Exploratory Unit
14 agreement form.

15 Q. And has this been filled out to -- for the
16 purposes of being the document that in fact will govern the
17 Wagon Wheel Unit?

18 A. Yes.

19 Q. Can you identify what has been marked as Penwell
20 Exhibit Number 1-A?

21 A. Exhibit 1-A is a plat of the boundaries of the
22 proposed unit.

23 Q. Can you refer to this and summarize the status of
24 the lands in the unit area?

25 A. There are currently seven leases within the

1 boundary of the unit, and one open tract. Six of the
2 leases are federal, one is a fee lease. And then there is
3 the one open tract which is federal and has been nominated
4 for the October federal sale.

5 Q. Let's go to Exhibit Number 1-B. Can you identify
6 and review that?

7 A. That is Exhibit "B" attached to the unit
8 agreement. It's a schedule of ownership showing the
9 leasehold positions on all the tracts and including the
10 open tract.

11 Q. All right, Mr. Wheeler, let's go to Penwell
12 Exhibit Number 2. Can you identify and review that?

13 A. That is a summary of the working interest
14 ownership under the proposed unit, and includes the
15 interests of Penwell and our funding partner, CoEnergy
16 Central Exploration, and also shows the ownership of a 320-
17 acre tract by Conoco, which has not elected to ratify the
18 unit, and also shows the open tract, which is nominated for
19 October.

20 Q. What percentage of the acreage in this unit area
21 has been committed to this unit plan?

22 A. Approximately 86.67 percent.

23 Q. And will that give Penwell effective control of
24 unit operations?

25 A. Yes, it will.

1 Q. Has the Bureau of Land Management designated this
2 area as an area logically suited for development under a
3 unit plan?

4 A. Yes, they have.

5 Q. And is Exhibit Number 3 a copy of a letter from
6 the BLM so designating this tract?

7 A. Yes, it is.

8 Q. When do you anticipate receiving final approval
9 of this proposed unit from the BLM?

10 A. Probably within the next month or so.

11 Q. And does Penwell seek to be designated unit
12 operator under the proposed agreement?

13 A. Yes, we do.

14 Q. Does the agreement provide for periodic filings
15 of plans of development?

16 A. Yes, it does.

17 Q. Will these be filed with the OCD at the same time
18 they're filed with other agencies?

19 A. Yes, they will.

20 Q. And how often does this agreement provide that
21 these plans in fact will be filed?

22 A. The initial plan is required within six months
23 after completion of a unitized well, and subsequent plans
24 are on an annual basis, not later than March 1st of each
25 year.

1 Q. Mr. Wheeler, when this one tract that's
2 outstanding now appears on the BLM lease sale, have you
3 conferred with the BLM as to how that will actually be
4 advertised?

5 A. Yes, it will actually be in the brochure for the
6 sale, stated that whoever buys that will be committed --
7 will have to commit that tract to the unit.

8 Q. Were Exhibits 1 through 3 either prepared by you
9 or compiled at your direction?

10 A. Yes, they were.

11 MR. CARR: Mr. Stogner, at this time we would
12 move the admission into evidence of Penwell Energy Exhibits
13 1 through 3.

14 EXAMINER STOGNER: Exhibits 1 through 3 will be
15 admitted into evidence.

16 MR. CARR: And that concludes my direct
17 examination of Mr. Wheeler.

18 EXAMINATION

19 BY EXAMINER STOGNER:

20 Q. Mr. Wheeler, in the Tract Number 8, the little
21 fee acreage --

22 A. Yes.

23 Q. -- who is the royalty interest owners?

24 A. It's a family out of Welch, Texas, by the last
25 name of Boles, B-o-l-e-s, and they have agreed to lease

1 their 40 acres to us.

2 Q. That's Welch, Texas?

3 A. Yes, sir, it's close to Lubbock.

4 Q. And now, have they signed the agreements?

5 A. Signed their lease agreements?

6 Q. Yes.

7 A. Yes.

8 Q. Other than Tract 7, the open federal acreage,
9 Conoco is the only one who has not ratified?

10 A. That's correct. All of the other acreage shown
11 is controlled by Penwell and CoEnergy, our partner.

12 Q. The preliminary approval from the BLM, was that
13 done at a meeting with the BLM?

14 A. Yes, sir, we met with them on May the 30th, and
15 then we received the letter -- They dated the letter June
16 4th, and I believe we received it the next day.

17 Q. And that meeting was in Roswell?

18 A. Yes, it was.

19 Q. And when did you say that open acreage was going
20 up for sale?

21 A. It is nominated for the October federal sale,
22 which I believe would be the third Wednesday in October.

23 Q. When something like this occurs, when there's
24 some open land that's put under an exploratory unit, will
25 that carry any special provisions within that lease

1 agreement, once it's sold at sale?

2 A. I believe according to what the BLM said, that
3 when the lease is sold, they will make the buyer of the
4 lease ratify -- it will be a condition that the buyer
5 ratify the unit agreement.

6 Q. Now, who will be the operator?

7 A. Penwell.

8 EXAMINER STOGNER: Penwell?

9 No other questions of this witness, Mr. Carr.

10 MR. CARR: Thank you, Mr. Stogner.

11 At this time, we would call John Thoma.

12 JOHN THOMA,

13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. CARR:

17 Q. Would you state your name for the record, please?

18 A. John Thoma.

19 Q. And where do you reside?

20 A. Midland, Texas.

21 Q. By whom are you employed?

22 A. Penwell Energy.

23 Q. What is your current position with Penwell?

24 A. Geologist.

25 Q. Mr. Thoma, have you previously testified before

1 this Division?

2 A. Yes, I have.

3 Q. At the time of that testimony, were your
4 credentials as a petroleum geologist accepted and made a
5 matter of record?

6 A. Yes.

7 Q. Are you familiar with the Application filed in
8 this case and the proposed Wagon Wheel Exploratory Unit?

9 A. Yes, I am.

10 MR. CARR: Are the witness's qualifications
11 acceptable?

12 EXAMINER STOGNER: They are.

13 Q. (By Mr. Carr) Mr. Thoma, what formations does
14 Penwell propose to unitize with this particular proposed
15 unit?

16 A. All formations.

17 Q. Are there -- What is the primary objective in the
18 unit?

19 A. The Cisco/Canyon reef.

20 Q. And is this within an established Cisco Upper
21 Penn pool?

22 A. No, it's not.

23 Q. It's a wildcat well?

24 A. That's correct.

25 Q. Are there secondary objectives?

1 A. Yes, the Wolfcamp and the Morrow.

2 Q. Let's go to what has been marked as Penwell
3 Exhibit Number 4. Can you identify this and review it for
4 Mr. Stogner, please?

5 A. Exhibit 4 is an isopach of the Cisco/Canyon
6 dolomite, which is the objective in the unit area.

7 Wells that penetrated the Cisco/Canyon section
8 are annotated with circles. The footage of Cisco/Canyon
9 dolomite is also annotated on each wellbore in red. If
10 there was no dolomite present, there's a zero with a
11 limestone marker label next to that wellbore.

12 The unit is shown in -- The outline of the
13 proposed unit is shown in blue, and the Penwell leasehold
14 position is shown in yellow.

15 Q. You also have a trace on this exhibit for the
16 subsequent cross-section, do you not?

17 A. That's correct, the green trace is cross-section
18 A-A'.

19 Q. Let's go now to your isopach map, Exhibit Number
20 5. I'd ask you to review that for the Examiner.

21 A. Okay, Exhibit 5 is a structure map on top of the
22 Cisco/Canyon dolomite, and the structure map forms the
23 basis for the unit boundary.

24 The key well on the -- or in the unit area is
25 located in the southwest quarter of the northeast quarter

1 of Section 23 of Township 22 South, 22 East. That well
2 tested gas from the reef, along with substantial volumes of
3 water. That well forms the high proven water elevation
4 within the reef.

5 The next highest contour on a 50-foot contour
6 interval, which is what this map is illustrating, is the
7 3050-foot contour subsea elevation. That elevation forms
8 the outline or defines the outline of the unit essentially.

9 So all elevations above the 3050 contour are
10 believed to be prospective and have been included within
11 the unit area.

12 Q. Are you ready to go to your cross-section,
13 Exhibit Number 6?

14 A. Cross-section A-A' illustrates that key well, the
15 Midwest Federal "M" Number 1. It's the second well from
16 the right-hand side of the section.

17 It drill stem tested -- they conducted -- The
18 operator conducted two drill stem tests in the Cisco/
19 Canyon.

20 The first test in the very upper portion of the
21 reef from 7458 feet to 7492 feet, they recovered gas to
22 surface, too small to measure, along with a substantial
23 quantity of water in the drill pipe, 12,096 feet.

24 The lower DST, from 7550 feet to 7580 feet,
25 recovered no hydrocarbons and 1823 feet of saltwater-cut

1 mud.

2 I might point out that the flowing and shut-in
3 pressures recorded during both of these drill stem tests
4 are indicative of excellent reservoir conditions.

5 The colors on the cross-section denote different
6 lithologies, along with significant stratigraphic markers
7 in the area, in the unit area. The Cisco/Canyon interval
8 is that interval between the Cisco/Canyon shale and the
9 Strawn shale at the bottom. Those two shales are
10 highlighted in brown.

11 The Cisco/Canyon interval itself is subdivided
12 into a limestone facies and a dolomite facies. The
13 dolomite facies is the reef formation and is the reservoir
14 objective in the unit.

15 That purple-colored interval is the dolomite
16 facies, and that is the interval that is isopached on
17 Exhibit 4, and the structure map on Exhibit 5 is mapped on
18 the top of that purple surface.

19 The other wells on the section, on the left-hand
20 side of the section, the El Paso Natural Gas Rocky Arroyo
21 Unit "C" Number 1 tested both -- or produced from both
22 Canyon- and Morrow-age rocks. Although noncommercial, it
23 did indicate the presence of hydrocarbons in those
24 formations.

25 As well, the El Paso Natural Gas Patterson "A"

1 Number 1, the second well from the left-hand side of the
2 section, produced from the secondary objective Wolfcamp
3 formation, recovering 3 BCF gas and 5000 barrels of oil.
4 Those two wells are included in the section not only to
5 document termination of the Cisco/Canyon dolomite reef
6 updip to the west, but also to document the secondary
7 potential in the area.

8 Q. Mr. Thoma, is Exhibit Number 7 a summary of your
9 geological study of this area?

10 A. Yes.

11 Q. What conclusions does this study render about the
12 proposed unit area?

13 A. It basically determines that this is a highly
14 prospective area for the Cisco/Canyon reef, that the most
15 effective and efficient manner in which to develop this
16 area and this reservoir would be through implementation of
17 a unit, a federal unit.

18 Q. In your opinion, is the proposed location for the
19 test well the best location to, in fact, reach a quality
20 reservoir in the unit area?

21 A. Yes.

22 Q. And how soon do you plan to drill the test well?

23 A. Late August.

24 Q. Do you request that -- With that date, there's no
25 need to expedite this order; is that fair to say?

1 A. No, other than we do need to spud the well prior
2 to September 1st.

3 We have an expiring lease within the unit area
4 that expires September 1st, 1996, and so we do need to spud
5 a well prior to that date.

6 Q. Mr. Thoma, in your opinion will approval of this
7 Application and development of this area under a unit plan
8 be in the best interests of conservation, the prevention of
9 waste and the protection of correlative rights?

10 A. Yes.

11 Q. Were Exhibits 4 through 7 prepared by you?

12 A. Yes, they were.

13 MR. CARR: At this time, Mr. Stogner, we would
14 move the admission into evidence of Penwell Exhibits 4
15 through 7.

16 EXAMINER STOGNER: Exhibits 4 through 7 will be
17 admitted into evidence.

18 MR. CARR: And that concludes my direct
19 examination of Mr. Thoma.

20 EXAMINER STOGNER: I have no questions, Mr. Carr.

21 MR. CARR: That concludes our presentation in
22 this case.

23 EXAMINER STOGNER: You may be excused.

24 Do you have anything further, Mr. Carr?

25 MR. CARR: Nothing further, Mr. Stogner.

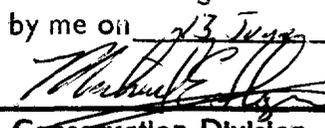
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EXAMINER STOGNER: Does anybody else have anything further in Case Number 11,545?

Then this case will be taken under advisement.

(Thereupon, these proceedings were concluded at 8:40 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11545, heard by me on 23 June 1986.

Examiner
Oil Conservation Division

