

NEW MEXICO OIL CONSERVATION DIVISION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date APRIL 30, 1998 Time 8:15 A.M.

NAME	REPRESENTING	LOCATION
William F. Carl	Campbell, Tom, Foy + Stendler & A.	Santa Fe
John D. Kullman	Petroleum Development Corp.	
Michael O. Hayes	Santa Fe Energy	Midland, TX
Steve Smith	Santa Fe Energy	Midland, TX
James Bruce	—	SF
Jim Gillette	Hinkle Corp	Roswell
Greg Nibert	Hinkle, Cor	Roswell

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 PETROLEUM DEVELOPMENT)
 CORPORATION FOR A UNIT AGREEMENT,)
 LEA COUNTY, NEW MEXICO)

CASE NO. 11,968

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

April 30th, 1998

Santa Fe, New Mexico

Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, April 30th, 1998, 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.

* * *

I N D E X

April 30th, 1998
 Examiner Hearing
 CASE NO. 11,968

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
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FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:20 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 11,968.

5 MR. CARROLL: Application of Petroleum
6 Development Corporation for a unit agreement, Lea County,
7 New Mexico.

8 EXAMINER CATANACH: Call for appearances in this
9 case.

10 MR. CARR: May it please the Examiner, my name is
11 William F. Carr with the Santa Fe law firm Campbell, Carr,
12 Berge and Sheridan. We represent Petroleum Development
13 Corporation in this case, and I have one witness.

14 EXAMINER CATANACH: Any additional appearances?
15 Will the witness please stand and be sworn in at
16 this time?

17 (Thereupon, the witness was sworn.)

18 JOHN D. KULLMAN,
19 the witness herein, after having been first duly sworn upon
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. CARR:

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

24 A. I'm John Kullman.

25 Q. Where do you reside?

1 A. In Midland, Texas.

2 Q. Mr. Kullman, by whom are you employed?

3 A. I'm self-employed.

4 Q. And what is your profession?

5 A. I'm a geological consultant.

6 Q. What is your relationship to Petroleum
7 Development Corporation?

8 A. I've been hired by Petroleum Development
9 Corporation to do the consulting -- as a consultant to do
10 the geology on this project.

11 Q. Have you previously testified before this
12 Division and one of its Examiners and had your credentials
13 as a petroleum geologist accepted?

14 A. No.

15 Q. Could you briefly summarize for Mr. Catanach your
16 educational background?

17 A. I have a bachelor of arts degree in geology from
18 Augustana College, 1965, and a master of science degree in
19 geology from the University of Iowa, 1968.

20 Q. Since graduating in 1968, for whom have you
21 worked?

22 A. I've had 30 years of continuous experience as a
23 petroleum geologist, with six years with Texaco and 12
24 years with various independent companies and 12 years as a
25 consulting geologist.

1 Q. Are you familiar with the Application filed in
2 this case on behalf of Petroleum Development Corporation?

3 A. Yes.

4 Q. And are you familiar with the proposed Huber
5 State Unit?

6 MR. CARR: May it please the Examiner, we would
7 tender Mr. Kullman as an expert witness in petroleum
8 geology.

9 EXAMINER CATANACH: Mr. Kullman is so qualified.

10 Q. (By Mr. Carr) Could you briefly state what
11 Petroleum Development seeks with this Application?

12 A. Approval of the Huber State Unit agreement, which
13 is a voluntary exploratory unit containing approximately
14 145.82 acres of state lands in Lea County, New Mexico.

15 Q. Have you prepared certain exhibits for
16 presentation in this case?

17 A. Yes.

18 Q. Let's go to what has been marked for
19 identification as Petroleum Development Corporation Exhibit
20 Number 1. I'd ask you to explain what it is and what it
21 shows.

22 A. It is the unit agreement a state/fee exploratory
23 unit.

24 Q. And is this on the State of New Mexico Land
25 Office form?

1 A. Yes.

2 Q. All right, let's go to Exhibit Number 2. What is
3 this?

4 A. Exhibit 2 is a general lease plat of the proposed
5 unit area. It outlines the tracts for the unit and shows
6 the state lease numbers.

7 Q. Okay, Exhibit Number 3 is also a plat, is it not,
8 Mr. Coleman?

9 A. Yes, it's a plat which is Exhibit A of the unit
10 agreement, and it also shows the various tracts and states
11 the amount of acreage in each tract and in the unit itself.

12 Q. Okay.

13 A. It also shows the location of the well that we
14 propose to re-enter and the -- both the surface-hole
15 location and the bottomhole location.

16 Q. Petroleum Development Corporation is planning to
17 re-enter this well and then kick off and directionally
18 drill; is that --

19 A. Yes, that's correct.

20 Q. -- or horizontally drill?

21 A. Yes.

22 Q. Is that portion of the approval process being
23 handled administratively?

24 A. Yes, it is.

25 Q. Is Exhibit Number 4 an ownership breakdown

1 identifying the lands in the unit and identifying the
2 ownership of those properties?

3 A. Yes, it shows the ownership of each tract in the
4 unit and shows that the state beneficiary institutions are
5 the same, being the common schools.

6 Q. And this shows that the lessee of record in each
7 of these cases is EnergyPro, Inc.; is that right?

8 A. That's correct.

9 Q. What is their relationship to Petroleum
10 Development Corporation?

11 A. EnergyPro developed the prospect or the project
12 and has sold it or joined in an agreement with Petroleum
13 Development Corporation to drill the horizontal well.

14 Q. And will Petroleum Development Corporation
15 actually be the operator of the property?

16 A. Yes, they will.

17 Q. What percentage of the acreage has been
18 voluntarily committed to the unit?

19 A. One hundred percent.

20 Q. Have you reviewed this proposal with the
21 Commissioner of Public Lands?

22 A. Our representatives have met with Pete Martinez
23 at the State Land Office, and there's been -- He's
24 indicated there's no problem with this Application. And
25 we'd hoped to have the letter of approval today, but we

1 will provide it to the Oil Conservation Division as soon as
2 it is received.

3 MR. CARR: Mr. Examiner, I talked to Mr. Martinez
4 yesterday. He was trying to get it out late yesterday. We
5 should have it later today, and I will deliver a copy to
6 you when we receive it.

7 Q. (By Mr. Carr) Now, Petroleum Development
8 Corporation is requesting to be designated operator of this
9 unit; is that correct?

10 A. Yes.

11 Q. Does the unit agreement provide for the periodic
12 filing of plans of development?

13 A. Yes.

14 Q. And will these be filed with the Oil Conservation
15 at the time they're filed with the State Land Office?

16 A. Yes.

17 Q. And how often are these plans to be filed?

18 A. The initial plan within six months after
19 completion of a commercial well, and subsequent plans every
20 twelve months thereafter.

21 Q. And you're proposing to unitize all formations
22 under this acreage; is that right?

23 A. Yes

24 Q. What is the primary objective in this unit, and
25 in the re-entry?

1 A. The Devonian formation.

2 Q. And what pool will the well be located in?

3 A. Denton-Devonian South.

4 Q. Are there secondary objectives in this well?

5 A. The Wolfcamp is considered a secondary objective.

6 It has produced just to the north of the unit.

7 Q. Let's go to Exhibit Number 5. Would you identify
8 this and review it for Mr. Catanach?

9 A. Exhibit Number 5 is a Devonian structure map. It
10 has been drawn using existing well control and is based on
11 a 3-D seismic interpretation of the area.

12 Q. And what basically does this show?

13 A. What it shows is a broad flattening at the
14 juncture of the three tracts that we propose to unitize,
15 with a little bit of structural closure, and that indicates
16 to us that the area is not -- probably has not been drained
17 efficiently by the existing well control.

18 Q. And what you intend to do is re-enter the Huber
19 State Well Number 1, over on the western side of the unit;
20 is that right?

21 A. Yes.

22 Q. And then directionally drill in a northeasterly
23 direction?

24 A. Correct, through this structural flattening and
25 closure.

1 Q. Does this proposal enable Petroleum Development
2 Corporation and EnergyPro to attempt to produce what
3 reserves may be here in the most economical fashion?

4 A. Yes.

5 Q. Can you just generally summarize what your
6 geological study tells you about this formation in this
7 proposal?

8 A. That the Devonian formation has compartmentalized
9 porosity zones and fractures, which a horizontal well into
10 this structural flattening and closure will help to recover
11 reserves that would not be recovered by any of the vertical
12 wells.

13 Q. In fact, this is a feature that should be
14 producible with one wellbore; is that right?

15 A. Yes, that's correct, one well into this area
16 should recover the remaining reserves.

17 Q. And the unitization of this acreage could prevent
18 any possibility of there being requirements for additional
19 wells?

20 A. Yes.

21 Q. How soon does Petroleum Development Corporation
22 plan to spud the well?

23 A. As soon as approvals are received.

24 Q. And do you therefore request that the order in
25 this case be expedited?

1 A. Yes.

2 Q. In your opinion, will approval of this
3 Application be in the best interest of conservation, the
4 prevention of waste and the protection of correlative
5 rights?

6 A. Yes.

7 Q. Were Petroleum Development Corporation Exhibits 1
8 through 5 either prepared by you or compiled under your
9 direction?

10 A. Yes, they were.

11 MR. CARR: Mr. Catanach, at this time we'd move
12 the admission of Petroleum Development Corporation Exhibits
13 1 through 5.

14 EXAMINER CATANACH: Exhibits 1 through 5 will be
15 admitted as evidence.

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

18 EXAMINATION

19 BY EXAMINER CATANACH:

20 Q. Mr. Kullman, you show on your exhibit that there
21 have been four wells drilled in this unit area?

22 A. Yes.

23 Q. Were those all producing wells in the Devonian?

24 A. Yes, they were.

25 Q. And they've all been plugged and abandoned?

1 A. Yes. Actually, the Number 1 Huber state well had
2 never produced from the Devonian. That's the one that's
3 shown with the dryhole symbol. But the other three were
4 Devonian producers.

5 Q. What was the -- Do you know what the Huber State
6 was?

7 A. It drilled to the Devonian. It was -- I'm trying
8 to remember. I think it was drilled in the late Seventies,
9 possibly the early Eighties, which -- The initial wells in
10 the field were drilled in the field were drilled in the
11 early Sixties, and this well, the Huber State well, was
12 drilled.

13 That was prior to 3-D seismic, and they thought
14 they were in a structurally high position there that would
15 make a good devonian well, but they came -- You can see
16 that it's just on a structural nose that's kind of regional
17 dip, and they drilled -- they tried to complete it in one
18 of the main water-producing zones.

19 They did not log the well either, so there's no
20 e-logs, but you can tell from the depth of their completion
21 attempt that they were in the main -- or down in the water-
22 producing horizon.

23 Q. So it's your intent to drill that well into that
24 structurally high position?

25 A. Yes, to the east.

1 Q. And basically you theorize that there's oil that
2 was not recovered from the three other wells --

3 A. Yes, that's right.

4 Q. -- in that structure?

5 A. The wells were initially drilled by three
6 different companies, and they were -- they produced them at
7 very high rates to try to outproduce the offset producer,
8 and we believe that they prematurely coned or brought water
9 into the production from below, probably coming up various
10 fractures and things, and that this area out here that
11 shows some flattening would not have been drained by that
12 type of production.

13 Q. So you've estimated that these reserves are, in
14 fact, present on all three of these quarter sections?

15 A. Yes.

16 Q. Quarter-quarter sections.

17 And it's your opinion that one well will
18 efficiently drain the top of that structure?

19 A. Yes, and everything below it. I mean, we'll keep
20 the horizontal well, of course, near the top of the
21 formation, but...

22 Q. Just out of curiosity, how far is that lateral
23 going to extend? Do you know?

24 A. Approximately 2000 feet. Well, maybe less than
25 that. A thousand feet might be a closer estimate.

1 Q. Okay. Have you guys estimated how much oil you
2 might recover out of that structure?

3 A. We believe about 300,000 barrels is a reasonable
4 estimate.

5 Q. Okay, the unit agreement has been executed
6 actually by Petroleum Development Corporation, or --
7 actually -- I'm not sure. It looks like -- Did
8 EnergyPro, in fact, execute the --

9 MR. CARR: Yes.

10 THE WITNESS: Yes, Don Pfiester.

11 EXAMINER CATANACH: Okay, I have nothing further
12 of this witness, Mr. Carr. He may be excused.

13 MR. CARR: Mr. Examiner, that concludes our
14 presentation in this case.

15 EXAMINER CATANACH: Okay. There being nothing
16 further in this case, Case 11,968 will be taken under
17 advisement.

18 (Thereupon, these proceedings were concluded at
19 8:36 a.m.)

20 * * *

21
22 I do hereby certify that the foregoing is
23 a correct and true copy of the proceedings in
24 the Ex. Case No. 11968,
25 heard by me on April 30 1988.
David A. Catanach, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL April 30th, 1998.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998