STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 10,555

EXAMINER HEARING

IN THE MATTER OF:

Application of Meridian Oil, Inc., for amendment of Division Order No. R-8170, as amended, to establish a minimum gas allowable in the Justis (Glorieta) Gas Pool, Lea County, New Mexico

TRANSCRIPT OF PROCEEDINGS

ORIGINAL

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

November 5th, 1992

A P P E A R A N C E S

FOR THE DIVISION:

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E X H I B I T

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WHEREUPON, the following proceedings were had at 9:40 a.m.:

EXAMINER CATANACH: Call the hearing back to order, and at this time we'll call Case 10,555.

MR. STOVALL: Application of Meridian Oil, Inc., for amendment of Division Order No. R-8170, as amended, to establish a minimum gas allowable in the Justis (Glorieta) Gas Pool, Lea County, New Mexico.

EXAMINER CATANACH: Are there appearances in this case?

MR. KELLAHIN: If the Examiner please, I'm Tom Kellahin of the Santa Fe law firm of Kellahin and Kellahin appearing on behalf of the Applicant, and I have one witness to be sworn.

EXAMINER CATANACH: Okay, will the witness please stand and be sworn?

(Off the record)

MR. KELLAHIN: If the Examiner please, my first witness is a petroleum engineer, Mr. Tom O'Donnell.

Mr. O'Donnell testified concerning the Justis (Glorieta) Gas Pool at the Commission allowable hearing in August, and he's back again today to present his study concerning his conclusion that a minimum gas allowable for the Justis (Glorieta) Pool is

appropriate.

He has reviewed, and he and I have considered, the Texaco Order and the Doyle Hartman Order that dealt with the Jalmat and the Eumont Pool for a minimum allowable.

In doing so, we have suggested as an outline a proposed order for entry in this case that has been tailored to meet his presentation today, and it might serve as a guide or an outline to you in his hearing presentation.

We've gone through his Justis Gas Pool information and tried to pick out specific findings that addressed his pool, and I have the proposed order as well as a computer floppy of the draft for your use, Mr. Examiner.

(Off the record)

TOM O'DONNELL,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. For the record, Mr. O'Donnell, would you please state your name and occupation?

A. Tom O'Donnell. I'm a senior reservoir engineer with Meridian Oil in Midland.

Q. On a prior occasion have you testified before the Commission concerning the Justis (Glorieta) Gas Pool?

A. Yes, I have.

Q. Summarize for us your background and qualifications. Where did you obtain your degree?

A. I obtained my degree from Texas A&M University, a bachelor's in -- bachelor's of science in petroleum engineering.

Q. And what year was that?

A. I graduated in 1986.

I worked for approximately five and a half years for a major oil company in south Louisiana before coming to Meridian, I guess about two years ago.

Q. Are you generally familiar with the prorationing rules that apply to the Justis (Glorieta) Pool?

A. Yes, I am.

Q. The end conclusion of all your resulting efforts has caused you to reach an opinion about a minimum gas allowable for the pool?

A. Yes, it has.

Q. What are you proposing for a minimum gas allowable?

A. We are proposing a minimum gas allowable of

600 MCF per day per 160 acres, which is per an acreage factor of 1.

The standard gas proration unit in Justis (Glorieta) is a 320-acre tract with two acreage factors in it --

Q. So --

A. -- so for a standard proration unit you would actually have a minimum gas allowable of 1200 MCF per day.

Q. All right. What is the gas allowable that has been applied to the reservoir prior to the current proration unit -- period that we are now in?

A. In the past, up until the last order came out, where we had requested an adjustment to the acreage allowable, it was, prior to that, 130 MCF per day per 160.

Q. As a result of your presentation to the Commission in August, the current winter proration period has been adjusted so that the volume attributable to an F1 factor translates to a daily producing allowable rate on 160 acres of 600 MCF a day?

A. Correct.

Q. Let's go through the exhibit book, in general, to tell the Examiner how you've organized the book, and then we'll come back and do your specific

presentation.

A. Okay. In the first section, labeled Notification, I -- what I've provided was all the notifications that we gave to outside operators as of this hearing, a copy of the Order that was issued as a result of our last hearing.

Q. Are you talking about the Commission Order entered setting the winter proration period allowables that we're currently in?

A. Correct.

Q. All right. After that notification information, what's behind the next tab?

A. Okay, the second section has an overview, and that is just a general overview of the field itself, with a brief history.

The third section is Justification, and I go into specifics on the justifications for the minimum allowable, and I specifically go into the economics of offset wells, development well drilling.

The fourth section is labeled a miscellaneous section, and this is simply just some miscellaneous justification for the minimum allowable.

And the fifth section is production plots, and that is a production plot of all wells in the Justis field.

Q. The entire exhibit is numbered as Exhibit Number 1, and then each page in the exhibit book is identified by a different page number?

A. Correct.

Q. Let's go to the tab that says Overview. It appears to be page number 5 in my book. Is that what you have?

A. Correct.

Q. Do you have a large copy of the overview of the pool?

A. Yes, I do.

MR. KELLAHIN: I'm not sure we'll put it up on the wall, Mr. Examiner. We'll put it on the table in the hearing room. You'll find the small copy is a little difficult to read.

Q. (By Mr. Kellahin) Let's start with the background information, Mr. O'Donnell.

Will you take page number 5 and give us an orientation as to what you've depicted on that display?

A. Okay, on this plat, the -- I guess it is an orange outline around the outside, is a field outline.

Q. That appears on only the small copy, the orange outline?

A. Correct.

Q. And that is the current boundaries of the

pool?

A. Correct.

Q. Within that area there are different areas that are also shaded. What do those mean?

A. Okay, each individual color represents a different company and represents each individual proration unit.

Q. How are the wells identified?

A. The wells are identified by three different symbols, one representing a plugged well, one a marginal well, and one a nonmarginal well.

Q. The current status of the pool in terms of how many actual producing wells there are, both marginal and nonmarginal?

A. Okay, there are actually 12 producing wells, 12 active wells right now, with five of them being nonmarginal.

Q. Let's talk about the reservoir itself. If you'll turn to exhibit page 6, 7 and 8, that portion of the book, give us a geologic overview of what this reservoir looks like.

A. Okay, the Justis gas zone is approximately 200 feet thick in this field. It lies beneath the San Andres dolomite and is actually the upper hundred feet of the Justis Paddock field.

The Glorieta is dolomitic, crystalline sucrosic, occasionally oolitic, tan to brown, vertically fractured, and vuggy porosity.

The Glorieta production is situated on a structure on the western flank of the central basin platform located five miles east of the City of Jal.

(Off the record)

THE WITNESS: The following page, page 7, shows you the location of the Justis field in relation to Jalmat, and the central basin platform, you can see, it's on the western edge of the central basin platform before you --

Q. (By Mr. Kellahin) Where is the Jalmat reservoir in relation to the Justis reservoir?

A. The Jalmat reservoir is overlying the Justis (Glorieta) field.

Q. Get to page 8, give us a summary of the structure.

A. Okay, page 8 is a contour map showing the top of the Glorieta. As you can see, it is just a general anticlinal-type structure.

Q. Turn to page 9 now and give us a brief history of the development and exploration of the pool.

A. Okay, the pool was created in 1950. Proration was started in 1954. The last well that was

drilled in this field was in 1981, and that was the Justis BC Federal Com Number 2. The prior well to that was drilled in 1972.

So as you can see, in the last 20 years there has not been much activity at all in this area.

There are 21 completions in the Justis (Glorieta) field, one completion in the North Justis field, and I just list that because it's actually on the same structure.

There are 12 active wells, and a standard gas proration unit in this pool is 320 acres with an acreage factor of two.

Q. Have you provided the Examiner with a tabulation of the 12 active wells in the pool?

A. I have provided in page 10 a tabulation of all the wells in the pool. It shows the location, the status, whether it was inactive. "N" is for nonmarginal, "M" is for marginal. I show the acreage that's assigned to it in the proration schedule.

I show the current average production rates from April through September, 1992, and, as of January 1992, the over/under status of all the wells, with -- and I note at the bottom of the page, "overproduction is negative", same convention as in the proration schedule.

Q. Are there additional opportunities to improve ultimate recovery from this reservoir?

A. Yes, there is.

Q. How do you propose we accomplish that increase?

A. Okay, we see that this field has been neglected for a number of years. We see ultimate recovery can be increased through general maintenance, workovers and drilled wells.

Q. Do you see an opportunity for improving ultimate pool recovery by an infill drilling program?

A. Yes, we do.

Q. The infill program consists of what?

A. The infill program consists of drilling on acreage that we feel would not be drained by other wells. We also feel that there are some possibilities of offsetting older wells that did not deplete the reservoir in its local area.

Q. Are there 320-acre spacing units that do not have a second well on the opposite 160?

A. Yes, there are. There are several 320-acre tracts that only have one well to them, and we feel that another well is necessary on the adjacent 160 of that 320 tract in order to efficiently drain the reservoir.

Q. If there are additional opportunities to improve productivity in the reservoir and ultimately improve ultimate recovery, why was the last well drilled in 1981?

A. Okay, with the current proration of 130 MCF per 160, it is uneconomical to drill a well. We have run the economics on it, and we just cannot justify the well. That's why we're here requesting 600 MCF per day.

Q. What is the basis for recommending 600 MCF a day for an acreage factor of one?

A. Okay, several reasons. First of all, it becomes economical to drill.

I guess secondly, in relation to surrounding pools, the Jalmat Pool overlying the Justis (Glorieta) Pool, which is approximately 1500 feet shallower, has a minimum allowable of 600 MCF per day. The economics in those wells are actually better since they are shallower.

Q. Has use of 600 MCF a day in the Jalmat Pool achieved its objective --

A. Yes.

Q. -- of encouraging additional exploration and development?

A. Yes, it has. Back in the miscellaneous

section, page 27, I show how drilling has increased through 1989, 1990 and 1991, since the minimum allowable of 600 MCF per day had been set.

As you can see, before that there was very little activity. It really became active in 1990, with 57 wells drilled. And currently, the last proration schedule that came out, the minimum allowable in the Jalmat Pool actually self-adjusted itself up to 817 MCF per day due to the production of that pool.

Q. The simple fact of establishing a minimum allowable in the Jalmat Pool has resulted in substantial new development of that pool, including increasing ultimate recoveries?

A. Correct.

Q. And that's what you're trying to do in the Justis?

A. Correct, that is our main goal here in the Justis (Glorieta).

As you can see from my status report on page 10, the field has been highly neglected. We are not looking to raise the allowable so we can increase production rates of the existing wells per se. It is strictly for the development of the field. We cannot justify workovers, and we cannot justify drilled wells in this field at the current allowable.

And we are -- The reason we're asking for a three-year period is, we temporarily have a six-month period right now, we do drill a well, and for some reason it is not extended, the economics of the well -- it will become an uneconomical well.

Q. Let me have you turn now to page 11 and give us a summary of the items that you have concluded justify a minimum allowable.

A. Okay, the first justification there is that the remaining -- Currently and for the life remaining of the pool, the total deliverability of the wells in the pool is not expected to exceed market demand for the produced gas from that pool.

Item number 2 -- Well, I'd like to also say that the proration was originally instituted in 1954 because the capacity exceeded the demand. That situation is no longer valid.

Item number 2, since the institution of prorationing there has been substantial changes in the pool production, development, gas purchasing, marketing practices and other factors affecting the oil and gas industry which make prorationing of the pool unnecessary.

Item 3, Production limitations imposed by the prorated allowables has discouraged and will continue

to discourage further developmental drilling, workovers and compression projects. And that's probably the most important.

Number 4, Infill drilling alone is anticipated to add 14 BCFG of gas reserves which would otherwise not be recovered. And I'll go into that in a little more detail.

Increasing the prorated gas allowable will not impair correlative rights.

Meridian has contacted all seven operators in the pool concerning this matter and is not aware of any opposition to this Application. And that I also will go into a little further in just a minute.

The State of New Mexico approved Meridian's request for an adjustment of 81 million cubic feet per month during the October, 1992, through March, 1993, proration schedule, resulting in a monthly acreage allocation factor of 18,205 MCF per month.

The current prorated gas allowable for the overlying Jalmat Pool is currently 817 MCF per day per 160 acres. It is actually 1500 feet shallower.

Sid Richardson has advised Meridian that the proposed increase in pool production will not adversely affect any well in the pool. And that I'll go into in a little more detail.

Q. Let's go back to the specific issue, and that is the economic justification --

A. Okay.

Q. -- for a minimum allowable and have you give us an example, starting with page 12, of how you've analyzed and come to your ultimate conclusion on that issue.

A. Okay, on page 12 are all of our assumptions for our economic case, showing our working interest, a net revenue interest of 100 percent and 87.5 percent respectively, estimated reserves of 650 million cubic feet of gas -- and how I came to that we'll go into in a little more detail -- completed costs, $339,900, initial gas price of $1.41 per MMBTU, based on the last 12 month-average and held constant, operating cost, $1500 per month, escalated five percent.

I detail how we schedule out the taxes and the depreciation.

The case number 1, which is the as-is case of -- or I shouldn't say "as-is" since we have the temporary adjustment, but in the prior case of 130 MCF per day the well is uneconomical.

Case 5, which the initial rate is 600 MCF per day, which is what we are proposing, results in a rate of return of 26 percent and a payout of three years.

On page 13 I show a graph illustrating the rate of return versus initial rate, and as you can see, it takes an initial rate of 300 MCF per day just to break even.

Page 14 goes into how we estimated reserves for infill drilling.

Q. You have an actual example in the pool of an infill well that was drilled, and you have data from that to show its relationship to the original well in that proration unit?

A. Correct.

Q. Is that what we're seeing with Exhibit 14?

A. Correct, that's what is on page 14. The existing wellbore was the Eaton B 1 WN Number 1. Its cumulative production is 6.9 BCF with a last production February, 1990.

I show on the following page its production plot with, on page 16 after that, it shows a P-over-Z plot.

In the upper right-hand corner you can see the EUR of 7.1 BCF. On the production plot in the upper right-hand corner you can see the EUR is 6.9 or roughly about 7 BCF also. So you can see the well essentially drained its area.

Q. It was fully depleted?

A. It was fully depleted.

Q. Okay. Then what happened?

A. Then in 1982 the Justis BC Federal Com Number 2 was drilled, offsetting this, and to date its cumulative production is 622 million cubic feet with an estimated EUR of 1.18 BCF. I do show its production plot on page 17.

Q. What's your point?

A. My point is, the Eaton B 1 WN Number 1 did not drain a 320-acre area.

Q. And that the infill well has substantial capacity to further produce additional gas from the pool?

A. Correct, that would otherwise not be recovered.

Q. Have you taken that information and analyzed it to determine what the anticipated future recovery can be for the reservoir if an infill program is adopted and justified by a minimum gas allowable?

A. Yes, we did. I show at the bottom of page 14 that the offset well drained -- or recovered 17 percent of the ultimate recovery of the existing wellbore.

We applied that on page 18, based on a 17-percent recovery of offset reserves. The average EUR per well in the Justis (Glorieta) Pool is 3.8 BCF.

Anticipated offset recovery therefore is 17 percent of that or 650 million cubic feet.

The total estimated pool EUR is 84.4 BCF. If you apply a 17 percent additional recovery due to additional infill drilling, you're looking at increasing the ultimate recovery of that pool by 14.3 BCF.

The total estimated pool EUR I show on page 19, the following plot. As you can see, up through -- between 1990 and 1995 is where I started the initial projection, and it is the straight, exponential line coming actually from a few -- it is a projection off the current production.

How I came up with that projection is, I made a projection on every individual well, and I summed those up on our program. And so therefore, that projection is a culmination of all the projections of every individual well. And you can see it really falls right in line with the current production and looks reasonable.

Q. Is that a standard engineering practice in order to arrive at a way to forecast the ultimate recovery from existing wells?

A. Yes, it is. We find that more accurate, to make projections on the individual wells and sum those,

total those projections, rather than make a projection on a pool total.

Q. Identify for us what is the next series of displays in the exhibit book, from pages 20 through 26.

A. Okay, page 20 is the AFE for the well, itemizing the drilling, completion and construction-of-facility costs, and that totals $339,900. That is an itemized AFE for the economic case.

Page 21 is simply a drilling well cost estimate, which was part of the AFE.

Page 22 is a well cost estimate for completing the well.

And page 23 is a facilities cost estimate.

Page 24 is also a facilities cost estimate. One is for the panel and the pumping unit; that is page 23. 24 is for all the separation facilities at the surface.

Page 25, I just provided this. This is off our computer system. This is the actual prices that we've received for the gas in the area on an MMBTU basis, illustrating that it averaged $1.41 for the last 12 months, actually down 11 percent from the prior year.

And page 26 is just a continuation of that.

Q. You told us you have currently 12 producing

wells --

A. Right.

Q. -- with seven different operators?

A. Correct.

Q. You identified a Sid Richardson as one of the transporters?

A. Correct.

Q. Are there any other transporters of gas in the pool?

A. The only -- I just know of Texaco, handles their own gas. I believe they transport it and they process their own gas.

Q. Have you found any limitations on the ability to gather and process the gas if a minimum gas allowable of 600 MCF a day is applied to the pool?

A. No, I do not.

On page 28 I have a letter from Mike Wilkinson, who is in our gas marketing group, stating the demand for gas in the area.

On page 29 is a continuation of that letter. At the top of page 29 he states that Sid Richardson's Jal plant has excess capacity of 35 million cubic feet per day. Texaco's Eunice plant has an excess capacity of 40 million a day. So there certainly is demand in the area for gas.

Q. Has Meridian also contacted Sid Richardson Company to determine what their position was concerning this Application?

A. Yes, we have, and we have responses from them in letter form on page 30 and 31, both stating -- page 30, it states, "At your request, I have reviewed the attached list of leases...I have determined that all the production is currently under gas purchase agreements with Richardson except for the two Texaco..." wells. Richardson states that they would have the capacity and would be willing to purchase any additional production from these leases, should more be available.

The response from them on page 31 is a prior response when we requested whether -- that they provide to us in letter form that they would be able to handle any additional gas from the pool.

Q. In addition to the transporters, have you received any waivers of objection from other operators of wells that produce gas from the pool?

A. Yes, we have. We have sent notifications to all the operators.

We have received a waiver stating no objection to our proposal from Earl R. Bruno, from Lanexco, from Arco and from Texaco.

We did not receive any response from Amerada Hess or Chevron, and they did not indicate that they would object to our proposal.

Q. Summarize for us the remaining gas volumes in terms of the remaining ultimate recovery of gas from the reservoir. I believe you've described 20.6 BCF as the total remaining gas opportunity in the pool.

If you take into consideration the remaining ultimate recovery from existing wells --

A. Uh-huh.

Q. -- add together the analysis of the additional gas to recover from an infill program, what number do you get?

A. Okay, I believe you are correct. I believe it was -- You are looking at a remaining -- from the pool itself of 6.6 BCF. We're looking at adding an additional 14 BCF due to infill drilling, would give you a total of 20.6 BCF, roughly.

Q. Under this plan with a minimum gas allowable, are there wells that would be classified nonmarginal, that would still be subject to some allowable curtailment and would therefore not be able to produce at their capacity?

A. Yes, there are currently five nonmarginal wells. Meridian operates two of those wells.

Since we have had the temporary increase to 600 MCF per day, we have opened our wells up additionally. It is hard to say right now, because we have had a few production problems, whether those will be prorated or constricted at all.

But we do feel there are several wells existing in the pool, namely one that Chevron operates, that we feel will certainly be prorated at the 600 MCF per day allowable that we're asking for. We certainly feel the drill wells will be.

But I guess our main point is, we need that for the economics of the drill well, specifically.

Q. So at this point we're not seeking to terminate prorationing in the pool. There are some elements of your discussion that could apply to that issue --

A. Correct.

Q. -- but what you're looking at is a minimum gas allowable?

A. Correct.

Q. No limitations either gathering or processing or marketing and selling the additional gas?

A. No. As we mentioned earlier, we talked to Sid Richardson. Sid Richardson by letter has indicated to us that they have no problem marketing the gas. Our

marketing department has provided a letter stating the same.

And Sid Richardson also mentions, I believe, in one of these letters, that the additional gas will not adversely affect any marginal well in the pool. It will not increase line pressure in their system.

Q. Describe for us what is contained in the exhibit book behind the tab that says Production Plots.

A. Okay, these are current production plots, as current as *Dwight's Production Data* is updated, which I believe is through the fifth or seventh month of this year.

This -- All these plots are simple individual plots of all the wells in the field, including the one well that's in the -- actually listed in the North Justis field, which I actually feel is -- or you can see is on the same structure.

Q. Tell us again the basis for a three-year temporary minimum gas allowable.

A. Okay, our basis for the three-year allowable, we originally, I believe, back in August, requested an adjustment to obtain the 600 MCF per day allowable. That will only last six months.

We are just concerned a little bit, in a way, that if we drill a well and for some reason do not get

an extension of that adjustment and go back to the 130 MCF per day allowable, the well will become uneconomical as a project.

We would like to have the three-year minimum allowable set so we can feel good about going out and drilling the infill wells.

Q. That's tied back into your page 12 which shows your case 5 payout of three years?

A. Correct.

Q. So that if you make this investment for the infill well, at least within a three-year period you'll have a substantial opportunity to pay out the well?

A. Correct.

Q. Or at least these initial wells that are started soon under this program?

A. Right, and as I've mentioned several times, this is really the basis for asking -- requesting this allowable, is for this additional drilling, and the drilling obviously has to be economical to us.

Q. Do you have a recommendation to the Examiner as to what to use for an effective date to make the change?

A. Yes, I believe we did decide on December 1st, 1992, as an effective date.

Q. All right. Anything else, Mr. O'Donnell?

A. That is all. I guess the only other thing I'd just like to add is that most likely our drilling will not be initiated until this Order is established, because we would hate to go out there and drill the well and, obviously, not obtain the adjustment, the minimum allowable.

MR. KELLAHIN: That concludes my examination of Mr. O'Donnell.

We would move the introduction of his Exhibit Number 1.

EXAMINER CATANACH: Exhibit Number 1 will be admitted as evidence.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. O'Donnell, your estimates of recovery, of additional gas recovery from the pool, are based on all of the 320-acre units being infill drilled?

A. Yes, yes.

Q. Okay. Do you -- Go ahead.

A. Yeah, this is all it's based on. There are locations that, further into our study -- We see right now some indications that some of the wells may have gone off prematurely, maybe due to -- Some of these wells right now are being pumped. Some of the older wells may have gone off prematurely without having

pumping units put on them. They may have loaded up early.

So they may have some gas remaining, and that's to be established in our study, whether we want to offset some of the wells that have been previously plugged.

But that 14 BCF figure is strictly off vacant 160-acre tracts.

Q. Is there a possibility of going in and working over some of the existing wells?

A. Sure, sure. Yeah, we see several cases of that.

Q. Do you anticipate anything happening on the nonstandard 160-acre units in the pool?

A. On the nonstandard one? If it -- I believe the -- Let me refer to my plat here.

The nonstandard proration units have a well existing on them. And as I mentioned, we just need to study it a little further to find out if those -- if we feel those will recover or drain that tract.

I don't anticipate -- I think there's one, two, three nonstandard proration units. I don't anticipate drilling on those, but I wouldn't swear to it.

I might add also that although the field

outline is as shown here, we don't quite know yet whether we can step out even further on the outer limits of this structure.

I guess basically we are in the middle of the study right now, and before we -- We really need information off the infill drill wells to really tie down what we are going to be able to recover from infill wells.

We have the one instance of the 1982 well. That's all we're basing it on right now. The logs in the area are just old logs. They're 1950-something vintage wells, their logs. And it's real difficult to really estimate reserves in this area.

Q. In your justification section on page 13, specifically at a rate of 600 MCF a day, you get over a 25-percent rate of return. That's on the infill well, correct?

A. Correct.

Q. What is acceptable to Meridian as to a rate of return?

A. It's difficult to say. We would -- This is a case just to present here at this hearing. The case would be run a little different in-house. We'd obviously have to add our overhead charges to it and so on.

On a loaded basis we would like to see a minimum of 15, 20 percent. On an unloaded basis, probably -- You know, this would probably be a minimum 25 percent.

We requested this 600 MCF per day early in our study and have stuck with it because we feel it will be economic to the -- It will justify an economic well.

But it's difficult to answer your question, because I'd have to rerun the case with the load factors and so on that we run in house.

Q. Okay. How many nonmarginal wells does Meridian operate?

A. We have two marginal wells -- Let me go back to my list here. Meridian operates two nonmarginal wells and one marginal well.

And that one marginal well -- You had asked if we had identified anything to do with some of the existing wells. That marginal well, we are currently doing some work on, some plunger-lift work on.

As I mentioned earlier, these wells do make a little bit of water. Late in their lives they can easily load up, and that's what we're looking at on that well, that marginal well.

Q. Your two nonmarginal wells, you've got

current average production of 191 and 179?

A. Correct.

Q. Is that -- Is that amount because of the fact that it's been at 130 MCF a day, the allowable?

A. I believe so. I've tried to -- Since you can overproduce out here during the year and have to catch up and so on, the rates are very erratic, as you can see back in some of the production plots. The rates are very erratic.

Plus, to be honest with you, because of the lack of incentive in this area, there is a possibility of negligence on our part, not producing these at the top, top allowable.

So I'm not sure which case it is, whether we have -- we overproduced earlier and knocked the rate down. But that is the average rate from April through September.

But honestly, this field, this area has been highly neglected by ourselves and all operators, and we're hoping to change that.

Q. If that's -- if those two nonmarginal wells, if that production is ballpark, you're really going to have an allowable for the infill well of about a million a day, according to your proposal?

A. Okay. These nonmarginal wells, as of right

now, are producing over 500 a day.

Q. Okay, so they are capable of --

A. Oh, yes, yes. Since we got the adjustment in the last proration schedule, we have opened those wells up, and they're each producing over 500 a day.

Q. Do you know what the other nonmarginal wells in the pool are capable of?

A. I just that one -- I believe the -- there's several -- It's very difficult to tell, because you look at the production plots, and they're up to a million a day for a couple months, and then they're down to practically nothing, and it's very erratic production because of the allowable that's in place.

I believe there's one Chevron well -- Both of those are marginal. I believe it must be the Texaco well that certainly can produce in excess of 600 MCF per day.

But it's -- You can see indications of it when you go through these production plots. In the last couple years you can see some of the wells have jumped up. The Learcy McBuffington Number 7 by Chevron, back several years ago you could see rates in excess of a million a day.

The -- One of our wells, Carlson B Federal Number 1, you can see just a few months ago it was up

to about 800 MCF a day, so...

We know specifically from -- I can only speak for the wells that we operate. We know we have opened those up. And one of the wells, we are having some problems with production. I think we may have parted tubing -- or parted sucker rods in the well, and they're looking at that. So the production just recently has dropped down.

But both of the wells were in excess initially of 600 a day. They are right now about -- in excess of 500 a day. And these are wells that have been on for quite a while, for a number of years.

Q. Okay. In your request for the Commission for an increase or for an adjustment to the allowable, did you present the same economic evidence and testimony?

A. Yes, yes.

Q. And they agreed with you --

A. Yes.

Q. -- as far as the amount the allowable should be?

A. Correct.

Q. Okay. You had some information about how minimum allowables has affected the Jalmat Pool.

Is Meridian in fact an operator in the Jalmat Pool?

A. Yes. What I did hear is, through our computer system, we accessed *Dwight's Data*, and through *Dwight's Data* you can access wells that are drilled in any time frame.

And I simply pulled up through that database wells that were drilled in 1986, 1987, 1988, 1989, 1990 and 1991, and showed the results right there. And you can certainly see the three-year minimum that was set in that pool has increased development in the pool, will increase the EUR of the pool, and actually the -- Due to the production of the pool, it's actually -- the minimum allowable for the pool is up to 817 through this last proration schedule.

EXAMINATION

BY MR. STOVALL:

Q. You mean the actual allowable as set by the system, as opposed --

A. Yes.

Q. -- to the minimum, right?

A. If you overproduce the wells, it self-adjusts the minimum allowable, and obviously the pool has been overproducing the 600.

Q. I haven't asked you, in other words, the minimum is still set at 600, according to the Order that set it?

A. Correct.

Q. But the allowable for an acreage factor of one is now 800-and-some number that you gave?

A. Correct.

Q. Now, do you know from the previous hearings -- and I guess we can look at the Order that you've included here -- that that higher allowable is based upon actual production and not by adjustments made by the Commission; is that correct?

A. Correct.

Q. Okay.

A. I -- that's --

Q. It's not like this case where you came in and asked for an adjustment?

A. No. No, it is not.

Q. Those cases, it actually worked itself up to that?

A. Exactly.

Q. Okay. A couple other questions, while I'm at it here. Just for your information, we've had some discussion about the more aggressive use of minimum allowables --

A. Uh-huh.

Q. -- in pools for -- a variety of different pools for basically this reason.

Originally, you filed an application to deprorate the pool, and I assume -- Do you know why you changed it to request a minimum allowable?

A. Okay, when we looked at lifting proration from the pool, we felt it would be simpler to do this than to lift the prorationing from the pool.

To lift the prorationing from the pool --

Q. One of the effects of that would be to knock out the infill drilling possibility; is that not correct?

MR. TOM OLLE: That was a big factor, was the infill drilling, when you couldn't drill a second well --

THE WITNESS: Right, that's what I was going to --

MR. STOVALL: Wait, let's just get your name on the record, even though we haven't sworn you, just since you're making comments.

MR. OLLE: Okay, it's Tom Olle.

MR. STOVALL: Okay. And you're with Meridian; is that right?

MR. OLLE: I'm the reservoir engineering supervisor for Meridian in Midland.

We looked at the effects of being able --

MR. STOVALL: Well, let's stop there, and I

think we can --

MR. KELLAHIN: The issue was without prorationing, we were under the statewide memorandum that we couldn't have a second well on a 320 gas unit, and it killed our infill program.

THE WITNESS: Right, we couldn't simultaneously dedicate on a nonprorated. So it really complicated the issue.

Other than the fact of having to notify everybody and their brother as far as lifting the proration, then it created another problem of not being able to drill a second well on a proration unit.

Q. (By Mr. Stovall) Yeah, and --

A. -- on a standard --

Q. -- that's what I'm more concerned about. The procedural thing, I think, is not, in terms of building an additional record for looking other pools.

Maintaining proration with a reasonable minimum then allows you to do development work that you might not do if you deprorated it.

A. Exactly.

Q. Do you have an opinion as to whether, if the allowable is raised -- It essentially becomes 600 per 160 acres --

A. Correct.

Q. -- and you're suggesting there will be a well on every 160?

A. Correct.

Q. Is that -- What would be the approximate drainage of a well, drainage area of a well at that kind of rate?

A. Okay, we feel that a well will effectively drain a 160.

Q. Will it drain more than that, would be my question?

A. Will it drain more than that? Is that what --

Q. Yes.

A. We showed right in the offset well, that 1982 well, that it offset a well relatively close to it. It appeared to be depleted, and that additional well will drain approximately 1.2 BCF.

Q. So in other words, it's your opinion that if you just left -- if the allowable just stayed no lower than 600, that it wouldn't have an adverse effect on offsetting units, wouldn't impair correlative rights?

A. If it -- Could you ask that again? I'm sorry.

Q. In other words, if you -- Let's say we just set a minimum and it stayed at 600 over an extended

period of time.

A. Correct.

Q. Am I hearing you correctly that you would not see an adverse impact on offsetting units?

A. Right, correct.

Q. And would it also be your opinion that in fact, if the allowable stayed at 600, it may be advantageous in terms of protecting correlative rights because then the offset would have an incentive to drill and protect?

A. Correct. We -- I feel, from what I've seen through study in this field, a well -- I don't feel a well can drain any more than 160.

Q. Okay. If -- Part of your discussion indicated, you know, you were -- You stated in response to Mr. Kellahin that if in fact this minimum were established, that there would still be some nonmarginal proration units in the field, based upon existing wells?

A. Yes, that's my feeling, based upon production plots that I see, that I see rates within the last year in excess of 600 MCF per day.

So I think that of the five -- I believe it is five nonmarginal wells. I feel several of them will still be restricted, and I certainly hope that the

drill wells will be restricted.

But I guess that's what I was getting at several times, is this 600 MCF per day really is necessary to justify infill drilling.

Q. Taking that just one step and looking some time down the road, I mean, we're looking at essentially a depleted reservoir or largely depleted reservoir?

A. Uh-huh.

Q. If an allowable were, say, just left at, in this case, a minimum of 600 --

A. Uh-huh.

Q. -- for an acreage factor, and eventually the wells, whatever wells that were in the field came below that level, would it really matter if they all in fact became marginal at that point, if they're not draining more than 160 acres to begin with?

A. No.

Q. So that you could -- This would give you the incentive, then, to go drill wells --

A. Exactly.

Q. -- operate them at an economic level --

A. Right.

Q. -- and then this is as they fell below that level as proration units, there would really be no

adverse effect on the reservoir, would there?

A. Correct, correct.

Q. Okay, you've asked for an effective date of December 1st. Why not go for April 1st at the end of the current proration period and go three years from that? Get yourself a little extra time?

A. We discussed that -- Right, we discussed that yesterday. I guess our only concern is, if the Order actually came out in the same amount of time, that would be fine. I feel that would be fine with myself.

We would like to see the Order come out and like to feel that we have certainly set the three-year allowable before we actually go out and drill.

Q. Oh, I'm not suggesting the Order wouldn't come out till then; I'm suggesting the Order would contain an effective date.

A. I wouldn't see a problem with that.

MR. STOVALL: That was your reservation about requesting that date, is, you were afraid we would hold on to the Order until then; is that right?

Okay. I don't have any other questions.

EXAMINER CATANACH: I don't either.

MR. KELLAHIN: That concludes our presentation.

EXAMINER CATANACH: All right, there being

nothing further, Case 10,555 will be taken under advisement.

(Thereupon, these proceedings were concluded at 10:37 a.m.)

* * *

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 November 16th, 1992.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1994

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 10555 heard by me on November 5 1992.

David R. Catanach, Examiner
Oil Conservation Division