

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 HEC PETROLEUM, INC., TO)
AMEND THE SPECIAL RULES AND REGULATIONS)
FOR THE CATCLAW DRAW-MORROW GAS POOL,)
EDDY COUNTY, NEW MEXICO)

CASE NO. 13,301

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

RECEIVED

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

AUG 5 2004

July 22nd, 2004

Santa Fe, New Mexico

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, July 22nd, 2004, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

July 22nd, 2004
 Examiner Hearing
 CASE NO. 13,300

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A P P E A R A N C E S

FOR THE APPLICANT:

JAMES G. BRUCE
 Attorney at Law
 P.O. Box 1056
 Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 10:32 a.m.:

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6 EXAMINER STOGNER: Case Number 13,301, which is
7 the Application of HEC Petroleum, Inc., to amend the
8 special rules and regulations for the Catclaw Draw-Morrow
9 Gas Pool.

10 Call for appearances.

11 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
12 representing the Applicant in this amendment of the pool
13 rules.

14 EXAMINER STOGNER: No other appearances. Do you
15 have any witnesses?

16 MR. BRUCE: Mr. Examiner, I have two witnesses,
17 Mr. Ready and Mr. Krawietz, if the record could reflect
18 that they've been previously sworn and qualified as
19 experts.

20 EXAMINER STOGNER: Both witnesses were previously
21 sworn in one of either two cases today, and the record will
22 so reflect.

23 And gentlemen, let me remind you you're still
24 under oath.

25 With that, Mr. Bruce, you may continue.

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ROBERT READY,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Mr. Ready, could you identify Exhibit 1 for the Examiner?

A. Exhibit 1 is a plat outlining the current Catclaw Draw-Morrow Gas Pool and also indicating the wells that have been completed in that pool.

EXAMINER STOGNER: And also for the -- I'm sorry, also for the record, state your full name.

THE WITNESS: I am Robert Ready of Midland, Texas.

EXAMINER STOGNER: Okay, please continue.

THE WITNESS: Again, this is a plat with the bold outline depicting the outline of the Catclaw Draw-Morrow Gas Pool and the wells with the circle indicating the wells that have been completed in that pool.

Q. (By Mr. Bruce) Okay. It's kind of cut off at the top, but the pool does include all of Sections 1 and 2 at the north end of this township, does it not?

A. That's correct.

Q. Okay. Who are the -- Before I get to that, there's a dashed outline in there. Is that a unit outline?

1 A. That is the Catclaw Draw Unit. HEC Petroleum,
2 Inc., is the operator of that federal unit.

3 Q. Okay, and who are the other operators of wells in
4 the pool?

5 A. The other operators in the pool are Fasken Land
6 and Minerals, Devon Energy, and ChevronTexaco.

7 Q. What are the rules, the current rules, of the
8 Catclaw Draw-Morrow Gas Pool?

9 A. The current rules provide for 640-acre spacing,
10 two wells per section, with no well closer than 1650 feet
11 to the outer boundary of a well unit and no closer than 330
12 feet to a quarter-quarter section line.

13 Q. And what rules does HEC seek to institute for the
14 pool?

15 A. We would retain 640-acre spacing, amend the rules
16 to provide for four wells per section, and that those wells
17 be no closer than 660 feet to a quarter section line and no
18 closer than 10 feet to a quarter quarter section line.

19 Q. So again, as in the last hearing, you're seeking
20 to make the pools equivalent to the statewide rules, with
21 the difference being 640-acre spacing?

22 A. That's correct.

23 Q. Were the operators in the pool notified of this
24 hearing?

25 A. Yes, they were.

1 Q. And have any of the operators objected to this
2 Application?

3 A. No.

4 Q. Have any of them indicated support for the
5 Application?

6 A. Devon has indicated support for our Application.

7 Q. Were Exhibits 1 and 2 prepared by you or under
8 your supervision or compiled from company business records?

9 A. Yes.

10 Q. And in your opinion is the granting of HEC's
11 Application in the interests of conservation and the
12 prevention of waste?

13 A. Yes.

14 MR. BRUCE: Mr. Examiner, I'd move the admission
15 of Exhibits 1 and 2.

16 EXAMINER STOGNER: Exhibits 1 and 2 will be
17 admitted into evidence at this time.

18 Also, Mr. Bruce, do you have reference to the
19 existing order number --

20 MR. BRUCE: Yes, sir.

21 EXAMINER STOGNER: -- for the Catclaw Draw? Is
22 that still under 8170, that you remember?

23 MR. BRUCE: Yes, Mr. Examiner, I -- Hold on a
24 minute. I think the initial -- a couple orders. It was
25 initially entered in Case Number 5109, Order Number R-4704,

1 and there's a notation in the rules that R-4704 was re-
2 numbered as R-1670-0, and -- which of course would become
3 part of 8170.

4 Then, Mr. Examiner, also the pool was prorated.
5 I know there is an Order R-5188 which suspended
6 prorating for a period of one year back in the 1970s. I
7 believe that the suspension -- I don't know if that's the
8 current order, but I believe that prorating is currently
9 in suspension in this pool, although I was not able to wade
10 through the 8170 series of orders and find it.

11 The last prorating schedule I saw several
12 years ago didn't have it on there, I don't think, but I do
13 not remember. I can double-check my records.

14 EXAMINER STOGNER: Let's go ahead and go through
15 the hearing. I may call a recess so we can address that
16 issue. Let's go ahead and hear the testimony at this time.
17 We may take a recess so I can at least put that into the
18 record about all the records, especially since R-8170 has
19 been -- that order recodified, Order R-1670-0, under the --
20 I guess you might call it the current prorating scheme,
21 at least the special pool rules for prorated pools is under
22 Order R-8170, and under all of its subparagraphs there is
23 general rules and regulations for prorating.

24 But at this point I cannot recollect if the pool
25 is actually unprorated or prorating was suspended. That

1 may affect how we proceed afterwards.

2 For the record, Mr. Ready is so qualified, and I
3 will take administrative notice of the previous cases in
4 which Orders Number R-4704, R-1670-O and R-8170 that deal
5 with the Catclaw Draw-Morrow Gas Pool, I'll take
6 administrative notice of those cases.

7 THE WITNESS: Mr. Examiner, there's one thing I
8 did not point out on the plat that will be discussed later.
9 You'll see in Section 23 and up to the left of that an
10 arrow with a label "Catclaw Draw #18". The well is located
11 in the northwest quarter of Section 23. That's the recent
12 well that we have drilled.

13 EXAMINER STOGNER: Okay.

14 THE WITNESS: It's kind of hard to see, there's
15 so much other information on there.

16 EXAMINER STOGNER: Yes, there is a lot of
17 information. In fact -- let's see, are you through with
18 the testimony?

19 MR. BRUCE: I'm through with Mr. Ready, if you
20 have any questions, Mr. Examiner.

21 EXAMINER STOGNER: Yeah, I do.

22 EXAMINATION

23 BY EXAMINER STOGNER:

24 Q. When did that Catclaw Draw unit -- Do you know
25 the history of it, who originated it and who did HEC buy

1 from?

2 A. The unit, I believe, was formed by Hanagan
3 Petroleum, Inc. It has variously gone through operation by
4 Tenneco. There may be other intermediate owners that I am
5 not aware of. We acquired it from Hallwood -- or in our
6 acquisition of Hallwood Petroleum, Inc., which is a name
7 change to HEC Petroleum, Inc. But Hanagan, I believe,
8 originally formed the unit. And if my recollection is
9 correct, it was in the late 1950s, early 1960s.

10 Q. Now, you called attention to that Well Number 18/

11 A. Yes.

12 Q. Is that a third well on this unit, or was that a
13 replacement well for a previous well in that Section 23?

14 A. I'll let the engineer speak to that. I believe
15 it was a replacement well.

16 EXAMINER STOGNER: Okay, I have no other
17 questions for this witness. You may be excused.

18 THE WITNESS: Thank you.

19 MR. BRUCE: Mr. Examiner, the Catclaw Draw Unit
20 was approved by the Division in Case 4476, Order Number
21 R-4081.

22 EXAMINER STOGNER: That was the initial
23 discovery?

24 MR. BRUCE: I don't know if it was the -- it
25 was -- That was for approval of the Catclaw Draw Unit

1 agreement, and it was by Hanagan Petroleum.

2 EXAMINER STOGNER: Oh, that was the unit
3 agreement?

4 MR. BRUCE: Yes, sir.

5 EXAMINER STOGNER: Okay, I'm sorry, I was
6 thinking back to pools at this point.

7 Okay, so noted. Thank you, Mr. Bruce.

8 MR. BRUCE: Call Mr. Krawietz to the stand.

9 EXAMINER STOGNER: And for the record, state your
10 full name, and how do you spell your last name again, for
11 the record in this case?

12 MR. KRAWIETZ: It's Ken Krawietz, spelled
13 K-r-a-w-i-e-t-z.

14 EXAMINER STOGNER: Thank you, Mr. Krawietz.

15 Mr. Bruce?

16 KEN KRAWIETZ,

17 the witness herein, having been previously duly sworn upon
18 his oath, was examined and testified as follows:

19 EXAMINATION

20 BY MR. BRUCE:

21 Q. Mr. Krawietz, would you maybe take Exhibits 3 and
22 4 together, Mr. Krawietz, and just briefly discuss the
23 Morrow geology in and around the Catclaw Draw Pool?

24 A. Okay, Exhibit 3 is a structure map, the Catclaw
25 Draw Unit outlined, operated by HEC shaded in yellow. The

1 blue line through there indicates the cross-section,
2 Exhibit 4, north to south, with the northernmost well being
3 in the Springs-Morrow field and the southernmost well being
4 in the Happy Valley-Morrow field.

5 The third well from the right on the cross-
6 section is the new well we drilled, Well Number 18. The
7 cross-section was prepared by our geologist in correlating
8 the members of the Morrow noted here as Morrow B and Morrow
9 C. There's also a Morrow A above that, but what we're
10 showing here is that these members exist from the Springs
11 field through the Catclaw Draw field to the Happy Valley
12 field. We don't feel they're the same sands, *per se*, but
13 the depositional units do exist.

14 Q. There are a number of zones perforated in these
15 zones apparently, Mr. Krawietz?

16 A. Yes, there are.

17 Q. Okay, so they're not -- unlike the last hearing
18 where most of them -- they had one main producing zone,
19 there appear to be a number of producing zones in this
20 pool?

21 A. Yes, that's true.

22 Q. Okay. What about the pressure in this pool?
23 What is Exhibit 5?

24 A. Exhibit 5 is an exhibit of all wells in this
25 pool, Catclaw Draw-Morrow Pool, and shows the pressure-

1 versus-time data from each of those wells. These are the
2 various members I mentioned, Morrow A, B and C. And as to
3 what zone these pressures are in, it's not demonstrated
4 here. But what it does demonstrate is the nature of the
5 Morrow in this area, that all of these sands are not in
6 direct communication.

7 Q. So even 15-plus years after the initial wells
8 were drilled, they're still drilling some wells with
9 initial pressures in it?

10 A. Yes, that's true.

11 Q. What about -- and Mr. Reedy did mention the new
12 well, and you mentioned the new well in the northwest
13 quarter of 23. Could you describe -- First of all, is that
14 a replacement well for one of the other two wells on that
15 section?

16 A. Yes, it is. The well noted on here, it shows as
17 Number 2, that well is plugged.

18 Q. Okay.

19 A. So yes, this is a replacement well for the north
20 320.

21 Q. Okay, so it's a replacement well for the well in
22 the northeast quarter of Section 23?

23 A. Yes, sir.

24 Q. Okay. And what did you discover when you
25 completed the Catclaw Draw Unit Number 18 well? Is that

1 it?

2 A. Yes, sir, that's right.

3 Q. Yeah, could you describe what zones you completed
4 it in, briefly, and what type of pressure environment you
5 experienced?

6 A. When we logged the well, we also ran a number of
7 RFT to obtain pressure and some idea of permeability in
8 various sands in the Morrow. There were probably -- Four
9 of the sands we found to be at virgin pressure. There were
10 probably that many again that were somewhat depleted,
11 indicating some communication. However, there's still very
12 commercial reserves in those sands.

13 Q. What were the -- So the initial pressure in this
14 pool is what? Close to 5000?

15 A. Is roughly in the 4500 range, 4600.

16 Q. Okay, and what is the initial producing rate of
17 the Number 18 well?

18 A. Number 18 is -- the initial sales rate on it was
19 3 million cubic feet a day.

20 Q. Okay, let's move on to your Exhibit 6. Briefly,
21 what does that represent?

22 A. Exhibit 6 is the sum production of all wells in
23 the Catclaw Draw-Morrow Pool. It shows that current
24 production from the total field is roughly 3.8 million
25 cubic feet a day for the entire field.

1 Q. Excluding the new well?

2 A. That's true.

3 Q. Okay. So really with the new well it's closer to
4 6.5 million a day?

5 A. Yes, that's true.

6 Q. Okay. And this pool has produced quite a bit of
7 gas already, has it not?

8 A. Yes, it has, per *Dwight's* PI number 128 BCF.

9 Q. So based on the new well and the production
10 history to date of the pool, there are additional reserves
11 to be recovered by drilling additional infill wells in this
12 pool?

13 A. Yes.

14 Q. And to the best of your knowledge, are any of the
15 -- you mentioned the Springs-Morrow, the Happy Valley-
16 Morrow, and over to the east is, I believe, the Avalon-
17 Morrow Pool. Are all of those pools spaced on statewide
18 320 with one well per quarter section?

19 A. To my knowledge, the Springs and Happy Valley are
20 statewide. Avalon, I think, has special rules.

21 Q. What is Exhibit 7?

22 A. Exhibit 7 is a production plot of our Catclaw
23 Draw Unit Number 18 of the initial data from July 2nd to
24 July 19th, indicating initial production of roughly 3
25 million a day. The last rate was 2.8 million. We've not

1 seen a decline in tubing pressure, indicating that we will
2 recover substantial reserves from this well.

3 Q. I don't see any water production. Does the
4 Catclaw Draw Pool produce much water?

5 A. It has not. According to the *Dwight's* plot, it's
6 producing roughly 90 barrels a day for the entire field,
7 and we've not seen any in this particular well since we got
8 it cleaned up.

9 Q. Okay. Were Exhibits 3 through 7 prepared by you
10 or under your supervision or compiled from company business
11 records, Mr. Krawietz?

12 A. Yes.

13 Q. And in your opinion is the granting of this
14 Application in the interests of conservation and the
15 prevention of waste?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I'd move the admission
18 of Exhibits 3 through 7.

19 EXAMINER STOGNER: Exhibits 3 through 7 will be
20 admitted into evidence.

21 MR. BRUCE: And finally, Mr. Examiner, what's
22 marked Exhibit 8 --

23 EXAMINER STOGNER: Yes.

24 MR. BRUCE: -- that is from a prior Division
25 Hearing, Case 11,723, which involved the -- if you look in

1 Section 1, in the southern third of Section 1 there's a
2 black square --

3 EXAMINER STOGNER: Okay.

4 MR. BRUCE: -- on the north end of the -- on the
5 top of the exhibit.

6 EXAMINER STOGNER: Okay, I've got a red square,
7 yes.

8 MR. BRUCE: Or red, okay. Mine -- Okay, a red
9 square in the southern third of Section 1. This was a case
10 involving that well, which was -- without going into
11 detail, it also involved an unorthodox location. This
12 exhibit was prepared to show which wells in the pool were
13 already at unorthodox locations. Each of the wells with an
14 arrow pointing at it was an unorthodox-location well, and
15 this is submitted only to show the fact that there are
16 already a number of wells that are not 1650 feet from the
17 section line. And as a result, we don't think anyone will
18 be adversely affected by changing the well-location rules
19 at this point.

20 EXAMINER STOGNER: So noted. Exhibit 8 will be
21 admitted also at this time.

22 Anything else in this matter?

23 MR. BRUCE: No, sir.

24 EXAMINER STOGNER: I think I'm ready to go ahead
25 and take this under advisement. And then just as I have

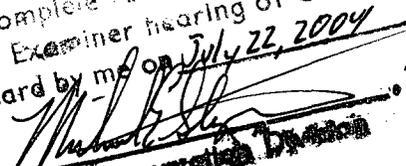
1 mentioned, I'll take administrative notice on any previous
2 orders and just take it from there. If once I find
3 something that we may need to address, we may have to
4 reopen. That would be the worst-case scenario, is re-open
5 to address prorationing issues, if that needs to be
6 addressed.

7 If there's nothing else in Case 13,301, this
8 matter will be taken under advisement.

9 And with that, today's hearing is adjourned.

10 (Thereupon, these proceedings were concluded at
11 10:35 a.m.)

12 * * *

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17 I do hereby certify that the foregoing is
18 a complete record of the proceedings in
19 the Examiner hearing of Case No. 1330L,
20 heard by me on July 22, 2004.
21  Examiner
22 Oil Conservation Division
23
24
25

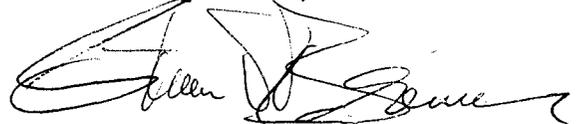
CERTIFICATE OF REPORTER

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 July 24th, 2004.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006