

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: ) CASE NO. 13,073  
)  
APPLICATION OF EOG RESOURCES, INC., )  
FOR COMPULSORY POOLING, LEA COUNTY, )  
NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, JR., Hearing Examiner

May 22nd, 2003

Santa Fe, New Mexico

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Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, JR., Hearing Examiner, on Thursday, May 22nd, 2003, 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

May 22nd, 2003  
 Examiner Hearing  
 CASE NO. 13,073

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## A P P E A R A N C E S

## FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR  
110 N. Guadalupe, Suite 1  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: MICHAEL H. FELDEWERT

## FOR DEVON ENERGY PRODUCTION COMPANY, L.P.:

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

\* \* \*

## ALSO PRESENT:

DAVID R. CATANACH  
Hearing Examiner  
New Mexico Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, NM 87505

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 10:17 a.m.:

3           EXAMINER BROOKS: At this time we'll call Case  
4 Number 13,073, the Application of EOG Resources, Inc., for  
5 compulsory pooling, Lea County, New Mexico.

6           Call for appearances.

7           MR. FELDEWERT: May it please the Examiner,  
8 Michael Feldewert with the Santa Fe office of Holland and  
9 Hart and Campbell and Carr, appearing on behalf of the  
10 Applicant, EOG Resources, Inc. I have two witnesses here  
11 today.

12           MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe.  
13 I'm representing Devon Energy Production Company, L.P. I  
14 have no witnesses.

15           EXAMINER BROOKS: Witnesses stand to be sworn.

16           (Thereupon, the witnesses were sworn.)

17                           PATRICK J. TOWER,  
18 the witness herein, after having been first duly sworn upon  
19 his oath, was examined and testified as follows:

20                           DIRECT EXAMINATION

21 BY MR. FELDEWERT:

22           Q. Mr. Tower, would you please state your name for  
23 the record?

24           A. Patrick J. Tower.

25           Q. And where do you reside, sir?

1 A. Midland, Texas.

2 Q. By whom are you employed and in what capacity?

3 A. EOG Resources, Inc., as division land specialist.

4 Q. And have you previously testified before this  
5 Division and had your credentials as an expert in petroleum  
6 land matters accepted and made a matter of record?

7 A. Yes, I have.

8 Q. Are you familiar with the Application that has  
9 been filed by EOG in this case?

10 A. Yes.

11 Q. And are you familiar with the status of the lands  
12 in the subject area?

13 A. Yes.

14 MR. FELDEWERT: Are the witness's qualifications  
15 acceptable?

16 EXAMINER BROOKS: They are accepted.

17 Q. (By Mr. Feldewert) Why don't you turn to EOG  
18 Exhibit Number 1, identify it and then explain for the  
19 Examiner what EOG seeks with this Application?

20 A. Okay, Exhibit Number 1 being the land plat. EOG  
21 Resources, Inc., is seeking a compulsory pooling in Lea  
22 County, New Mexico, for all mineral interests on 320-acre-  
23 spaced units to cover the south-half equivalent of Section  
24 31, which is encompassing Lots 3 and 4, the east half,  
25 southwest quarter, and the southeast quarter of Section 31

1 in Township 15 South, Range 35 East, forming a 322.3-acre  
2 spacing unit for all formations developed on the -- as  
3 mentioned, the 320-acre spacing, which would include but  
4 not be limited to the Undesignated Southwest Austin-  
5 Mississippian Gas Pool and the Undesignated Southwest  
6 Austin-Morrow Gas Pool.

7 EOG proposes to dedicate its Watson "31" Well  
8 Number 1 to be drilled at a standard gas well location of  
9 660 feet from the south and 1980 feet from the east line of  
10 Section 31.

11 Also to be considered is the cost of drilling and  
12 completing the well and the cost thereof and actual  
13 operating cost and charge of supervision, designation of  
14 EOG as the operator and a charge for the risk in drilling  
15 the well.

16 Q. Are you going to be drilling this well in what  
17 would be Unit O of this south half?

18 A. Yes.

19 Q. All right. Does EOG Exhibit Number 1 -- does it  
20 show your spacing unit and your proposed well location?

21 A. Yeah, spacing unit is outlined in red, the lands  
22 I mentioned a minute ago, and the location that I did  
23 mention is denoted by a red dot.

24 Q. And is this all fee acreage in this area?

25 A. Yes.

1 Q. All right. What is the primary objective of the  
2 proposed well?

3 A. The Morrow formation.

4 Q. And can you identify for the Examiner and review  
5 what's been marked as EOG Exhibit Number 2?

6 A. Exhibit Number 2 is a list of the parties being  
7 -- or that EOG is requesting that the subject of the  
8 compulsory pooling Application. You can see collectively  
9 they represent on a spacing-unit basis approximately 53  
10 percent of the working interest. The exact number is on  
11 the sheet.

12 Devon owns 49.6 percent of that, with the  
13 remaining being real small interest owners. EOG Resources  
14 owns the balance or approximately 47 percent of the working  
15 interest.

16 Q. At this time, how many of these interest owners  
17 are subject to this pooling Application?

18 A. All of them.

19 Q. Are you in the process of obtaining agreements  
20 with some of the individuals on this sheet?

21 A. Yes, and I'll summarize those on the sheet in a  
22 minute.

23 Q. Okay. And at this point the paperwork isn't  
24 quite signed?

25 A. That is correct.

1 Q. All right. Are there any interest owners on this  
2 sheet that you have been unable to locate?

3 A. No.

4 Q. All right. Why don't you then turn to EOG  
5 Exhibit Number 3? Does this identify the status of your  
6 discussions with each of the interest owners shown on  
7 Exhibit Number 2?

8 A. Yes, Exhibit 3 is by company, should be in the  
9 same descending order as the first list. However, this  
10 gives more of a detailed description of the contacts and  
11 efforts to seek voluntary joinder.

12 We will note on several companies that we have  
13 tentatively just received an agreement to proceed on some  
14 voluntary basis, however there is no written agreement  
15 signed. And we have agreed that once the formal contracts  
16 are signed, we will formally dismiss them from the order.

17 Devon again being the primary party with the  
18 largest interest, and they are aware of this and in  
19 agreement with that. The others --

20 Q. That's reflected on page 1 of your Exhibit Number  
21 3?

22 A. That is correct. The item number 8 of -- listed  
23 there next to Devon of the contacts depicts it, along with  
24 several of the other owners that are in the same status.  
25 But as of this time we have no written agreements

1 committing this acreage from any of these parties.

2 Q. Okay. Now, did you send out your well-proposal  
3 letters?

4 A. Yes.

5 Q. Okay. Why don't you turn to EOG Exhibit Number  
6 4? Identify that and review that for the Examiner, please.

7 A. Exhibit Number 4 is the well proposal to Devon  
8 Energy Production Company, L.P. It's dated March 25th of  
9 2003. It was dated a different date than the remaining  
10 owners, which we'll talk about, primarily because we did  
11 meet with Devon in their offices and at that time presented  
12 the well proposal.

13 Q. Okay, that is EOG Exhibit Number 5, is that the  
14 well proposal letter that went out to the remaining  
15 interest owners?

16 A. Yes, it is dated April 1st, and that went out to  
17 the remaining owners, with the exception of a couple on the  
18 next exhibit.

19 Q. Okay, and then there's Exhibit Number -- EOG  
20 Exhibit Number 6, and that's dated April 30th. Can you  
21 explain to the Examiner why that was sent out on April  
22 30th?

23 A. Yes, we could not locate -- it's an heirship, a  
24 small interest, and we believe we've located the heirs. We  
25 finally had a -- as soon as we found it, before we sent out

1 notice for the hearing, we did contact one of the heirs and  
2 gave us address for the others, and so we had no known  
3 addresses and could not find a party that could tell us who  
4 to send it to, as far as the heirship. And we found it  
5 right about the time we had to send notice out. So we at  
6 that time sent them a well proposal as well.

7 Q. So did you have a telephone discussion with  
8 someone, and they informed you of --

9 A. Yes, we had been discussing and chasing this  
10 heirship for sometime, and then tracked down one party who  
11 believed that these were the heirs and -- through those  
12 subsequent discussions, and that's how that resulted.

13 Q. And then you sent out this well proposal letter  
14 to them on April 30th, right?

15 A. That is correct.

16 Q. Okay. And did they receive notice of this  
17 Application here today?

18 A. Yes, they did.

19 Q. All right. Did you send out an AFE with these  
20 well proposal letters?

21 A. Yes, we did.

22 Q. Has that AFE been marked as EOG Exhibit Number 7?

23 A. Yes.

24 Q. Why don't you review the totals set forth in this  
25 AFE?

1           A.    This AFE is set forth drilling a 12,700-foot  
2 Morrow-Mississippian test.  The estimated dryhole cost is  
3 \$870,100, with the estimated completed well cost being  
4 \$1,538,900.

5           Q.    Are these costs in line with what has been  
6 charged by EOG and other operators in the area for similar  
7 Morrow wells?

8           A.    Yes.

9           Q.    Mr. Tower, have you made an estimate of the  
10 overhead and administrative costs while drilling this well  
11 and also while producing this well if you are successful?

12          A.    Yes, we have.

13          Q.    And what are those estimates?

14          A.    We're recommending that the drilling well rate be  
15 \$5800 and the producing well rate be \$580.

16          Q.    And is that consistent with rates that have been  
17 charged by other operators in the area for similar wells?

18          A.    Yes.

19          Q.    And is that consistent with recent contracts in  
20 the area?

21          A.    Yes, contracts that we have in place with other  
22 companies on wells we've drilled in the area.

23          Q.    Do you recommend that these figures be  
24 incorporated into any order that results from this hearing?

25          A.    Yes, we do.

1 Q. Is -- We'll go out of order here, just slightly.  
2 Is EOG Exhibit Number 9 -- is that a COPAS form, accounting  
3 procedures for joint operations?

4 A. Yes, it is.

5 Q. Is EOG Exhibit Number 9, is this the COPAS form  
6 that is going to be included with any joint operating  
7 agreement for this property?

8 A. That is correct.

9 Q. Does it reflect the overhead rates that you've  
10 just discussed?

11 A. Yes, on page 4 it enumerates the rates that we  
12 recommend.

13 Q. Do you recommend that the overhead rates approved  
14 by the Division be adjusted in accordance with Section 3 of  
15 this applicable COPAS form?

16 A. Yes, we do.

17 Q. Okay. Does EOG seek to be designated operator of  
18 this well?

19 A. Yes.

20 Q. Is it EOG Resources, Inc.?

21 A. It's EOG Resources, comma, Inc.

22 Q. Okay. In your opinion, have you made a good-  
23 faith effort to obtain a voluntary agreement with the  
24 interest owners that are subject to the pooling  
25 Application?

1 A. Yes, we have.

2 Q. Is Exhibit Number 8 -- is that an affidavit with  
3 the attached letters giving notice of this hearing?

4 A. Yes, it is.

5 Q. And did all of the interest owners receive notice  
6 of this hearing?

7 A. Yes.

8 Q. All right. Were EOG Exhibits 1 through 9  
9 prepared by you or compiled under your direction and  
10 supervision?

11 A. Yes, they were.

12 Q. Let me ask you one question. Does EOG have a rig  
13 scheduled for this well?

14 A. Yes, we do. We're running a couple rigs in this  
15 area, and we have kind of a tight schedule, trying to keep  
16 the economy of scale on our costs, to keep our costs down.  
17 So therefore we do have this scheduled tentatively to drill  
18 June 22nd.

19 Q. So about a month from now?

20 A. That's correct.

21 Q. And you said that was a tight rig schedule?

22 A. Yes, it is.

23 MR. FELDEWERT: All right. Mr. Examiner, at this  
24 time I would move the admission into evidence of EOG  
25 Exhibits 1 through 9.

1 EXAMINER BROOKS: Well, Mr. Bruce entered an  
2 appearance but he's not here, so we'll assume he does not  
3 object, so --

4 MR. FELDEWERT: I'll speak on behalf of him.

5 EXAMINER BROOKS: Exhibits 1 through 9 are  
6 admitted.

7 MR. FELDEWERT: And that concludes my examination  
8 of this witness.

9 EXAMINER BROOKS: I don't believe that I have any  
10 questions. Mr. Catanach?

11 EXAMINER CATANACH: I don't have any.

12 EXAMINER BROOKS: Okay.

13 THE WITNESS: Thank you.

14 MR. FELDEWERT: Mr. Examiner, then at this time  
15 we'll call Mr. Zinz as a geologist to the stand.

16 EXAMINER BROOKS: Okay.

17 BARRY L. ZINZ,

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

20 DIRECT EXAMINATION

21 BY MR. FELDEWERT:

22 Q. Mr. Zinz, would you please state your full name  
23 and place of residence?

24 A. Barry L. Zinz, Midland, Texas.

25 Q. And how do you spell your last name?

1 A. Z as in zebra, i-n-z.

2 Q. By whom are you employed and in what capacity?

3 A. EOG Resources, Inc., division geological  
4 specialist.

5 Q. And have you previously testified before the  
6 Division?

7 A. I have.

8 Q. And have your credentials as a petroleum  
9 geologist been accepted and made a matter of public record?

10 A. They were.

11 Q. Are you familiar with the Application that has  
12 been filed by EOG in this case?

13 A. Yes, I am.

14 Q. Have you made a technical study of the area that  
15 is the subject of this Application?

16 A. I have.

17 Q. Are you prepared to share the results of your  
18 work with the Examiner?

19 A. I am.

20 MR. FELDEWERT: Mr. Examiner, are the witness's  
21 qualifications acceptable?

22 EXAMINER BROOKS: They're accepted.

23 Q. (By Mr. Feldewert) Could you identify for the  
24 Examiner the primary and/or secondary objective of these  
25 wells -- of this will, I'm sorry?

1           A.    Yes.  The primary objective would be the Morrow  
2 sand, specifically the Mesa sand.  Secondary objective  
3 would be the Atoka sand.

4           Q.    With respect to your secondary objective, do you  
5 foresee much of a chance of obtaining that goal?

6           A.    It's a long shot.  I'll show you that when we  
7 look at our cross-section here in just a minute.

8           Q.    So is it your opinion that you're going to make  
9 or break this well based on the Mesa sands?

10          A.    Correct.

11          Q.    All right.  With your study of the area have you  
12 prepared a -- or are you prepared to make a recommendation  
13 to the Examiner as to the risk penalty that should be  
14 applied against nonconsenting interest owners?

15          A.    I am.

16          Q.    And what is that?

17          A.    Two hundred percent.

18          Q.    All right.  Why don't you turn, please, to EOG  
19 Exhibit Number 10 and explain the basis for your  
20 recommendation to the Examiner?

21          A.    Exhibit Number 10 is an Atoka-Morrow EUR map, and  
22 if you'll note the proration outline of the south half of  
23 Section 31 and the location designated by the red dot  
24 pointed with the arrow.  Wells located on this plat are  
25 12,000 foot and deeper.  All these wells, with the

1 exception of a few, are Morrow penetrations or deeper.

2           The large and small dark green bubbles represent  
3 the Morrow EURs from the Mesa sand, and the light green  
4 bubbles represent the two Atoka sand producers in the  
5 mapped area here.

6           Q.    So there's a total of two Atoka producers in this  
7 nine-section area?

8           A.    That's correct.

9           Q.    All right.  So the bigger the bubble, the better  
10 the well?

11          A.    That is correct.  The actual EURs are on the map  
12 in red out beside each of the wells.

13          Q.    Are there any dry holes shown on this map?

14          A.    There are some dry holes that are pertinent to  
15 the drill site.  The one south in Section 3, designated as  
16 the Daisy "AFS" State, that was a Morrow well that was dry  
17 in the Morrow, and it was plugged back to a shallower zone.

18                There is a well in the same section that we're  
19 drilling in, the north half of 31.  It's the Daves Hopper  
20 "31" Number 1 well, which we drilled and operated there.  
21 It was a re-entry in a deviated well to another bottomhole  
22 location, and that well was a dry hole.  It was plugged  
23 earlier this month.

24          Q.    What is the status of that Townsend State well  
25 that's shown on your cross-section?

1           A.    The Townsend State 10 is operated by Ocean  
2 Energy. We have an interest in that well. They did run  
3 pipe, and it is in the process of waiting on completion in  
4 the Morrow Mesa sand.

5           Q.    Why don't you then turn to EOG Exhibit Number 11,  
6 identify that and review it with the Examiner, please?

7           A.    This is the south-to-north cross-section on the  
8 plat that you have. The furthest south well was drilled by  
9 Mesa Petroleum, it's the Townsend Unit Number 1. That well  
10 was completed in a Morrow sand, which the name Mesa sand  
11 gets its name from since Mesa was the operator. That well  
12 was a very good well. It has six feet of sand, and it has  
13 an EUR of 4.3 BCFE.

14                   The next well on the cross-section is the Ocean  
15 Energy Townsend that we've referred to. That's the one  
16 that we do have an interest in. That well was drilled into  
17 the Mississippian, and it has approximately two to three  
18 feet of Mesa sand in it. The operator went ahead and  
19 elected to run pipe and will attempt completion in that  
20 interval.

21                   The next stick figure is our proposed location,  
22 and then the last well on the north end of the cross-  
23 section is the well I referred to that we P-and-A'd earlier  
24 this month. It's the Daves Hopper, which had absolutely no  
25 Morrow sand in it.

1           And with regard to the Atoka, this is a  
2 stratigraphic cross-section hung on the Morrow lime, which  
3 is the red line there, and normally your better Atoka sands  
4 occur within that 100 to 150 feet above that red line.  
5 There's several good producing trends that are not in this  
6 area. The stray sands that you see highlighted in yellow  
7 in the wells up above that middle black correlation right  
8 there are basically stray sands, which are usually limited  
9 in areal extent and not significant with regard to  
10 production.

11           Q. Let me ask you, you mentioned that they were  
12 going to run pipe in that Townsend State Number 10 and  
13 attempt a Morrow completion.

14           A. That's correct.

15           Q. Do you anticipate they're going to be successful  
16 in that, in the Mesa sand?

17           A. The log, the resistivity log shows it to be very  
18 tight. They took a couple of cores in the sand, and it has  
19 very, very low permeability. So the likelihood of it being  
20 productive, I think, will be, like I said earlier, a long  
21 shot.

22           EXAMINER BROOKS: Which well is that?

23           THE WITNESS: That is the Townsend, the Ocean  
24 Energy Townsend State 10.

25           Q. (By Mr. Feldewert) Down there in Section -- to

1 the north in Section --

2 A. Yes, it's the southwest offset to the location.  
3 It's the Number 3 well on the cross-section.

4 Q. Is structure important to this prospect?

5 A. Not in this area here. There has been no water  
6 in this sand in the area.

7 Q. Okay, then why don't you turn to EOG Exhibit  
8 Number 12, identify that and review that for the Examiner,  
9 please?

10 A. Exhibit Number 12 is the Mesa sand, the isopach  
11 map, which is a net sand isopach. You can see that, as  
12 stated earlier, the Townsend state has the three feet of  
13 sand in it. I'm projecting that our location will have  
14 roughly 10 to 12 feet. And with regard to some of the  
15 wells that did not penetrate the Morrow, if you look on  
16 this plat you'll see that designated wells that did not go  
17 deep enough are designated by NDE.

18 Q. What does it tell you about the consistency of  
19 the sand in this area?

20 A. It's pretty erratic. This is Morrow, it's a  
21 marine, near-shore sand and just very erratic in nature.

22 Q. Do you believe that there's a chance you could  
23 drill a well at the proposed location that would not be a  
24 commercial success?

25 A. I do.

1 Q. In your opinion, will the granting of this  
2 Application and providing the 200-percent risk penalty be  
3 in the best interests of conservation, the prevention of  
4 waste and the protection of correlative rights?

5 A. Yes, it will.

6 Q. Were EOG Exhibits 10 through 12 prepared by you?

7 A. They were.

8 MR. FELDEWERT: Mr. Examiner, at this time I  
9 would move the admission into evidence of EOG Exhibits 10  
10 through 12.

11 EXAMINER BROOKS: Mr. Bruce, any objection?

12 MR. BRUCE: I have absolutely no objection.

13 EXAMINER BROOKS: Ten through 12 are admitted.

14 MR. FELDEWERT: And that concludes my examination  
15 of this witness.

16 EXAMINER BROOKS: I do not believe I have any  
17 questions for the witness. Do you, Mr. Catanach?

18 EXAMINER CATANACH: I do not.

19 EXAMINER BROOKS: Just one question for Mr.  
20 Feldewert. Looking at the notice affidavit here -- I had  
21 it a minute ago. Now what did it do with it?

22 MR. FELDEWERT: It should be Exhibit Number 8.

23 EXAMINER BROOKS: Ah, yes. I note that you do  
24 not have a copy of the letter that would notice -- actual  
25 notice letter that was sent to these people, and I was

1 wondering if you could furnish us with one.

2 MR. FELDEWERT: Certainly.

3 EXAMINER BROOKS: Thank you. I believe that's  
4 all I have.

5 MR. FELDEWERT: Thank you, Mr. Examiner. That  
6 concludes our presentation.

7 EXAMINER BROOKS: Very good, Case Number 13,073  
8 will be taken under advisement.

9 (Thereupon, these proceedings were concluded at  
10 10:40 a.m.)

11 \* \* \*

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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. \_\_\_\_\_,  
heard by me on \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_  
Oil Conservation Division, Examiner

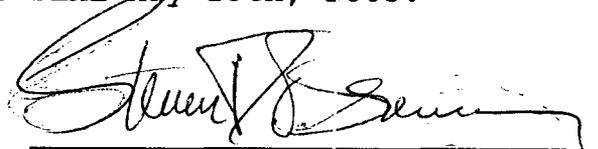
## CERTIFICATE OF REPORTER

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 May 25th, 2003.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 16th, 2006